

SALT

Salt Sustainable Global Listed Property Fund Fact Sheet – July 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 31 July 2023

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	\$29.62 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 July 2023

Application	0.8311
Redemption	0.8277

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%
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Fund Allocation at 30 June 2023

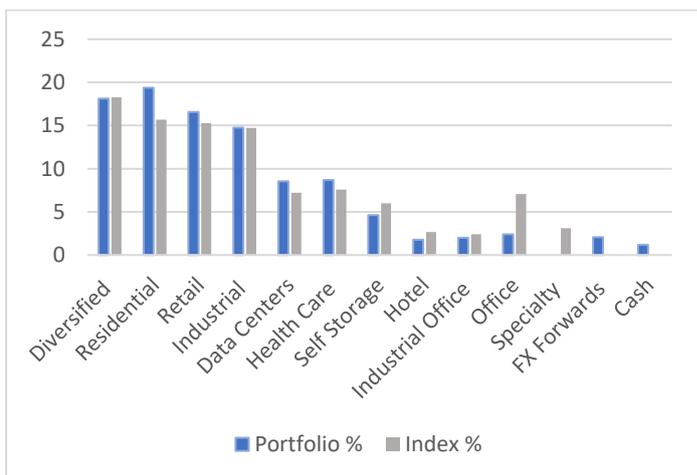
Global equities	97.8%
Cash and cash equivalents	2.2%

Fund Performance to 31 July 2023

Period	Fund Return*	Benchmark Return
1 month	2.96%	3.30%
3 months	2.83%	2.40%
6 months	-1.45%	-2.83%
Year to date	6.85%	5.17%
1 year	-8.07%	-9.17%
Since inception p.a.	-6.75%	-8.32%

*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 31 July 2023.

Fund Sectoral Weightings in % at 31 July 2023



Source: Cohen & Steers

Top 10 holdings as at 30 June 2023

Prologis	Realty Income Corp
Welltower	Equinix
Invitation Homes	Public Storage
Simon Property Group	Mid-America Apartment Communities
Digital Realty Trust	Sun Communities

The fund's top 10 holdings comprise 43.2% of the portfolio

Source: Cohen & Steers Monthly Report 31 July 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

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Market Review

The Salt Sustainable Global Property Fund rose 2.96% (after fees) in July, extending May's advance, slightly below the benchmark's gross return of 3.30%. Relative performance for the quarter was strong, at 2.83% (after fees) compared with 2.40% for the benchmark. Over the year to 30 June, the Salt fund has performed ahead of its benchmark return by 1.10%. Absolute returns are improving but remain soft due to upward interest rate pressure.

- Market sentiment remained positive in July as developed market headline inflation rates continued to retreat and activity data continued to prove resilient. This continues to support the contention that inflation can be tamed without harming activity.
- Global stocks performed well over the month. Developed market equities delivered a 3.4% return (in USD). Fixed income also recorded positive returns over the month.
- Data in the US supported hopes for a soft landing. The June CPI came in below expectations at 3.0% y/y, though core inflation remains sticky at 4.8% y/y. GDP growth surprised to the upside at 2.4% (q/q annualised), though the weakest part of the cycle is still yet to come. The Federal Reserve raised its key policy rate by 25bp to 5.25-5.50% during the month, with markets signalling this as the likely peak in rates.
- The European Central Bank likewise raised their key deposit rate 25bp, taking it to 3.75%. The messaging was dovish however, probably reflecting lower eurozone inflation and weakening activity data.
- Wage growth remains elevated in the UK with average earnings (ex-bonuses) rising 7.3% y/y. However, inflation came in lower than expected, driving a rally in Gilts. This is the first downside inflation surprise in a year. Markets have brought the expected peak policy rate down from 6.0% to 5.75%.
- Japanese inflation remained strong in June, with the Bank of Japan's preferred measure (CPI excluding fresh food and energy) rising to 4.2% y/y. Later in the month the BoJ further tweaked its Yield Curve Control policy by shifting from a rigid 0.5% upper limit on 10-year government bonds to a "reference point" of 1%.
- In China, June GDP data softened as expected, but the MSCI China Index is now back to a positive return year-to-date. This reflects some policy easing and likely further stimulus to come.
- In Australia there is an ongoing battle between inflation that is slowing, but still too high, and the still tight labour market. The June quarter CPI came in below expectations at 6.0% y/y for the headline rate and 5.9% y/y for core (trimmed mean). The lower inflation data and softer activity growth saw the Reserve Bank of Australia pause on rate hikes at its July meeting, with markets at this stage still pricing in one more 25bp hike.
- New Zealand headline inflation came in at 6.0% y/y in the June quarter, down from 6.7% y/y in March. However, the more problematic non-tradeable measure came in at 6.6% y/y. The economy has already seen a technical recession, with the weakest point in the cycle yet to come. We think the RBNZ has tightened enough, and Q2 labour market data in early August supported that view.

Portfolio Review

Global real estate stocks advanced in July amid further improvements in the economic outlook. Inflation decelerated to its lowest level in two years in many markets, while consumer confidence continued to rebound. In the U.S., second-quarter GDP growth was revised upward, and the labour market cooled somewhat, with job creation coming in below expectations. The probability of a soft landing edged higher in the U.S. at a time when the Federal Reserve (along with the European Central Bank) appeared closer to pausing its interest rate hikes.

In the U.S. (2.8% total return), real estate shares rose on a positive macro backdrop, and earnings reported in July were consistent with historical performance. The majority of reporting companies beat consensus expectations and raised their full-year outlooks. In another sign of the market's health, REIT debt spreads continued to narrow after considerably lagging corporate credit since the banking sector headlines late in the first quarter.

Shares of office landlords outperformed following generally weak performance this year. Retail property types advanced, as retail sales trends have held up well amid a relatively favourable macro backdrop for consumers. Hotel landlords gained along with other economically sensitive sectors.

Data centre REITs continued to see favourable supply/demand imbalances in major markets globally, driven by the migration of application workloads to the cloud and power availability constraining new supply. Among residential property types, single-family homes and manufactured homes benefited from strong demand (aided by high mortgage rates and slumping affordability in the homes-for-sale market).

Apartments were weighed down in part by lower pricing power in the oversupplied Sunbelt region. The health care sector outperformed. Industrial landlords were hampered by news that the largest index constituent had lowered its 2023 rent growth forecast. Vacancies are trending up, and rents are flat to down in certain markets. Self-storage REITs declined; companies in the sector, which boomed during the height of the Covid pandemic, are meaningfully cutting rents to attract new customers.

Europe rallied on improved (albeit elevated) headline inflation data. In Germany (17.9%), residential property types outperformed on expectations for lower interest rates. Sweden (11.8%), where real estate companies tend to have relatively high leverage, also advanced. Spain (8.7%) rose along with the region broadly.

The U.K. (7.3%) advanced on news that its annual inflation rate fell more than expected in June. Several diversified property owners enjoyed double-digit gains as solid leasing trends trumped lingering macroeconomic concerns.

The Netherlands (7.7%) and France (5.0%) saw strong returns from most retail landlords, with tenants reporting healthy results and positive leasing momentum. France posted its best quarter of GDP growth since the second quarter of 2022, which bodes well for consumer spending. In Belgium (4.8%), sector performance was mixed; strong first-half results (driven by rising rents and new developments) buoyed industrial landlords, while retail and self-storage property types lagged.

In the Asia Pacific region, Australia rose on optimism around an improving global macro backdrop. The Australian real estate sector

(4.4%) rebounded in July as long-term government bond yields peaked and global central banks signalled the monetary tightening cycle was nearing an end. In Singapore (3.0%), a data centre specialist outperformed on better-than-expected fundamentals.

In Japan (1.6%), the Bank of Japan (BOJ) announced a policy tweak at month-end to increase the flexibility of its yield curve control program. The BOJ was careful to clarify the move is not “tightening” or a first step to rate “normalization,” and that it is still in easing mode. In Hong Kong (0.4%), second-quarter 2023 GDP rose year over year but declined sequentially and was below expectations, with a strong consumption recovery offset by weaker exports and government spending.

Portfolio Performance

The eighteen months has been a turbulent period for listed Real Estate, as interest rate and banking uncertainties have overshadowed better valuations and fundamentals. Recently, positive sentiment is returning as inflation continues to subside and value opportunities are recognized. For 2023 year to date, the Fund has returned 6.9% but that is obscured on the rolling six-month basis in July, due to the very strong January return dropping out of the six-month period.

Key contributors

- Stock selection in Hong Kong (0.4% total return in the index): Our not owning office and retail property developer Hongkong Land contributed.
- Stock selection in France (5.0%): An overweight in retail landlord Klépierre contributed, as landlords with high-quality portfolios continue to see good demand from retailers and are able to pass through expense inflation.
- Security selection in the U.K. (7.3%): An overweight position in diversified property owner Land Securities modestly aided relative performance.

Key detractors

- Stock selection in the U.S. (2.8%): The portfolio had no investment in life sciences specialist Alexandria Real Estate Equities, reflecting our concern around oversupply in labs, which we believe will pressure fundamentals.
- Selection and an underweight in Sweden (11.8%): Swedish developers, which are highly levered and continue to face challenges due to interest rate headwinds, bounced in anticipation of interest rates peaking. The portfolio had no investment in diversified property owner Balder, which rose as management reiterated earnings guidance with its firsthalf results. We remain cautious on the stock, in part due to the company's balance sheet.
- Stock selection in Singapore (3.0%): An overweight allocation in Parkway Life REIT modestly detracted from relative performance.

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.

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 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 for cloud computing and, increasingly, artificial intelligence.

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 impact 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 given 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 high-quality continental retail. We are cautious about offices outside of France and the U.K., as the demand outlook in other markets remains less certain.

We see opportunities in Asia Pacific despite a slower-than-expected economic recovery from China's reopening. Within Australia, we have increased our allocation to residential developers in recent months, and we continue to avoid malls. In Singapore, we are positive on underlying hospital fundamentals and continue to favour retail, as retail sales remain above pre-pandemic levels, which we believe should lead to an increase in rents. In Japan, we favour developers with strong shareholder return potential and continue to like hotels, although we have trimmed both on strength. We have selectively reduced our underweight to Japanese office. Within Hong Kong, we are overweight domestic-focused retail landlords.



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