
# Salt Sustainable Global Listed Property Fund Fact Sheet – October 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 October 2023

| | |
|---|---|
| Benchmark | FTSE EPRA Nareit Developed Real Estate Index hedged into NZD |
| Fund Assets | $26.34 million |
| Inception Date | 16 September 2021 |
| Underlying Manager | Cohen & Steers |

## Unit Price at 31 October 2023

| | |
|---|---|
| Application | 0.7288 |
| Redemption | 0.7258 |

## 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 October 2023

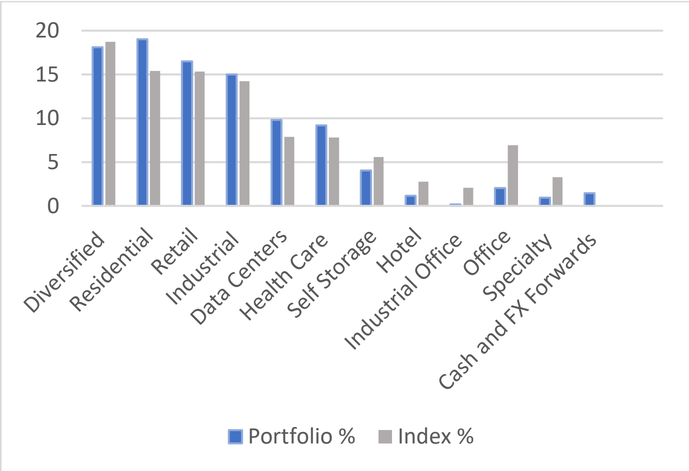
| | |
|---|---|
| Global equities | 98.6% |
| Cash and cash equivalents | 3.6% |

## Fund Performance to 31 October 2023

| Period | Fund Return* | Benchmark Return |
|---|---|---|
| 1 month | -4.21% | -4.45% |
| 3 months | -11.94% | -11.96% |
| 6 months | -9.07% | -9.85% |
| Year to date | -5.03% | -7.41% |
| 1 year | -3.51% | -6.50% |
| Since inception p.a. | -10.19% | -12.75% |

*Performance is before fees and PIE tax and adjusted for imputation credits. Benchmark performance is gross. Past performance is not a guarantee of future results. Data as of 31 October 2023.

## Fund Sectoral Weightings in % as at 31 October 2023




Source: Cohen & Steers

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

The fund's top 10 holdings comprise 44.2% of the portfolio

Source: Cohen & Steers Monthly Report 31 Oct. 2023

## Sustainability metrics

| Fund ESG Scores | Portfolio | Index |
|---|---|---|
| Cohen & Steers ESG score | 6.2 | 6.0 |
| MSCI ESG score | 5.8 | 5.8 |

Source: Cohen & Steers Quarterly Investment Report Q3 2023

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SALT

## Market Review

The Salt Sustainable Global Property Fund declined -4.21% (before fees) in October, as global equities weakened. The Fund's return was above the benchmark's gross return of -4.45%. Relative performance for the three-month period matched the benchmark, at -11.94% compared with -11.96% for the benchmark. Over the year to 31 October, the Salt fund has performed well ahead of its benchmark return, declining by -3.51% (before fees) compared to a fall of -6.50% for the index. Since inception, the Fund has outperformed its benchmark by 2.6% p.a. Absolute returns in 2023 year-to-date remain highly erratic, due to upward interest rate pressure and to uncertainty on inflation.

- Stocks and bonds fell in unison through October as geo-political tensions weighed on market sentiment following the start of Israel-Hamas hostilities. Bond yields rose sharply in response to buoyant economic data which supported the "higher for longer" mantra, coupled with rising concerns about fiscal sustainability. Developed market equities fell 2.9% (in USD) over the month while global bonds were down 1.2% (in USD) over the same period.
- In the United States, markets had to contend with the implications of a plethora of data pointing to the continued resilience of the US economy including strong retail sales, and blowout jobs and GDP reports. Inflation data also came in higher than expected. This resilience in the data suggests the US Federal Reserve may have to keep interest rates at these higher levels longer than investors were anticipating.
- Meanwhile, there are increasing signs of fragility across the Eurozone economies. Latest bank surveys by the European Central Bank highlight a contraction in the supply of credit to businesses and households over the September quarter. At the same time, forward looking indicators such as PMI surveys continue to weaken, with the composite index down a further 0.7 points to 46.5 in October.
- In Japan, 10-year Government Bond yields moved higher over the month as persistent price pressure led markets to question the ongoing sustainability of the Bank of Japan's Yield Curve Control Policy. Despite earlier attempts to defend it accommodative position, the BoJ made a further tweak to its YCC policy with the 1.0% upper limit now being referred to a "reference".
- Better looking industrial production, retail sales and GDP data out of China suggests policy easing efforts are starting to have some stabilising effect on the economy. However, continued weakness in the beleaguered property sector suggests the economy is not out of the woods yet and further policy easing and debt restructuring efforts will be required.
- The Reserve Bank of Australia left interest rates unchanged at the start of the month. This was the first meeting under new Governor Michele Bullock, so a semblance of continuity was not surprising. However, since then activity and inflation data have printed stronger than expected. That has led to the rising expectation over the month that the RBA will move back to interest rate increases at its November meeting.

## Portfolio Review for October 2023

Global real estate stocks remained under pressure in October as rising interest rates and slowing global growth in certain markets impacted equities broadly. Inflation in most markets continued to moderate, and most major central banks paused their rate hikes. However, the 10-year U.S. Treasury yield rose as expectations for a "higher for longer" rate environment persisted even as recession concerns increased.

In the U.S. (–4.5% total return), real estate shares were driven by uncertainty around the macro and rate environment. Third-quarter 2023 earnings results for U.S. listed real estate have been mixed amid weakening fundamentals in certain sectors. Data centres rose as demand appeared to be at record highs. Retail-oriented property types, including shopping centres and regional malls, gained, with shopping centre companies' earnings generally exceeding expectations. Hotels bested the index but were pressured as U.S. domestic leisure travel continued to correct off of record demand.

Health care REITs benefited as a senior housing owner reported better-than-expected quarterly results and raised its guidance.

Among residential property types, manufactured homes held up well as recession concerns increased. The group is somewhat defensive due to low tenant turnover and a more affordable product type. Single-family home REITs were dragged lower by elevated expenses, while some Sunbelt apartment markets continued to contend with new supply pressuring rents. Industrial landlords generally reported solid earnings results, but performance was impacted by underwhelming guidance, as companies continue to cope with reduced demand and slowing rent growth. Offices underperformed as work-from-home trends continued to affect demand for space. Self-storage remained under pressure as demand and rents continued to normalize from pandemic peaks.

European real estate shares declined amid ongoing concerns about rising interest rates and slowing economic activity. Switzerland (1.3%) once again outperformed, with investors drawn to the country for its healthy economy and lower inflation. Spain (–1.6%), with its more robust economy, held up relatively well. France (–2.4%) was aided by the relative performance of the industrial sector, as well as the retail sector, where companies reiterated or raised guidance amid resilient retail sales. Belgium (–2.5%) was bolstered by takeover activity, while health care lagged despite positive results. Companies with health care sector exposure reported strong results but sold off on perceived operator risks, as a large tenant is restructuring.

The U.K. (–3.9%) benefited from relative strength in self-storage and industrial companies, while retail and office property owners underperformed. Sweden (–3.9%) declined as higher interest rates and an economic slowdown impacted developers with higher leverage. Germany (–4.7%) was weighed down by a ratings agency's report on the residential sector, which pointed to the risk of further deterioration in credit quality in the next 12–18 months.

The Asia Pacific region corrected amid rising interest rates. Japan (–2.1%) performed well against a better-than-expected economic backdrop, though returns were impacted by a weakening currency. Australia (–6.6%) trailed, as economic growth slowed while inflation remained at elevated levels. Residential developers underperformed as a result. Retail, where re-leasing spreads appear to be running above expectations, was a relative bright spot in Australia.

Hong Kong (–6.3%) remains volatile due to uncertainty around China's economic growth and policy response. In Singapore (–6.4%), the Monetary Authority of Singapore remained on pause as inflation showed signs of peaking. Industrial REITs were pressured by the "higher for longer" interest rate narrative. Data centres underperformed as investors grew concerned about the potential bankruptcy of a China-based data centre tenant.

## 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. Slightly more positive sentiment is returning as inflation continues to subside and value opportunities are recognized.

**Key contributors**

• Stock selection in the U.S. (–4.5% total return in the index): An overweight investment in senior housing specialist Welltower contributed. Welltower reported better-than-expected quarterly results (across all business segments) and raised its guidance on improved occupancy and cost containment. Its year-over-year expense per occupied room grew at the slowest pace in company history.

• Security selection and an overweight in France (–2.4%): An overweight position in pan-European retail property owner Klépierre modestly contributed. The company reaffirmed its full-year guidance as retail sales remained healthy across its markets.

• Selection in Hong Kong (–6.3%): The portfolio's overweight in developer Sun Hung Kai Properties modestly contributed. The stock held up well following earlier weakness.

**Key detractors**

• Stock selection in Japan (–2.1%): An overweight investment in shares of Kenedix Office Investment detracted following gains earlier in the year. An overweight in Nomura Real Estate, which reported an unexpected impairment loss, also hindered performance.

• Security selection in Australia (–6.7%): An overweight in residential developer Stockland pulled back following year-to-date outperformance. An out-of-index position in fund manager Charter Hall Group and an overweight in office landlord Dexus also hindered performance.

• Underweight in Switzerland (1.3%): An underweight allocation detracted as investors favoured Switzerland for its healthy economy and lower inflation.

## 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 into 2024**.

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.

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, particularly in the U.K., 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 in countries with more favourable economic backdrops. 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. We have selectively added Japanese office exposure. We have been reducing our weighting in Hong Kong on concerns around a China macro slowdown, but we maintain an overweight in domestic-focused retail landlords.