Salt Sustainable Global Listed Property Fund Fact Sheet – June 2023

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 30 June 2023

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$28.77 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 30 June 2023

Application	0.8072
Redemption	0.8039

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 30 June 2023

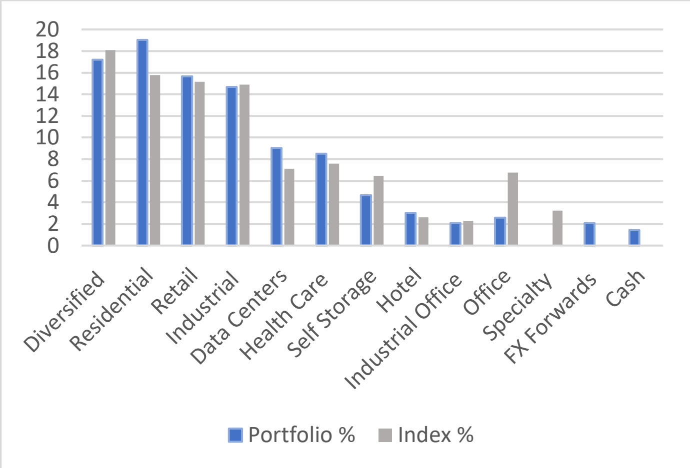
Global equities	98.7%
Cash and cash equivalents	1.3%

Fund Performance to 30 June 2023

Period	Fund Return*	Benchmark Return
1 month	3.28%	2.96%
3 months	2.75%	1.23%
6 months	3.78%	1.81%
1 year	-3.82%	-5.20%
Since inception p.a.	-8.55%	-10.32%

*Performance is after fees and does not include imputation credits or PIE tax. Benchmark performance is gross. Past performance is not a guarantee of future results. Data as of 30 June 2023.

Fund Sectoral Weightings in % at 30 June 2023



Source: Cohen & Steers

Top 10 holdings as at 30 June 2023	
Prologis	Simon Property Group
Digital Realty Trust	Equinix
Welltower	Public Storage
Invitation Homes	Mid-America Apartment Communities
Realty Income Corp	Sun Communities

The fund's top 10 holdings comprise 43.4% of the portfolio

Source: Cohen & Steers Monthly Report 30 June 2023

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.2	5.9
MSCI ESG score	5.9	5.8

Source: Cohen & Steers Monthly Report 30 June 2023

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

Market Review

The Salt Sustainable Global Property Fund rose 3.28% (after fees) in June, recovering May's decline, and outperformed the benchmark (after fees) for the month by 0.32%. Relative performance for the quarter was strong, at 2.75% (after fees) compared with 1.23% for the benchmark. Over the year to 30 June, the Salt fund has performed ahead of its benchmark return by 1.38%. Absolute returns are improving but remain soft due to interest rate pressure.

- June month saw global stocks rebounding 6.1% and by 7.0% for the June quarter, in USD terms. Expressed in NZD terms, global equities (MSCI World Index) returned less for the month (+3.75%) but more for the three-month period (+9.10%,) reflecting volatility in the NZD/USD exchange rate. Global markets overcame uncertainty over economic slowing, still-elevated inflation and central bank policy and focused on now-lower recession probabilities.
- The first half of 2023 has been much better for balanced portfolios than the challenging 2022 year. A 9.1% (in NZD) gain for developed market equities over the quarter leaves them 18.8% higher year to date. Global sovereign bonds have lagged but are still doing better than last year rising 1% (in USD) year to date.
- The positive tone in markets this year has been driven by a generally improving outlook for global growth as economies have proven to be more resilient than expected to the recent aggressive tightening in monetary conditions. However, underlying inflation has also proven to be more persistent, so we are not out of the woods yet.
- US inflation has fallen sharply from a peak of 9% to 4%, but mostly due to lower oil prices. Core inflation has remained stickier as the labour market has remained tight and wage growth in excess of the level consistent with target inflation.
- The US consumer has continued to spend, reflecting still high excess cash, lower savings and continued employment gains that have averaged 314,000 per month since the start of the year. Weaker business investment intentions and weak corporate loan demand pose risks for growth going forward.
- Economic activity in Europe has proven stronger than expected as the lower energy prices has delivered real income gains back to consumers. However, in order to contain still problematic underlying inflation pressures, what lower oil prices have delivered to consumers, the European Central Bank has had to take away. With core inflation still in excess of 5% the ECB has raised interest rates to 3.5%, with more hikes still to come.
- After the end of the zero-Covid bounce in activity in China, macro data over the June quarter has pointed to a renewed slowdown. We think that the slowing reflects the payback of front-loaded production and policy easing, which are one-off factors, but the recovery is far from over, given that the job market recovery is incomplete. Given that the recovery has remained fragile, we believe the authorities would stand ready to support growth as needed.
- In Australia there are increasing signs that the activity is slowing after a very strong period of growth in 2022. The labour market has remained resilient though it typically lags growth. The RBA is taking a stop-start approach to raising interest rates. We think they have more work to do; we see the cash rate rising to 4.6% in the next few months.

Portfolio Review

Global real estate stocks rose modestly in the quarter, trailing broader global equities. While elevated inflation persisted in various markets, U.S. inflation moderated sufficiently to allow the Fed to leave its benchmark rate unchanged in June. The European Central Bank and the Bank of England (BOE) continued to raise their benchmark rates, with the BOE raising its rate a higher-than-expected 50 basis points in June. The 10-year Treasury rate rose by close to 40 basis points in the quarter.

In the U.S. (2.2% total return), real estate shares rose with U.S. equities broadly toward quarter-end. U.S. REITs trailed broader U.S. equities; the latter disproportionately driven this year by strength among mega-cap stocks. Residential property types were lifted on strong rent growth and early-stage West Coast apartment recovery. Data centre REITs were buoyed by continued strength in cloud demand and the early innings of an expected multi-year tailwind from artificial intelligence (AI).

Health care companies rose amid continued strong move-in activity for senior housing and a decline in labour costs from elevated levels. Retail property types found momentum late in the quarter on improving sentiment around consumer businesses. Hotel landlords were supported in the quarter by strength in group demand (despite limited visibility around its sustainability).

Shares of office landlords underperformed as the sector continued to struggle with weak fundamentals and deteriorating access to capital. A portfolio acquisition by a large industrial index constituent, viewed as dilutive in the nearer term, weighed on industrial REITs. Shares of self-storage companies trailed; our analysis indicates that the sector has experienced declining year-to-date rent growth for new tenants.

Europe was hampered by concerns around elevated inflation and tight labour markets. In Germany (5.7%), residential companies benefited from a relief rally in June following weak performance in May. The German residential property sector has struggled on balance sheet and cash flow concerns. The Netherlands (0.7%) outperformed the region, with gains among retail property types.

France (–0.4%) was weighed down by weakness in a landlord with exposure to the office and hotel sectors. In Spain (–1.4%), weakness in shares of an office owner hampered performance. The U.K. (–7.1%), contending with the unexpected magnitude of the Bank of England's June interest rate hike, was among the worst-performing markets. In Belgium (–8.0%), a health care specialist was pressured on a rights issue as well as its higher exposure to floating-rate debt. Sweden (–8.6%), where real estate companies tend to have relatively high leverage, trailed.

In the Asia Pacific region, investors favoured Japan (7.3%) amid concerns around China's growth prospects. Japan outperformed (in local currency terms) amid strong economic momentum. Office and residential property types were among the outperformers.

The Australian real estate sector (0.8%) was pressured during the quarter as global interest rates rose. A residential developer, which has been taking market share from smaller private developers, outperformed. Retail landlords underperformed as discretionary spending showed signs of deceleration and retailer margins faced increasing pressure.

Singapore (–3.2%) trailed the region, with underperformance among developers. Industrial landlords were pressured amid equity raises within the sector. Hong Kong (–9.8%) lagged, as weak macro data ignited concerns that China's post-Covid economic reacceleration had not been as strong as expected.

Portfolio Performance

The last year has been a turbulent one for listed Real Estate, as interest rate and banking uncertainties have over shadowed better valuations and fundamentals. Recently, positive sentiment is returning as inflation continues to subside and value opportunities are recognized.

Key contributors

• Stock selection in the U.S. (2.2% total return in the index): An overweight in data centre REIT Digital Realty Trust, which we favour for its accelerating fundamentals, contributed. An overweight allocation in senior housing specialist Welltower also aided performance.

• Stock selection in Sweden (–8.6%): Our non-investment in SBB contributed; the company declined sharply on the announcement that it would stop payment on its dividend and cancel a rights issue.

• Stock selection in Australia (0.8%): An out-of-index position in Goodman Group, which gained amid continued strength in underlying logistics fundamentals, aided performance.

Key detractors

• Stock selection and an overweight in the U.K. (–7.1%): An overweight in British Land, which was pressured on a weak fiscal-year result, hindered relative performance. Broadly, British names were hampered by inflation concerns and a hawkish BOE.

• Out-of-index position in China: A position in developer Hang Lung Properties detracted. We have pared our weighting given the risk of a macro slowdown in China.

• Stock selection in Singapore (–3.2%): Our overweight in CapitaLand Investment struggled on concerns about the company's exposure to China amid weaker economic data there.

Investment Outlook (Cohen & Steers commentary)

We believe global real estate, which has seen improved valuations with the correction in share prices, offers attractive return potential relative to broad equities. Slowing economic growth and high (albeit moderating) inflation temper the near-term outlook for real estate, particularly for sectors lacking pricing power. However, cash flows generally remain sound, and we anticipate healthy earnings growth in 2023.

Moreover, real estate companies typically have high operating margins, low sensitivity to commodity and labour prices, and (in many cases) inflation-linked rents, making them better suited than traditional asset categories to defend against a prolonged environment of high inflation. Further, an end to central bank tightening, which we generally expect in 2023, tends to be followed by notable strength in listed real estate performance.

We maintain a positive view of U.S. REITs, with a preference for assets with strong secular growth profiles and good pricing power. We see the residential sector benefiting from positive wage growth and affordability issues in the for-sale market, which are leading to higher demand for rental housing, especially within single-family homes.

Data centres should continue to benefit from strong secular demand in cloud computing and, increasingly, artificial intelligence. Within health care, we have a positive outlook on senior housing, where occupancies are improving following early pandemic declines; however, we have recently trimmed on strength. With growth rates normalizing in self-storage, we have pared our weight in the sector.

While we believe secular headwinds remain for retail, we believe certain landlords with high-quality properties and strong balance sheets stand to gain market share over time. However, we are mindful of the impacts that elevated inflation and a potential slowdown in the jobs market could have on the U.S. consumer.

We remain cautious toward offices as businesses reassess their future needs, although we have an allocation within the Sunbelt, which we favour over coastal locations.

We have grown more cautious on European real estate securities on concerns around growth prospects. Stickier wage growth in Europe could keep inflation higher than in other regions. The portfolio remains balanced between growth and value themes as well as defensive businesses.

Our current positioning is differentiated more by property sector and individual security than by country, based on the common drivers impacting property types across the region. We like logistics and self-storage, which tend to be more defensive and have structural growth characteristics. We also favour highquality continental retail. We are cautious about offices outside of France and the U.K., as the demand outlook in other markets remains less certain.

Greg Fleming

Greg Fleming, MA