Salt Sustainable Global Listed Property Fund Fact Sheet – January 2022

Manager Profile

Salt Funds Management is a boutique investment management firm wholly owned by its employees which specialises in actively seeking to maximise returns while managing the risks of the investment. Salt examines investments for their environmental and social impact as well as the quality of their governance.

Investment Strategy

The Fund's investment objective is to outperform (after fees and expenses but before NZ tax) the total return of its benchmark, the FTSE EPRA Nareit Developed Real Estate Index Hedged in NZD on a rolling three-year basis. The Fund targets a portfolio of global listed real estate companies with sustainable total return potential and superior Environmental, Social and Governance (ESG) credentials and factor scores with respect to the benchmark index.

Fund Facts at 31 January 2022

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$31.80 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 January 2022

Application	1.0274
Redemption	1.0232

Investment Guidelines

The guidelines for the Sustainable Global Listed Property Fund are:

Global equities	95% – 100%
Cash	0% – 5%

Target investment Mix

The target investment mix for the Global Sustainable Listed Property Fund is:

Global equities	100%

Fund Allocation at 31 January 2022

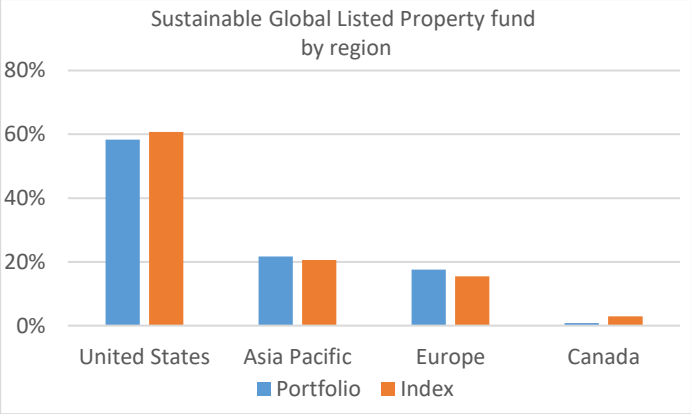
Global equities	98.91%
Cash	1.09%

Fund Performance to 31 January 2022

Period	Fund Return*	Benchmark Return
1 month	-4.87%	-5.52%
3 months	-0.07%	-1.18%
Since inception	2.53%	0.50%

*Performance is after fees and does not include imputation credits or PIE tax.

Fund regional weightings as at 31 January 2022*



Source: Cohen & Steers, Salt *data to 31 January 2022

Top 10 holdings at 31.01.22	
Public Storage	Vonovia
Prologis	Healthpeak Properties
Simon Property Group	Essex Property Trust
UDR	Realty Income Corp.
Welltower	Digital Realty Trust

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.3	5.9
MSCI ESG score	5.4	5.4

Source: Cohen & Steers Quarterly Investment Report, Q4 2021

Market Review

Developed market equities reversed direction downwards in January, after a positive fourth quarter of 2021, delivering a sharp dip in returns that stopped only barely short of the -10% level that conventionally defines a "correction" in the broad US market. At its weakest point in January, the S&P 500 Index had declined by -9.9%. However, highly-valued Information Technology companies traded on the US NASDAQ were somewhat weaker, leading the NASDAQ-100 Index to have moved down by -10.6% between New Year and the first week of February.

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Following a strong 2021, January has been a rough start to 2022 for equity and bond markets. Higher inflation, concerns about central bank tightening, political tensions in eastern Europe and Omicron all contributed to market weakness in January and a sharp increase in volatility. Many countries are seeing some softening in activity indicators. Much of this is Omicron-related and will prove temporary. However, we do expect lower overall global growth this year compared to last, though to remain above trend.

Most central banks are shifting to a more hawkish stance, though not all have yet acted, particularly as measures of core inflation rise and labour markets tighten, rending the transitory inflation narrative erroneous. US consumer price inflation continued to rise, coming in at 7% for the year to December 2021, the highest level since 1982. At the same time the labour market continues to tighten with the unemployment rate falling to 3.9%, also for December 2021.

The US Federal Reserve is on schedule to end its bond purchase programme in March. The January meeting of the Federal Open Market Committee (FOMC) all-but-confirmed interest rate lift-off in March and that they are actively pursuing plans to reduce the size of their bloated balance sheet. Investors' concern about significantly tighter overall monetary conditions, given high equity valuations, translated into a rapid deterioration in sentiment which lasted throughout January.

Global real estate securities declined in January, along with broader equities, amid a macro-driven selloff. Europe and the Asia Pacific region outperformed, while North America trailed. Investors focused on comments from the US Federal Reserve, which suggested a near-term increase in the federal funds rate and a halt in asset purchases in early March. Global equity markets were volatile amid rising interest rates, with a surge in the 10-year US Treasury yield, and a rotation out of growth and into value-oriented companies in various markets.

In the US (-6.9% in local currency), real estate securities declined, with 2021's laggards favoured over technology-oriented growth sectors. Following underperformance in the fourth quarter of 2021 on omicron and inflation concerns, **health care landlords outperformed**, posting a modestly positive gain in January. **Hotel** owners, which lagged in 2021, declined modestly. **Shopping centres** also outperformed, while regional malls modestly edged out broader US REITs, bolstered by continued positive sentiment around consumer spending. **Apartment and office companies** also outperformed. **Self-storage and industrial REITs**, among the fourth quarter's largest winners, underperformed in January, as did manufactured housing. Sectors oriented toward secular growth, including **data centres and infrastructure**, trailed on investor rotation out of growth businesses.

In **Europe**, investors generally favoured retail over industrial and storage as value companies gained favour. The Netherlands (8.8%) and France (3.3%) were helped by gains in retail-oriented property types. Germany (1.6%) was lifted by residential developer Vonovia, which gained following residential-sector weakness (attributable to political risk) in 2021. The U.K. (-3.7%) and Belgium (-7.1%) were weighed down by weakness among industrial and self-storage property types, the latter amid a stabilization of demand trends. Sweden (-10.4%), which is relatively sensitive to the movement of interest rates, trailed in January following strong outperformance in 2021.

In the **Asia Pacific region**, developers were favoured in various markets as investors rotated into value. Hong Kong (0.7%) outperformed as markets calmed following several months of negative China news. **Developers** outperformed, while performance among landlords was mixed, with weakness within retail on Covid-driven lockdown measures. In Japan (-2.5%), developers (widely regarded as value names) benefited from the shift out of rate-sensitive growth. J-REITs, which are characterized by greater sensitivity to interest rates, were weaker. **Hospitality and retail property** types fared well, while the more defensive logistics and residential names underperformed. In Singapore (-4.9%), developers outperformed, and among S-REITs, investors favoured value/cyclical names over defensive and growth-oriented REITs. In **Australia** (-7.5%), which has a particularly rate-sensitive REIT market, rising real bond yields, a slowing global growth backdrop and lingering Covid concerns underpinned a broad-based selloff. Growth names underperformed, while retail landlords with greater exposure to more defensive supermarket sales outperformed.

Portfolio Review (Cohen & Steers commentary)

From its 16 September, 2021 inception through to 31 January 2022, the portfolio had a positive total return and outperformed its benchmark index by 2.03% (net.) In January, the portfolio had a negative total return in the month, but outperformed its benchmark by 0.65%.

Key contributors

• Stock selection in the U.S. (-6.9% total return in the index): The Portfolio's underweight position in data centre REIT Equinix, which underperformed amid January's selloff in technology-oriented growth names, aided relative performance.

• Stock selection in Japan (-2.5%): We had an overweight in large-cap developer Mitsui Fudosan, which outperformed alongside Japanese developers broadly.

• Overweight in France (3.3%): Our relative positioning in France, which benefited from strong performance among retail landlords, aided performance.

Key detractors

• Stock selection in Australia (-7.5%): Our out-of-index position in real estate fund manager Charter Hall Group, which trailed following strong performance in 2021, detracted. Underlying fundamentals for the company remain healthy, in our view.

• Stock selection in the U.K. (-3.7%): Detractors included our overweight in self-storage REIT Safestore Holdings, which trailed along with the region's broader self-storage sector.

• Non-investment in Switzerland (-0.4%): Switzerland posted a flat return amid January's broad selloff, which was not captured in the fund.

Portfolio Outlook (Cohen & Steers commentary)

We believe global real estate offers improving fundamentals and inflation protection. While a strengthening economy may lead to greater inflation and drive interest rates higher, we believe REITs are well positioned to tolerate an eventual increase in rates.

A strong economic backdrop should lead to higher demand for many real estate property types. Construction starts in many sectors have been delayed by labour shortages and higher costs for building materials, reducing supply pressures, and this dynamic is allowing landlords to raise rents, leading to above average cash flow growth Meanwhile, REITs continue to offer attractive levels of income relative to traditional asset classes, and the "new economy normal" could create sector opportunities for the next several years.

We maintain a positive view on **US REITs**, with a preference for shorter-lease-duration assets, which should benefit from an environment of rising prices. We favour **self-storage**, which should enjoy improving demand due to increased economic and relocation activity. We anticipate demand will significantly outpace supply through 2022, suggesting companies will continue to have pricing power. We have a favourable view on **health care**, where we have a positive outlook on life science properties. We also see value in **senior housing**, where occupancies are improving following early-pandemic declines. We see the **residential** and **hotel sectors** benefiting from continued economic expansion and an eventual return of business travel, respectively. We believe companies that provide data and logistics infrastructure, including **data centres, cell towers and industrial warehouses**, will continue to benefit from strong secular demand in the shift toward a digital economy, though we are mindful of elevated valuations.

While we believe secular headwinds persist for retail, the US consumer remains strong, which should benefit retailers and drive healthy demand for brick-and-mortar real estate. In particular, we believe retail landlords with **high-quality properties** and **strong balance sheets** stand to gain market share over time; however, we are mindful that US retail sales will likely decelerate from elevated levels in 2021.

We remain cautious toward **offices** as businesses reassess their future needs, although we have an allocation within the US Sunbelt, which we favour over coastal locations. We estimate that rents in some markets may not recover until 2023.

Our position in **Europe**, our largest regional overweight, reflects our view that European real estate securities, which have lagged the recovery of their US peers, offer attractive upside potential. Our current positioning is differentiated more by property sector and individual security than by country, based on the common drivers underlying property types across the region. We like **logistics, health care and self-storage, which tend to be more defensive** and have structural growth characteristics. Within logistics, we favour companies that are geared to the development side, as we believe this exposure to be particularly advantageous given current demand. We also see a case for retail and office to recover, although we are **cautious on offices** in some markets, as the demand outlook remains uncertain and, in many cases, current valuations do not adequately compensate investors for the perceived risk.

China policy moves temper our view of **Asia Pacific**. Within **Australia**, we favour property sectors that are relatively insulated from the encroachment of e-commerce activity. In **Singapore**, we are positive on underlying fundamentals for hospitals, and we are constructive on the medium-term outlook for offices given the prospect of corporate relocations within Asia Pacific. We are overweight **Japanese developers**, and our positions in hospitality and office REITs reflect our view that they should benefit from the cyclical recovery.

We are cautious on heightened policy risk in **Hong Kong** and China, although we see pockets of value within Hong Kong retail.

Greg Fleming, MA