Salt Sustainable Global Listed Property Fund Fact Sheet – December 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 December 2022

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$27.29 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 December 2022

Application	0.7924
Redemption	0.7891

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 December 2022

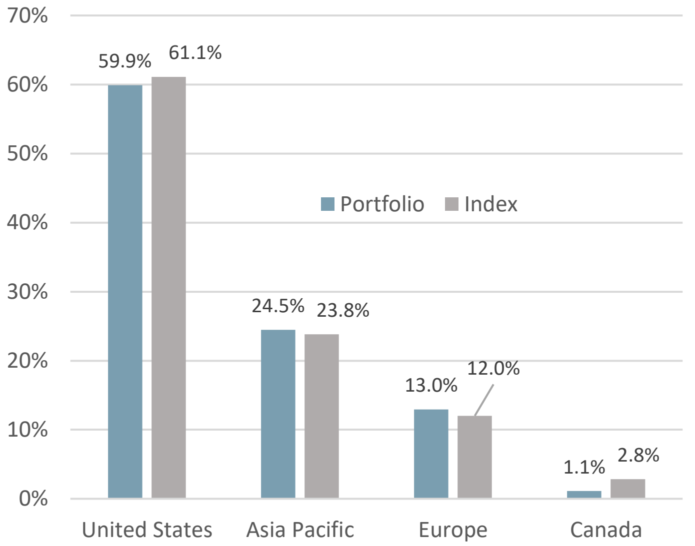
Global equities	98.8%
Cash and cash equivalents	1.2%

Fund Performance to 31 December 2022

Period	Fund Return*	Benchmark Return
1 month	-3.87%	-3.73%
3 months	3.61%	4.04%
6 months	-7.32%	-6.88%
1 year	-23.78%	-23.98%
Since inception	-17.85%	-15.18%

*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.

Fund Regional Weightings at 31 December 2022



Source: Cohen & Steers

Top 10 holdings as at 31 December 2022	
Prologis	Invitation Homes
Welltower	Public Storage
Digital Realty Trust	Equinix
Realty Income Corp	Mid-America Apartment Communities
Simon Property Group	Sun Communities

The fund's top 10 holdings comprise 41.37% of the portfolio

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

Source: Cohen & Steers Quarterly Report Dec. 2022

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Market Review

December month saw a reversal in sentiment to a more cautious tone after a tentative recovery earlier in the quarter. Equity markets around the world weakened during the month, led by a 5.8% fall in the US S&P 500 Index. The more sober market mood also affected listed property, partially reversing the strong performance recorded in November.

Real Estate equities are sensitive to higher long-term interest rates, and the fluctuating investor views on the degree to which global monetary policy will need to tighten further to restrain present inflation has overshadowed the sector recently. On the other hand, a less

The global equity market rally that started early in the December quarter partly reversed in the December month. Global equities lost 3.9% (in USD) in the December month, trimming the gain for the fourth quarter to 9.8%.

- The gains early in the quarter reflected the growing confidence that the worst of the inflation surge was now behind the world's major economies. This optimism was tempered late in the quarter by central banks which, despite reducing the magnitude of rate hikes, signalled they still had more tightening work to do, exceeding markets views of the various terminal rates. This included the US Federal Reserve, the European Central Bank and the Reserve Bank of New Zealand.
- This was exacerbated by a surprise move from the Bank of Japan to adjust its Yield Curve Control policy by allowing a widening of the trading band around 10-year JGBs. This was seen by markets as a de facto tightening in monetary policy.
- Political turmoil continued in the UK as Prime Minister Liz Truss was replaced by her competitor in the earlier selection process, Rishi Sunak.
- China was immune from the global sell-off in markets as the Government, in the face of widespread social unrest, moved swiftly to unwind still-stringent Covid restrictions. We had expected such a move following the conclusion of the 20th National Congress of the CCP, but the pace of this move surprised us and does not come without risks.
- In Australia, the economy is showing signs of slowing and will weaken further in 2023 but is expected to avoid recession.
- In New Zealand, the RBNZ delivered its largest ever interest rate increase of 75bps during the quarter, taking the Official Cash Rate to 4.25%. Cementing the hawkishness even further was the admission the Bank had considered a 100bp hike. The projected terminal rate of the OCR was lifted from 4.1% to 5.5%, higher than was expected by the market.
- NZ GDP growth appears remarkably resilient, rising 2.0% over the September quarter. However, we believe this strength continues to reflect Covid "noise" and the reopening of borders. The latest ANZ Business Outlook survey is a more important indicator of things to come with all key activity indicators moving more negative in the December month. This suggests the New Zealand economy may already be close to recession and that a 5.5% OCR may not be required.
- In summary, the December quarter marked the end of a challenging 2022 for markets and investors as the highest inflation, along with the most aggressive rate hikes from the world's major central banks in decades, put pressure on both equity and bond markets at the same time.

Global real estate securities declined in 2022 along with financial assets broadly. Economies slowed and inflation climbed to a 40-year high amid lingering supply chain issues and as Russia's invasion of Ukraine led to a pronounced increase in food and energy prices as well as heightened economic uncertainty. In an effort to reduce demand to check persistently high inflation, the Federal Reserve and most other major central banks aggressively raised their benchmark lending rates. The sharp increases in interest rates were particularly unsettling for REITs, which underwent a valuation reset even though real estate has not seen significant speculation or aggressive leverage.

In the U.S. (–25.6% local currency), fundamentals for most property types remained healthy, with rising demand and limited new supply (as indicated by data showing high occupancy rates) allowing landlords to raise rents. While a deceleration in REIT earnings is anticipated given expectations of a recession, cash flows are nevertheless projected to be resilient in 2023, particularly compared to the broad equity market. Retail property types outperformed, bolstered by a resilient consumer, as a strong job market and the decline in oil prices in the second half of the year aided consumer discretionary spending. Hotel REIT performance was supported by demand from leisure and business travel.

The more growth-oriented sectors trailed amid interest rate pressures, despite expectations for strong demand in the data centre and industrial sectors. Residential property companies underperformed on concerns around softening rental and leasing rates. In contrast to other property types, offices lagged on questions about the long-term future of demand.

Europe trailed as it contended with the risk to growth, especially as the costs associated with its energy transition away from Russian supplies are likely to be inflationary. Despite the threat to growth caused by the Russia-Ukraine war, real estate demand generally remained healthy, and companies maintained (if not raised) full-year earnings guidance. Spain (–10.2%) was partially cushioned by an upswing in inbound holiday travel and the country's lower reliance on Russian energy imports. France (–12.2%) and the Netherlands (–14.5%) were among the top-performing markets, led by retail companies with higher-quality assets, as tenant fundamentals continued to improve. Although not immune to the selling pressure that affected the region, Switzerland (–12.8%) was seen as a relatively safe haven amid the stock market's volatility.

The U.K. (–32.3%) contended with a rising cost of living, which was exacerbated by the lingering effects of Brexit, with reduced investment and exports impacting the economy. The adverse effects of rising interest rates were felt across Europe and were most pronounced in Sweden (–44.5%) and Germany (–52.9%). In Sweden, highly levered property developers were seen as vulnerable to reduced economic activity and higher funding costs. Germany, which is dominated by the rate-sensitive residential sector, likewise struggled in the higher-interest-rate environment despite an operationally strong apartment market.

Asia Pacific outperformed other regions, benefiting from reopening's and relatively less inflation pressure. We also attribute the region's outperformance to value-based gains following last year's underperformance. Hong Kong's (0.4%) new Covid cases stabilized, allowing for a material relaxation of lockdown and social distancing measures, and reopening plays rose meaningfully on the prospect of a Greater China reopening. Japan (–2.4%) benefited during the year from economic reopening and less inflation pressure. However, in December, a surprise decision from the Bank of Japan to widen the band on 10-year government bond yields by 25 basis points (in an effort to stabilize the yen) weighed on performance. In Singapore (–6.3%), business activity returned to normal with April's relaxation of most social distancing measures.

In Australia (–12.9%), growth and rate-sensitive names came under pressure given rising bond yields, while retail-oriented property types fared best.

Portfolio Performance

In the month, the Fund had a total return of -3.87% (after fees) which was broadly in line with the total return of -3.73% for its benchmark. Over six months, the portfolio returned -7.32% (after fees) which was 0.44% below its benchmark's return, while over the full year, the Fund has been in line with its benchmark, declining by 23.8%%, (on an after-fees basis) compared with the benchmark's 24.0% fall in 2022.

Key contributors

• Stock selection in the U.S. (–25.6% total return in the index): The portfolio benefited from its overweight position in Public Storage, which outperformed its peers. Toward year-end, the company reported an increased average length of stay as a greater proportion of customers sought out storage due to lack of space (rather than relocating).

• Stock selection in Hong Kong (0.4%): Contributors included an out-of-index position in Macau-based resort company Sands China, which rose meaningfully on the prospect of a Greater China reopening.

• Stock selection and an underweight in Sweden (–44.5%): The country significantly trailed listed real estate broadly; investors were concerned about the impact that reduced economic activity and rising interest rates would have on Sweden's highly levered property developers.

Key detractors

• Security selection in Australia (–12.9%): An out-of-index position in fund manager Charter Hall declined given its interest rate sensitivity.

• Stock selection and an overweight in the U.K. (–32.3%): An overweight position in logistics specialist Tritax Big Box REIT fell significantly despite its high occupancy and healthy rental growth rates.

• Underweight in Switzerland (–12.8%): The country outperformed as investors sought safe havens in a risk-averse climate. However, given the low yields and high valuations available in the market, we believed more compelling opportunities existed elsewhere.

Investment Outlook (Cohen & Steers commentary)

We believe global real estate, which has seen improved valuations with the correction in share prices during the year, offers attractive return potential relative to broad equities. Slowing economic growth and high 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 assets to defend against a prolonged environment of high inflation.

We maintain a positive view of U.S. REITs, with a preference for assets with shorter lease durations and strong pricing power. We see the residential sector benefiting from insufficient supply and home affordability issues in the for-sale market, which are leading to higher demand for rental housing, especially within single family homes. Data centres and industrial landlords should continue to benefit from strong secular demand in the shift toward a digital economy, in our opinion. Within health care, we have a positive outlook on senior housing, where occupancies are improving following early-pandemic declines. Self-storage should continue to have good pricing power given occupancy rates well above historical levels; however, with growth rates normalizing, we have pared our overweight in the sector.

While we believe secular headwinds remain for retail, we think certain landlords with high-quality properties and strong balance sheets stand to gain market share over time. However, we are mindful of the impact of elevated inflation 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. ,

European real estate securities, which have lagged their U.S. peers, offer attractive upside potential. The risk to growth is a concern, especially as the costs associated with Europe's energy transition away from Russian supplies are likely to be inflationary. The Fund 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 prefer assets with shorter lease durations and strong pricing power, which should benefit from an environment of rising prices. 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 uncertain.

We see opportunities in **Asia Pacific** from reopening's and China's supportive monetary policy stance. Within Australia, we favour property sectors that are relatively insulated from the encroachment of e-commerce activity. In Singapore, we are positive on underlying hospital fundamentals and constructive on the medium-term outlook for offices, given the prospect of potential corporate relocations within Asia Pacific (though we are mindful of the impact of rising rates on cash flows). In Japan, we favour diversified developers and industrial REITs, and we have increased our exposure to hotels, which have benefited from increased inbound travel volume and government subsidies encouraging domestic travel. Within **Hong Kong,** we are overweight domestic non-discretionary retail landlords.

Greg Fleming, MA