Salt Sustainable Global Listed Property Fund Fact Sheet – February 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 28 February 2023

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$28.69 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 28 February 2023

Application	0.8306
Redemption	0.8272

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 28 February 2023

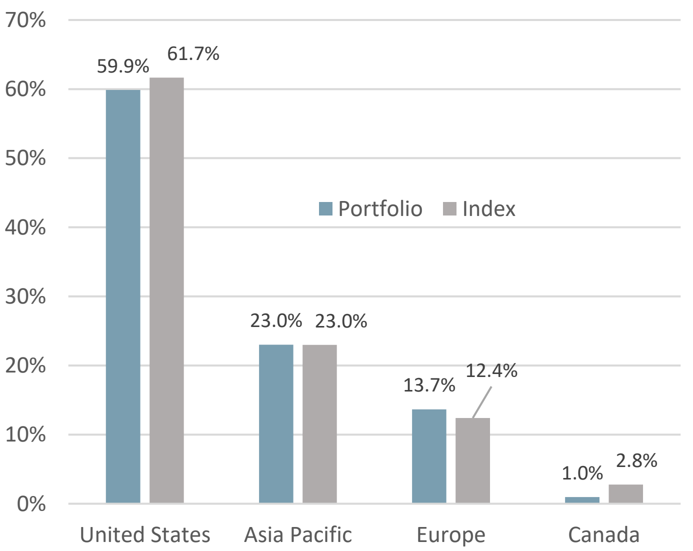
Global equities	97.5%
Cash and cash equivalents	2.5%

Fund Performance to 28 February 2023

Period	Fund Return*	Benchmark Return
1 month	-3.32%	-3.52%
3 months	0.77%	0.53%
6 months	-4.66%	-4.38%
1 year	-13.24%	-13.87%
Since inception p.a.	-10.29%	-11.55%

*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 28 February 2023.

Fund Regional Weightings at 28 February 2023



Source: Cohen & Steers

Top 10 holdings as at 28 February 2023	
Prologis	Public Storage
Welltower	Realty Income Corp
Digital Realty Trust	Mid-America Apartment Communities
Invitation Homes	Equinix
Simon Property Group	Sun Communities

The fund's top 10 holdings comprise 42.04% 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

Market Review

February month saw yet another flip in sentiment, this time into a cautious mood after the strong returns in January which opened 2023. Equity markets around the world declined modestly during the month, led by a -2.4% dip in the US S&P 500 Index. Elsewhere, there was a wide range of market returns among global regions, with the MSCI Europe Index gaining 1.4% in local currency terms, while the MSCI Emerging Market Index declined -4.6% bring its 2023 year-to-date returns down to 1.6%.

The global property benchmark declined by -3.5% in February and the Salt Sustainable Global Property Fund by -3.3%. Over the last three months, the Salt fund logged a return of 0.77% (after fees) which was slightly ahead of its benchmark. Since inception, the Fund has returned -10.29% p.a. (after fees) but beat its benchmark by 1.2% p.a. 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 price drops bringing about discounts to NAVs particularly in the energy transition domain, but also in transportation.

- After a strong start to the year, resilient economic data caused markets to give some of those gains back in February. The stronger data indicated central banks have more work to do and that rate cuts are far from imminent. Developed market equities were 2.4% lower (in USD) over the month, while the global aggregate bond index was 3.3% (USD) lower.
- Central banks in the US, the UK, Europe, Australia and New Zealand all delivered on expected rate hikes over the course of the month and all, with varying degrees of nuance, signalled they weren't done yet as inflation remains too high.
- In the US the January jobs report was much stronger than expected, retail sales surprised the upside, and while the monthly CPI print saw annual inflation fall, the result was stronger than expected. This followed Fed Chair Powell's comments earlier in the month that the process of disinflation still has some way to go and that further rate hikes are likely needed.
- In Europe, falling energy prices contributed to a further decline in headline inflation. However, resilient core inflation remains the key focus for ECB President Lagarde who, at the same time as raising rates 50bp in February, expressed her intent to deliver another 50bp hike in March.
- In China, the end of Covid-zero and the swift re-opening of the economy is feeding strong rebound in growth. As we have seen in other countries, the significant amount of excess savings accumulated during the lockdown will fuel consumption spending in the period ahead. Despite this, Chinese stocks were lower over the month on escalating geo-political tensions.
- In Australia, the release of the minutes of the RBA's February meeting confirmed its hawkish tilt, indicating they had considered a more aggressive tightening at that meeting. This was followed by weaker than expected labour market data suggesting the unemployment rate may have troughed. While this was a weaker print than expected, likely continued wage pressure means this is unlikely to alter the RBA's hawkish shift.
- In New Zealand, cyclone Gabrielle caused considerable devastation on the east coast of the North Island. Early indications are the repair bill to rebuild communities and infrastructure will be in the order of NZ$13 billion.

Portfolio Review

Global real estate shares declined in February, along with global equities broadly, on concerns around the path of interest rates. At the start of the month, the U.S. Federal Reserve raised its federal funds rate by a more modest 25 basis points and other central banks gave remarks that signalled interest rate hikes could be nearing an end. However, as the month progressed, strong U.S. economic data and higher than anticipated inflation readings in various markets fuelled concerns about the path of monetary policy, weighing on equity and bond markets. The 10-year U.S. Treasury yield rose roughly 40 basis points in the month.

In the U.S. (–4.8% total return), listed real estate securities declined on stickier inflation and disappointing outlooks reported in fourth quarter earnings results. Among U.S. REITs reporting fourth quarter earnings results, most companies met or beat market expectations. However, reported outlooks for 2023 largely disappointed, with lower top line estimates tempered by conservatism from reporting companies and higher expenses. Self-storage REITs outperformed following relatively weak January performance, with double digit gains from Life Storage, which received (though rejected) a takeover bid during the month.

Among residential property types, apartment REITs defended well amid a strong jobs market. Industrial REITs outperformed; Prologis had reported strong earnings results in January. Retail oriented property types held up relatively well, underpinned by a strong labour market and robust consumer spending.

Health care REITs lagged on underwhelming operator and REIT earnings, highlighting weakening fundamentals for skilled nursing facilities and life science businesses. In contrast, senior housing demand remained strong, with indications that occupancies have approached pre-Covid levels. The interest rate sensitive data centre REIT sector trailed despite stable demand, evidenced by low vacancy rates. Hotel REITs lagged following outperformance in January. Office REITs underperformed on continued weakness in fundamentals. Companies with exposure to the West Coast technology sector layoffs were pressured.

In Europe earnings results, though mixed, generally indicated strong top line growth. In the Netherlands (1.8%), performance was bolstered by outperformance among retail-oriented names, with strong gains from Wereldhave. Spain (1.8%) rose in local currency terms as the index's largest Spanish constituent, diversified REIT Merlin Properties, defended well. In Belgium (1.4%), diversified REIT Cofinimmo, which reported solid earnings results, gained. In France (1.3%), diversified REIT Icade, which appointed a new CEO and reported earnings with a full year 2023 outlook that met expectations, rose substantially. Retail-oriented Klépierre posted strong full year 2022 earnings, benefiting from a resilient consumer.

The UK (–0.2%) had relatively flat returns among some of the larger index constituents, including industrial specialist Segro and British Land. Sweden (–4.2%), which is interest rate sensitive due to the presence of highly levered developers, trailed. Germany (–6.1%), which fell amid declines among rate-sensitive residential property types including Vonovia, also lagged.

In the Asia Pacific region, more defensive plays were favoured over interest rate sensitive/growth stocks. Japan (2.4%) outperformed following underperformance in recent months, with the announcement of a new Bank of Japan (BOJ) governor nominee. The market largely anticipates that the BOJ will eventually revise or abolish its recently implemented yield curve control strategy (YCC).

Australia (–0.3%) saw a reversal of some of January's price action, including general underperformance among growth stocks. Central business district office landlord Dexus outperformed after reporting earnings results in line with expectations and after having cycled through a meaningful correction in market rents in 2020-21. Retail landlords, including Scentre and Vicinity, reported earnings that modestly beat expectations.

In **Singapore** (–2.8%), S-REITs with more defensive balance sheets and economically resilient property fundamentals generally outperformed. Underperformance among office REITs was attributable to earnings that missed expectations and a generally weaker outlook for the sector. Hong Kong (–6.1%) trailed amid profit taking and as non-discretionary retail-oriented Link REIT fell, after announcing a rights issue to recapitalize its balance sheet.

Portfolio Performance

Following a very strong month in January, in February, the Fund had a negative total return of -3.32% (after fees) which was 0.2% above than the total return of its benchmark for the month. This trimmed the Year-to-Date return from the Fund to +4.8% (after fees) compared to 4.4% for the benchmark.

Key contributors

• Security selection in the U.S. (–4.8% total return): An overweight allocation in Life Storage, which rose on news it was the subject of a takeover attempt in the month, contributed. Our overweight in Welltower, which declined only modestly, also aided relative performance. Welltower, despite reporting a disappointing outlook due to expenses, benefited from senior housing occupancy levels back to pre-Covid levels. We anticipate the REIT could see strong net operating income growth in the near term, as rental growth improves, and expenses decline.

• Overweight and stock selection in France (1.3%): An overweight allocation in Icade performed well. The company appointed a new CEO and reported earnings with a full year 2023 outlook aligned with prior guidance.

• Security selection in Singapore (–2.8%): The portfolio's overweight in health care specialist Parkway Life Real Estate, which outperformed along with other relatively defensive names, aided performance.

Key detractors

• Security selection in Australia (–0.3%): An overweight allocation in manufactured homeowner and developer Ingenia Communities, which materially underperformed after downgrading its full year 2023 earnings, detracted. The majority of the downgrade related to deferments of new home settlements into full year 2024 given a challenging weather and construction backdrop. However, the company's core manufactured home portfolio and tourism parks continue to experience strong organic rental growth.

• Stock selection in Hong Kong (–6.1%): We had an overweight allocation in Link REIT, which fell after announcing a rights issue to recapitalize its balance sheet.

• Underweight and security selection in Canada (–0.9%): The portfolio's position reflects our view that better relative value exists elsewhere.

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 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. 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 U.S. consumer. We remain cautious toward offices as businesses reassess their future needs, although we have an allocation within the Sunbelt.

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 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 U.K., 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 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, although we have cut our weight to JREITs (via industrial REITs) in anticipation of the new BOJ governor exiting YCC. 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.

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