Salt Sustainable Global Listed Property Fund Fact Sheet – August 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 August 2023

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$28.92 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 August 2023

Application	0.8115
Redemption	0.8082

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 August 2023

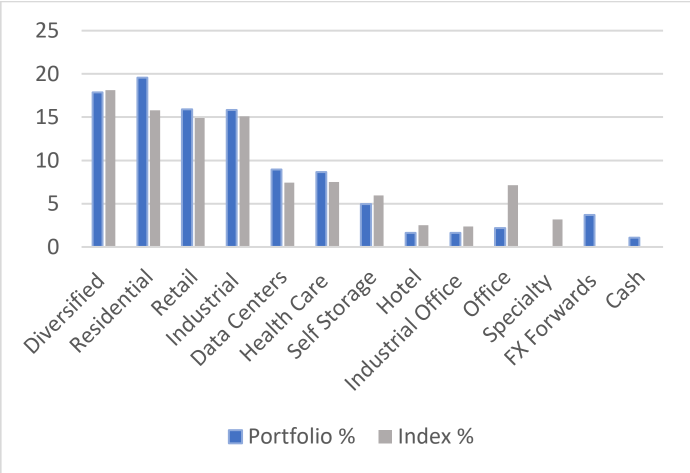
Global equities	97.8%
Cash and cash equivalents	2.2%

Fund Performance to 31 August 2023

Period	Fund Return*	Benchmark Return
1 month	-2.36%	-2.60%
3 months	3.83%	3.59%
6 months	-0.47%	-1.91%
Year to date	4.34%	2.43%
1 year	-5.11%	-6.20%
Since inception p.a.	-7.58%	-9.18%

*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 August 2023.

Fund Sectoral Weightings in % as at 31 August 2023



Source: Cohen & Steers

Top 10 holdings as at 31 August 2023	
Prologis	Simon Property Group
Welltower	Equinix
Digital Realty Trust	Mid-America Apartment Communities
Invitation Homes	Americold Realty Trust
Realty Income Corp	Sun Communities

The fund's top 10 holdings comprise 43.5% of the portfolio

Source: Cohen & Steers Monthly Report 31 Aug. 2023

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

Source: Cohen & Steers Quarterly Investment Report

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SALT

Market Review

The Salt Sustainable Global Property Fund declined -2.36% (after fees) in August, giving back the bulk of July's advance. The Fund's return was above the benchmark's gross return of -2.60%. Relative performance for the quarter was robust, at 3.83% (after fees) compared with 3.59% for the benchmark. Over the year to 31 August, the Salt fund has performed ahead of its benchmark return by 1.09% and since inception, the Fund has outperformed its benchmark by 1.6% p.a. Absolute returns in 2023 year-to-date are improving but remain erratic due to upward interest rate pressure.

- Volatility returned to global markets In August reflecting fresh strains in the Chinese property market and weakness in a broad range of activity indicators. Developed market sovereign bond yields also moved higher during the month. In this environment developed market equities declined -2.3% (in USD) over the month while the Bloomberg Global Aggregate bond index fell -1.4% (also in USD).
- The credit rating agency Fitch downgraded the US sovereign credit rating from AAA to AA+ during the month, citing unsustainable fiscal settings and increasing political dysfunction. The move was largely dismissed by US politicians and economists alike, though it does highlight our concern that without some form of political intervention the fiscal settings of several key developed economies are on an unsustainable path.
- US data remained solid over the month, keeping markets anticipating the possibility of one final interest rate hike from the FOMC. The jobs market remained strong with payroll gains ahead of forecast and a dip lower in the unemployment rate. Retail sales growth also exceeded expectations. Core inflation fell slightly over the month, but at 4.7%, it remains too high for comfort.
- Eurozone GDP data came in stronger than expected for the second quarter of the year and the labour market remains tight with the unemployment rate at its lowest ever level. The outlook remains uncertain, however, with the August composite Purchasing Managers Index falling to 47. Core inflation moved slightly lower but at 5.3%, markets are continuing to price in more tightening from the ECB.
- In Japan, the economy grew +6.0% q/q annualised in the second quarter, boosted by a strong contribution from net exports. The core CPI rose to 4.3% in July and the spring (Shunto) wage negotiations saw the biggest wage increase in three decades. That will have markets continuing to be alert to further tweaks to Japan's monetary policy settings.
- In China, activity data was much weaker than expected including retail sales and private investment, particularly in real estate. The annual rate of CPI increase turned negative in July. To address these challenges, the PBoC cuts rates twice during the month, though credit demand is yet to respond. China's troubles appear likely to weigh on markets for a few months yet.
- In Australia, data over the month has broadly tracked in line with the RBA's forecasts, with unemployment higher and inflation lower, providing little reason for the RBA to shift from its current "wait and see" approach. Still, we expect somewhat more challenging inflation dynamics over the next few months which will challenge the RBA's position.

Portfolio Review

Global real estate stocks declined in August, along with global equities broadly, against a volatile interest rate backdrop. Long-term government bond yields rose in many markets as inflation remained a concern. The U.S. economy appeared resilient, prompting members of the U.S. Federal Reserve's Federal Open Market Committee to weigh the potential for further rate hikes given "significant upside risks to inflation"—remarks that Fed Chairman Powell echoed at the 2023 Jackson Hole Economic Policy Symposium. Eurozone inflation stopped slowing in August and remained elevated, while inflation and economic growth readings in the U.K. were higher than expected.

In the U.S. (–3.2% total return), real estate shares fell as remarks from Fed officials dampened hopes for a near-term inflection point in monetary policy. Real estate debt spreads widened, and Treasury and real rates rose, as the market priced out 2023 cuts to the Fed's benchmark rate. Fitch Ratings' downgrade of the U.S.'s long-term credit rating to AA+ further weighed on investor risk appetite. Macroeconomic data aside, most reporting U.S. listed real estate companies beat expectations and raised their outlooks, underscoring a broadly supportive supply/demand environment for U.S. REITs. Shares of industrial REITs outperformed following weakness in July.

Data centres also defended well, as chip maker NVIDIA's strong second-quarter results spotlighted impressive growth in data centre revenue, driven by demand for generative artificial intelligence (AI).

Among residential property types, apartments outperformed following weakness in July, while single-family homes and manufactured homes trailed. The office sector declined but outperformed U.S. REITs broadly.

The self-storage sector trailed on mixed earnings performance; the sector's largest index constituent outperformed as its second-quarter same-store revenue met expectations, while two other companies released results that were below market expectations. The health care sector was weighed down in part by weakness in shares of a triple-net landlord that cut its dividend. Retail property types lagged as retailer earnings came in mixed. Free standing REITs, which tend to be interest rate sensitive, underperformed. Hotel landlords trailed on softer margins as leisure travel normalized and business travel slowed.

European real estate shares modestly retreated in August following a strong up-move the previous month. Investors remained focused on economic data, with some countries already in recession. Germany (4.0%) advanced despite a sharp downturn in the country's economic activity. Residential landlords shrugged off the Social Democratic Party's proposed three-year rent freeze—a measure that proponents hope would tame inflation and provide relief on soaring housing costs—which suggests the plan will not be enacted.

Switzerland (1.2%) rose as a diversified landlord reported solid operating results and increased its guidance for the second time this year. France (–0.3%) saw strong returns from several retail landlords, with tenants reporting healthy results and positive leasing momentum. Sweden (–0.7%) held up relatively well, considering companies' cyclical exposure and expectations the Riksbank will continue to hike interest rates to bring inflation under control. The Netherlands (–2.3%) and Spain (–3.1%) staged modest retreats in the wake of healthy gains recorded in July.

Amid poor economic data and persistent inflation, the U.K. (–2.9%) trailed on concerns of stagflation. The office and residential sectors endured the largest declines.

In the Asia Pacific region, Japan (2.8%) was an outlier amid China's property and macroeconomic woes. In Japan, second-quarter GDP grew more than expected, led by higher net exports and strong domestic capital expenditures. Japanese developers outperformed on strong earnings results, particularly from condo businesses and hotel operations. Among J-REITs, office and hotel property types outperformed while industrial landlords trailed.

Australia (–2.2%), though pressured by an increase in global long-term government bond yields, benefited from several REITs trading strongly after reporting better-than-expected full-year 2023 results.

In Singapore (–3.5%), performance was impacted by negative sentiment toward China-related stocks. Data centre and industrial property types outperformed, while hospitality and U.S. office–exposed S-REITs trailed. Hong Kong (–9.7%) corrected sharply after China disappointed in the magnitude of its policy stimulus. Bond defaults from large Chinese developers also weighed on general sentiment.

Portfolio Performance

The last eighteen months has been a turbulent period for listed Real Estate, as interest rate and banking uncertainties have overshadowed better valuations and fundamentals. Recently, more positive sentiment is returning as inflation continues to subside and value opportunities are recognized. For 2023 year to date, the Fund has returned 4.34% (after fees) which is well ahead of its benchmark, which has gained 2.43% in 2023 to end-August.

Key contributors

• Stock selection in the U.S. (–3.2% total return in the index): An overweight position in Digital Realty Trust rose as strong AI-driven earnings and positive comments from chip maker NVIDIA were seen as a positive read-though for data centre companies generally.

• Security selection in Australia (–2.2%): An out-of-index position in industrial manager and developer Goodman Group rose on strong earnings results and a value-accretive pivot into data centres.

• Stock selection in Japan (2.8%): An overweight in Mitsui Fudosan aided performance. The diversified developer rose on strong earnings results, outperforming along with Japanese developers broadly.

Key detractors

• Stock selection in Hong Kong (–9.7%): Our overweight in Wharf Real Estate Investment Co. trailed on slower-than-expected growth in travel volume from China.

• Underweight in Switzerland (1.2%): Switzerland, benefiting from a relatively strong macro backdrop, outperformed global listed real estate broadly.

• Security selection in Canada (–3.1%): An overweight position in Canadian Apartment Properties REIT and our noninvestment in Boardwalk REIT modestly detracted.

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, 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 for 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. 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 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 see opportunities in Asia Pacific from reopening and additional monetary policy support from the Chinese government. 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 added Japanese office REIT exposure. Within Hong Kong, we are overweight domestic-focused retail landlords.

Greg Fleming, MA