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

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$27.72 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 May 2023

Application	0.7816
Redemption	0.7784

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 May 2023

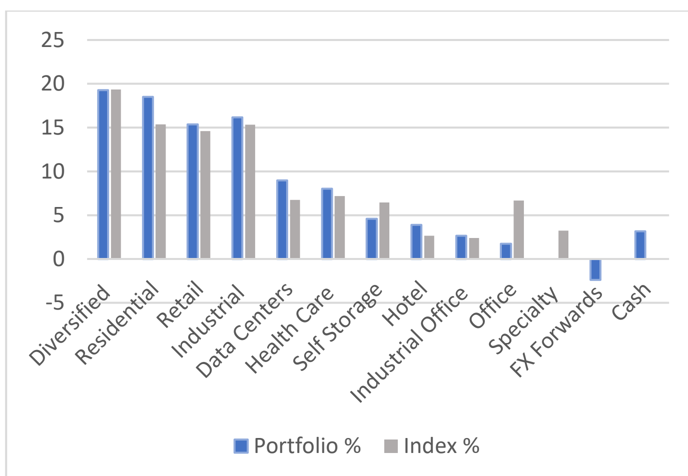
Global equities	96.8%
Cash and cash equivalents	3.2%

Fund Performance to 31 May 2023

Period	Fund Return*	Benchmark Return
1 month	-3.30%	-3.72%
3 months	-4.14%	-5.31%
6 months	-3.40%	-4.81%
1 year	-13.30%	-15.06%
Since inception p.a.	-10.65%	-12.30%

*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 31 May 2023.

Fund Sectoral Weightings in % at 31 May 2023



Source: Cohen & Steers

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

The fund's top 10 holdings comprise 44.4% of the portfolio

Source: Cohen & Steers Monthly Report 31 May 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 31 May 2023

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Market Review

The global property benchmark fell -3.7% in May month while the Salt Sustainable Global Property Fund outperformed the benchmark (after fees) for the month by 0.4%. Over the year to 31 May, the Salt fund has performed ahead of its benchmark return by 1.75%. Absolute returns remain weak due to interest rate pressure.

- May month saw global stocks down by 1% in USD terms, though they rose in NZD terms. Global markets were constrained by uncertainty over economic growth, still-elevated inflation, central bank policy and US fiscal wrangling. In late May the mood was buoyed by a US debt ceiling debate compromise and expectations for pauses in reduced monetary tightening in the months ahead.
- Worries over the US debt ceiling captured most attention during May, though a deal was reached shortly after the end of the month. Purchasing manager survey data continued to point to further weakness in manufacturing sectors around the world, while services continued to prove more resilient. Labour markets remain tight with unemployment rates at or close to historical lows in the Eurozone, US, UK, Australia. and New Zealand.
- In the US the possibility of a default by the US Government was the key focus. The Fed hiked 25bp as expected, but in a slight but significant change to the wording of the statement, signalled they would likely pause in June. A drop in the unemployment rate to 3.4% in April and continued strength in core inflation data suggested that a pause might not be the end of the tightening cycle.
- With core inflation still at 5.6% in the Eurozone the ECB tightened again but at the slower pace of 25bp. The central bank said the forceful transmission of past rate hikes into tighter monetary and financing conditions justified the change to a slower pace of hikes. Markets are currently pricing two further 25bp hikes for a terminal deposit rate of 3.75%.
- In the UK, inflation fell from 10.1% to 8.7% in April, but this was significantly higher than market expectations of 8.2%. The BoE voted to hike rates 25bp to 4.5% in a split 7-2 decision. The BoE retained the same forward guidance, highlighting that "if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required".
- After the end of the zero-Covid bounce in activity in China, macro data for April pointed to a renewed slowdown. The latest factory activity reading came in below the benchmark level that separates growth from contraction. Service sector activity, while still positive, expanded at the weakest pace in four months in May. Importantly, the decline in the property market accelerated, prompting speculation of further stimulus for this sector.
- In Australia a higher-than-expected monthly inflation print raised concern that the Reserve Bank of Australia would need to do more work. While the latest labour market activity data was on the soft side, the inflation pressure from the housing market as well as higher wages is expected to keep core rates of inflation above target for some time.

Portfolio Review

Global real estate declined in May along with global equities broadly. In the U.S., real estate shares were hindered by an uptick in interest rates amid continued partisan debate over the U.S. debt ceiling. Both the U.S. Federal Reserve and the European Central Bank raised their benchmark rates by 25 basis points in May. The Fed softened its language around future actions, indicating that policy decisions will be data dependent.

In the U.S. (–3.2% total return), REITs were pressured amid a rise in interest rates, though a few sectors gained on healthy fundamentals. Data centre REITs rallied on the back of strong demand and historically low supply (given power constraints), helping existing landlords to increase rents. In addition, the sector benefited from a strong earnings report from Nvidia, a semiconductor supplier that highlighted strong demand for its data centre products amid the expectation for growth in artificial intelligence (AI). Among residential property types, single-family homes for rent rose on strong rental growth amid continued job growth, higher wages, and greater affordability relative to for-sale housing.

Apartment REITs declined on concerns about elevated supply in Sunbelt markets. Hotel landlords were supported by strength in group demand, despite limited visibility around its sustainability. Industrial REITs declined modestly due to slowing demand, although tighter lending standards are resulting in lower construction starts, which should keep a lid on supply into 2024.

Self-storage landlords fell as year-over-year street rates declined in the first quarter and customer move-outs reaccelerated. Health care companies pulled back given year-to-date outperformance, although senior housing fundamentals remained strong. Retail property trailed on concerns about the health of the consumer in a slowing macroeconomic condition. Shares of office landlords faced pressure.

Europe trailed other regions on concerns around elevated inflation and tight labour markets. The Netherlands (–2.6%) outperformed the region but declined on weakness among retail property types. In Spain (–3.3%), the index's largest constituent, which reported solid first-quarter 2023 earnings results, outperformed. The U.K. (–5.9%) was hampered by weakness in a retail/office landlord, and a large, diversified REIT fell due to value declines in its office portfolios. In Belgium (–7.3%), a health care specialist underperformed due to its higher exposure to floating-rate debt. France (–8.5%) was weighed down by weakness among prominent retail landlords. In Germany (–10.5%), residential companies continued to struggle on balance sheet and cash flow concerns.

The Asia Pacific region benefited from a relatively resilient Japan (0.1%), while concerns around economic growth weighed on other markets. The Japanese equities market generally benefited from good earnings reports and fund flows into Japan. Among J-REITs, diversified and residential property types outperformed, while logistics REITs trailed.

The Australian real estate sector (–3.5%) declined in response to a small uptick in interest rates globally. Retail landlords underperformed as discretionary spending showed initial signs of deceleration and retailer margins faced increasing pressure. An Australian office landlord outperformed; while central business district office fundamentals remain subdued, market vacancy and effective rents are starting to show signs of bottoming for class A office buildings. In Singapore (–4.0%), where the central bank paused its tightening in April amid signs of peaking inflation, it was reported that GDP declined in the first quarter. Industrial landlords trailed amid equity raises within the sector, while office REITs defended well. Hong Kong (–8.9%) corrected in May after weak macro data ignited concerns that China's post-Covid economic reacceleration had not been as strong as expected.

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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. However, despite negative absolute returns persisting, value continues being added in our preferred sub-sectors.

Key contributors

• Stock selection in the U.S. (–3.2% total return in the index): An overweight in data centre REIT Digital Realty Trust, which we favour for its accelerating fundamentals, contributed. An overweight allocation in Invitation Homes, which has benefited from strong rental growth in the single-family homes for rent sector, also aided performance.

• Stock selection in Australia (–3.5%): An overweight allocation in office landlord Dexus contributed. Out-of-index positions in fund manager Charter Hall Group and industrial developer Goodman Group, along with our non-investment in mall landlord Vicinity Centres, also aided performance.

• Stock selection and an underweight in Sweden (–14.2%): Our non-investment in SBB contributed; the company declined sharply on the announcement that it will stop payment on its dividend and cancel a rights issue.

Key detractors

• Stock selection in Singapore (–4.0%): Our overweight in CapitaLand Investment struggled on concerns about the company's exposure to China amid weaker economic data there.

• Overweight in France (–8.5%): Our overweight in French real estate securities, including retail property types, detracted.

• Stock selection in the U.K. (–5.9%): An overweight in British Land, which was pressured on a weak fiscal-year result, hindered relative 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 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 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 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.

European real estate securities, which have lagged their U.S. peers, offer attractive upside potential. The risk to growth is a concern, as stickier wage growth in Europe 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 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 reopening and China's supportive monetary policy stance. 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. We continue to like hotels, which should continue to benefit from increased inbound travel volume and government subsidies encouraging domestic travel. Within Hong Kong, we are overweight domestic retail landlords.

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