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

Application	0.8592
Redemption	0.8556

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 2023

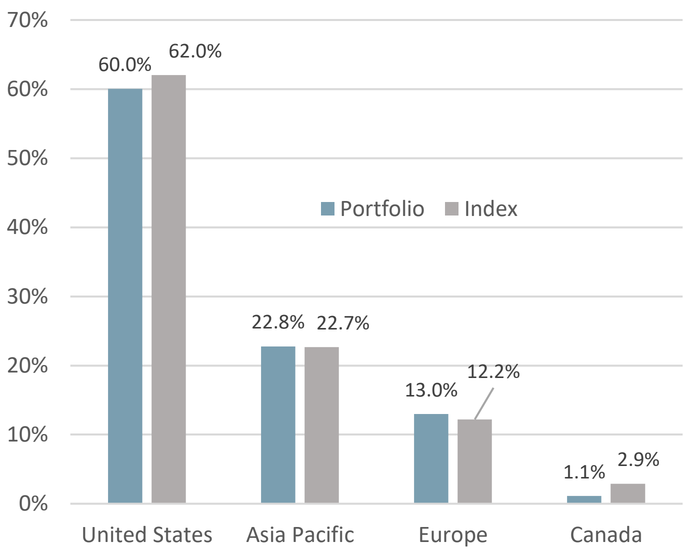
Global equities	98.3%
Cash and cash equivalents	1.7%

Fund Performance to 31 January 2023

Period	Fund Return*	Benchmark Return
1 month	8.43%	8.23%
3 months	9.86%	9.30%
6 months	-6.72%	-6.52%
1 year	-13.12%	-12.92%
Since inception	-10.93%	-9.23%

*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 January 2023



Source: Cohen & Steers

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

The fund's top 10 holdings comprise 41.62% 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

January month saw another reversal in sentiment, this time back into a positive tone after a weak December month. Equity markets around the world rose during the month, led by a 6.3% bounce in the US S&P 500 Index, which recovered its December loss. The more constructive market mood also lifted listed property after the sectors' sharp 2022 valuation declines.

The global property benchmark gained 8.2% in January and the Salt Sustainable Global Property Fund rose 8.4%. Over the last year, , with the Salt fund logged a one -year return of -13.1% (after fees) which was in line with benchmark. Since inception, the Fund has returned -10.93% (after fees.) Going forward, global listed property is favoured due to its inherent inflation protection, and compelling valuations now are present in a range of markets after recent interest rate driven drops.

- Stock markets had a strong start to 2023. Developed market equities rose 6.0% (in USD) over the month. Bonds also rallied as it became evident that inflation had peaked in the key developed economies, with the Global Aggregate bond index returning +3.2% (USD).
- The surprisingly swift end to China's zero-Covid policy bolstered already positive expectations about growth in China this year. That will benefit not only China but also China's main trading partners given the extent of pent-up demand and high savings rates amongst China's consumers.
- China GDP was weak in the final quarter of 2022; however more recent partial indicators suggest that may be the bottom of the cycle with a recovery expected to unfold over 2023 on the back of re-opening and likely ongoing policy support.
- Softer annual inflation rates in the US and the Eurozone raised hopes that those central banks might soon end their tightening cycles. However, while some central banks have reduced the pace of rate hikes, there isn't any greater clarity on the level at which interest rates will peak.
- In the US, labour market data was viewed positively by markets in that while employment remained solidly positive, wage inflation also slowed, suggesting a soft landing was indeed possible.
- The cautionary note is that wage inflation remains well in excess of the level consistent with 2% inflation.
- In Europe, the relatively mild winter has led to a decline in energy prices and has seen inflation recede from its peak and has reduced the risk of recession. The average purchase price for natural gas in January was over 50% lower than the average prevailing in H2 2022.
- At the same time, activity data out of the Eurozone has been surprisingly upbeat, indicating a winter recession may be avoided, albeit narrowly. This surprising economic resilience has supported Europe's equity markets at the start of the year.
- Japan's inflation surged to 4% in calendar 2022, its highest level in 31 years. The Bank of Japan loosened its yield curve control policy, widening the band in which 10-year JGBs can trade from +/-25bp to +/-50bp. The Bank then had to intervene with bond purchases through January as markets anticipated a further widening, which did not eventuate.
- Despite recently soft retail sales data in Australia, the Reserve Bank of Australia will likely continue to raise interest rates. Headline inflation came in at 7.8% for the year to December 2022, a 32-year high and ahead of expectations.

Portfolio Review

Global real estate shares rebounded in January, along with global equities broadly, on optimism around moderating inflation. A corresponding decline in global bond yields in various markets was supportive of real estate. The US was among the top performers; additional economic data points supported the market's expectation that the US Federal Reserve is nearing the end of its tightening cycle. Moderating inflation and a relatively mild winter contributed to renewed investor interest in European real estate securities, while China's reopening provided another global tailwind.

In the US (10.6% total return), listed real estate securities rose on a downtick in inflation and declining Treasury yields as investors awaited fourth-quarter earnings results. Hotel REITs rebounded in the month, as concerns around slowing leisure and business demand have yet to materialize. Industrial REITs were lifted on gains from Prologis, which reported strong earnings results, indicating its ability to continue growing market rents despite a weakening economy. The interest rate–sensitive data centre REIT sector also outperformed, benefiting from robust pricing power due to strong demand and limited supply. The health care REIT sector rose on signs of improving fundamentals in senior housing.

Office REITs rebounded on a rally among some of the more coastal-focused property types. Among residential real estate securities, single family homes for rent, which struggled in the fourth quarter on expense concerns, rose amid a more favourable macro backdrop for consumers, including positive employment data and a decline in bond yields.

Performance among retail property types was mixed; high-quality regional malls fared better than shopping centre REITs, the latter likely hindered by concerns around retailer bankruptcies. Self-storage landlords trailed amid decelerating fundamentals. Free standing REITs, which tend to be more defensive, trailed in a month characterized by elevated investor risk appetite.

Europe gained as a mild winter eased energy concerns and investors saw opportunity amid moderating inflation. Germany (16.8%) rose on gains among rate-sensitive residential property types. The Netherlands (16.1%) was bolstered by outperformance from retail-oriented giant Unibail-Rodamco-Westfield. Sweden (10.7%), which is sensitive to interest rates due to the presence of highly levered developers, gained. France (10.7%) was lifted by office specialist Gecina.

The UK (7.4%) saw gains from industrial specialists SEGRO and Tritax Big Box REIT; the latter rose despite write-downs in its portfolio of around 20%, with the company continuing to deliver strong rents. Land Securities and British Land, both of which have retail and office exposure, also outperformed. Spain (6.0%) trailed on relatively soft performance from the index's largest constituent, diversified REIT Merlin Properties. Belgium (5.8%) trailed the region but benefited from outperformance among industrial specialists Warehouses de Pauw and Montea. Warehouses de Pauw reported an outlook for 2023 that was slightly ahead of market expectations.

The Asia Pacific region, though supported by gains from interest rate–sensitive and reopening-exposed names, was restrained by Japan. Singapore (6.3%), which tends to be sensitive to interest rates, gained as previous laggards such as data centres outperformed, while offices trailed. Hong Kong (5.2%) continued its strong momentum in January.

China reopened domestically and internationally despite the continued increase in Covid cases. Early indicators for Chinese New Year showed a big jump in domestic travel and consumption—albeit still below pre-Covid levels, likely because many people were recovering from Covid. Developers outperformed as residential transaction activity picked up, Albeit from a low base.

In **Australia** (5.0%), the REIT sector rallied sharply in January, underpinned by easing global inflation pressures and a decline in bond yields. Growth-oriented names outperformed.

Japan (–1.7%) continued to face pressure stemming from rising inflation and concerns around the Bank of Japan's surprise decision in December to raise the band on 10-year government bond yields.

Portfolio Performance

In the month, the Fund had a total return of 8.58% (after fees) which was stronger than the total return of 8.23% for its benchmark. Over six months, the portfolio returned -5.92% (after fees) which was 0.60% above its benchmark's return, while over the full year, the Fund has been more resilient than its benchmark, declining by 11.7%%, (on an after- fees basis) compared with the benchmark's 12.9% fall , giving an outperformance of 122bps for the year and of 24bps since inception.

Key contributors

• Security selection in the U.S. (10.6% total return in the index): Our overweight in health care REIT Welltower, which rose amid improving fundamentals for senior housing, contributed. An overweight in data centre specialist Digital Realty Trust also aided relative performance.

• Stock selection in Australia (5.0%): We held an out-of-index position in fund manager Charter Hall Group, which has benefited from attractive through-cycle growth fundamentals.

• Security selection in the UK. (7.4%): Contributors included overweight allocations in a number of our U.K. holdings, including British Land, business park specialist Sirius Real Estate and logistics landlord Tritax Big Box REIT.

Key detractors

• Security selection in France (10.7%): An out-of-index position in logistics REIT Argan and the Portfolio's noninvestment in office-focused Gecina both detracted from relative performance.

• Out-of-index position in China: The Portfolio's allocation in developer Hang Lung Properties detracted.

• Underweight in Canada (10.4%): Canada outpaced the global index broadly, with strong gains among residential and logistics REITs.

Investment Outlook (Cohen & Steers commentary)

We believe global real estate, which has seen improved valuations with the correction in share prices in 2022, **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.

We maintain a **positive view of US** 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. With growth rates normalizing in self-storage, we have pared our overweight 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 impact of elevated inflation on the US 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 US 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 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 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 **UK**, as the demand outlook in other markets remains less certain. We see opportunities in Asia Pacific from reopening 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