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

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$28.97 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 30 April 2023

Application	0.8234
Redemption	0.8200

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 April 2023

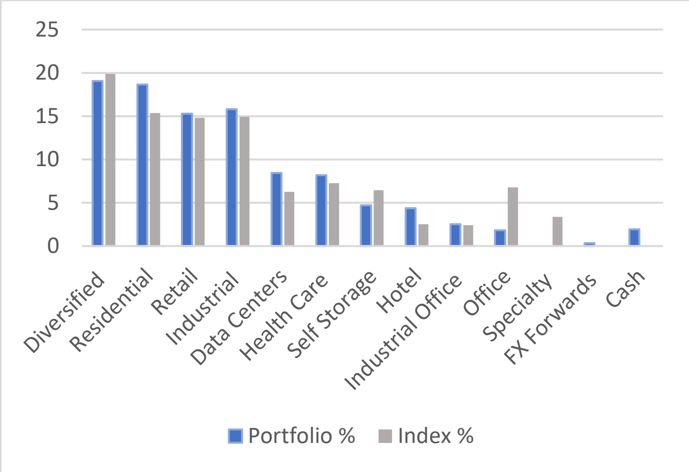
Global equities	97.7%
Cash and cash equivalents	2.3%

Fund Performance to 30 April 2023

Period	Fund Return*	Benchmark Return
1 month	2.89%	2.12%
3 months	-4.16%	-5.11%
6 months	5.29%	3.71%
1 year	-15.27%	-15.84%
Since inception p.a.	-9.35%	-10.88%

*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 April 2023.

Fund Sectoral Weightings in % at 30 April 2023



Source: Cohen & Steers

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

The fund's top 10 holdings comprise 44.1% of the portfolio

Source: Cohen & Steers Monthly Report 30 April 2023

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.19	5.95
MSCI ESG score	5.96	5.86

Source: Cohen & Steers Monthly Report 30 April 2023

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Market Review

April month saw stocks edging higher despite periods of heightened volatility. Global markets overcame uncertainty over economic growth, still-elevated inflation, central bank policy and banking industry turmoil to post positive returns for the first quarter. This strength was partially catalysed by sharply lower interest rates and expectations for reduced monetary tightening going forward. Real estate rallied accordingly.

The global property benchmark rose 2.12%% in April month and the Salt Sustainable Global Property Fund outperformed the benchmark by 0.77% (after fees) for the month. In 2023 Year-to-Date, the Salt fund has logged a return of 3.92% (after fees) which was ahead of its benchmark return of 2.70% by 1.2%.

Since inception, the Fund has returned -9.35% p.a. (after fees) but has beaten its benchmark by +1.53% p.a.

- Global economic news remained generally positive in April, again highlighting the resilience of growth to higher interest rates. Purchasing Manager Indices (PMIs) beat expectations in the United States and the eurozone, while better-than-expected GDP growth in China also aided the story of positive economic momentum. Developed market equities rose 1.8% (in USD) over the month.
- Headline inflation continued to moderate over the month as energy prices continued to fall. OPEC announced a cut in production aimed at stabilising prices, but when compared with significantly higher prices last year, energy prices should still contribute to lower inflation over the next few months.
- Core services inflation continues to prove sticky. Despite that, we believe we are close to a pause in the hiking cycle amongst the major central banks. The Reserve Bank of Australia hit the pause button in April, though signalled more tightening was likely. The Reserve Bank of New Zealand is also close to pausing. Global bonds returned 0.4% (in USD) over the month.
- In the US there were further signs of cooling in the labour market as the monthly gains in non-farm payrolls continued to moderate, the unemployment rate rose to 3.5% and wage growth moderated to an annual rate of 4.2%. Markets are pricing a final 25bp hike in the fed funds rate in May, followed by a pause. Interest rate cuts are expected before the end of the year, which we believe is too early. However, much will depend on ongoing stresses in the financial sector.
- Activity data continued to surprise to the upside in April. While the economy skirted the expected recession expect at the end of 2022, that just means the European Central Bank has more work to do to slow demand. Markets are pricing a further 75bps of hikes by the ECB.
- China activity data released over the month confirmed the expected reopening “bounce”. GDP data for the March quarter and retail sales for the March month both came in stronger than expected. But despite the better data, the local equity market continues to suffer from ongoing geo-political tensions.
- March quarter inflation data in Australia was largely in line with expectations and confirms that inflation peaked at the end of 2022. However, we believe the split between goods and services inflation was cause for concern. While the annual rate of goods inflation slowed sharply, services prices rose. This suggests that despite the pause in the rate hiking cycle early in the month, the RBA still has more work to do.

Portfolio Review

Global real estate shares rose in April along with global equities broadly. U.S. regulators and banks worked on a solution to aid the troubled First Republic Bank, which reported that its deposits fell about 41% in the first quarter. Investors also weighed the ongoing US debt ceiling crisis, corporate earnings season, and economic data (slowing growth, persistent inflation) ahead of the US Fed’s May meeting.)

In the US (0.8% total return), performance was mixed, with continued investor wariness toward sectors perceived to be more economically sensitive. Among real estate companies reporting first-quarter earnings thus far, about half beat consensus expectations. Despite macro concerns, management commentary has been mostly positive.

Within residential property types, single family homes for rent benefited from accelerating market rent growth and continued low supply, while apartment REITs were lifted by gains from a coastal-oriented company that reported an acceleration in leasing activity. In health care, a senior housing operator reported better-than-expected rate and expense data, which could be viewed as a positive read through for other senior housing REITs. Among retail-oriented landlords, regional malls fared well but shopping centres underperformed. While shopping centre tenants are generally healthy, there has been somewhat more exposure to distressed retailers versus the regional mall sector.

Data centres modestly edged out the index in April following strong first-quarter performance. Industrial REITs trailed following outperformance in March. Hotel companies also trailed on concerns about a pullback in business travel due to reduced corporate travel budgets. Within offices, companies reporting earnings have noted weak leasing trends among large coastal tenants. Self-storage owners moved lower on a deceleration of rent growth, giving back some of their year-to-date outperformance.

Europe outpaced other regions, aided by strength in Germany (11.5%) as its residential companies rebounded. German residential stocks, which struggled in March amid news of dividend cuts and rising interest rates, mostly performed well in April as bond yields stabilized. The Netherlands (1.0%) rose amid a rebound among retail-oriented names. In Spain (-0.3%), while results in local currency terms were flattish, office companies positively surprised markets. The **UK** (6.3%) broadly gained after trailing in March. **France** (3.9%) was lifted by a pan-European retail REIT as retail fundamentals remained on solid footing. The company has also benefitted from market share gains as retailers concentrate their footprint in higher quality shopping centres.

The Asia Pacific region was lifted on rebounds in Australia (6.3%) and Japan (5.7%). Certain residential companies outperformed, as **Australia’s** primary residential market generally bottomed at a historically subdued level. A leading mall landlord also outperformed. Economic data released by the Australian Bureau of Statistics toward month end indicated moderating inflation. In **Japan**, the Bank of Japan decision to leave the Yield Curve Control policy unchanged drove yen depreciation and a jump in real estate stock prices, given market expectations for yields to remain lower for longer.

In **Singapore** (1.1%), the central bank paused its tightening cycle as inflation showed signs of peaking. Hotel REITs fared well following strong results which showed hotel fundamentals in Asia continue to accelerate, while S-REITs with material US office exposure underperformed. In **Hong Kong** (-0.1%), markets were broadly restrained by concerns around technology sanctions following comments made by President Biden.

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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 in our preferred sub-sectors. For the April month, the portfolio had a positive return of 2.89% (after fees) and outperformed its benchmark.

Key contributors

• Stock selection in the US (0.8% total return in the index) An overweight in senior housing REIT Welltower contributed. The company has benefited from occupancies approaching pre-Covid levels as well as a reduction in staffing costs as labour availability recovers. An overweight allocation in residential REIT Invitation Homes, which had underperformed in 2022, also aided performance.

• Stock selection in Japan (5.7%): An overweight in Advance Residence Investment contributed. Residential names were strong as the REITs have begun reporting solid positive rental reversions due to good wage growth and population inflow returning into Tokyo.

• Stock selection and an overweight in France (5.0%): An overweight in large retail landlord Klépierre, the subject of an analyst upgrade, aided performance.

Key detractors

• Non-investment in Switzerland (5.0%): The team sees better value opportunities elsewhere.

• Stock selection in Sweden (3.8%): Our non-investment in Fastighets AB Balder modestly detracted.

• Stock selection in Australia (6.3%): Our non-investment in residential specialist Mirvac Group hindered 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 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 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 and a potential slow-down in the jobs market 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. The portfolio remains substantially underweight to Office.

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 re-openings and China's supportive monetary policy stance. Within Australia, we increased our allocation to residential developers in recent months while continuing to avoid malls. 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 added residential exposure (as a defensive play) and mid cap Japanese developer exposure (for shareholder returns). 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