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

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$27.55 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 30 September 2023

Application	0.7619
Redemption	0.7588

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 September 2023

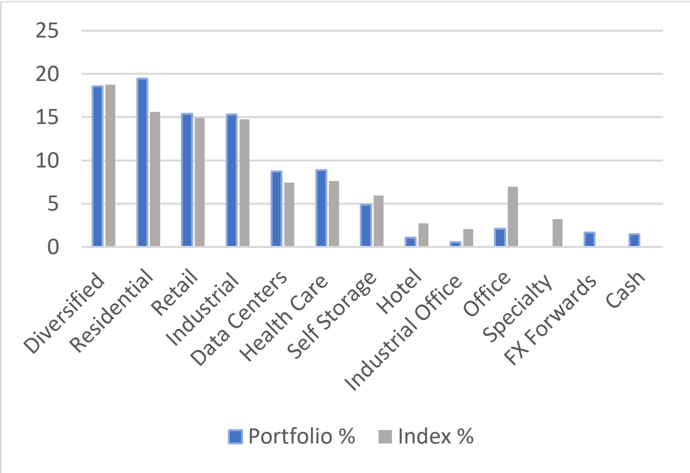
Global equities	98.6%
Cash and cash equivalents	1.4%

Fund Performance to 30 September 2023

Period	Fund Return*	Benchmark Return
1 month	-5.98%	-5.40%
3 months	-5.22%	-4.82%
6 months	-2.21%	-3.65%
Year to date	-0.86%	-3.10%
1 year	3.12%	0.81%
Since inception p.a.	-8.70%	-11.29%

*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 30 September 2023.

Fund Sectoral Weightings in % as at 30 September 2023



Source: Cohen & Steers

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

The fund's top 10 holdings comprise 43.1% of the portfolio

Source: Cohen & Steers Monthly Report 30 Sept. 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

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

Market Review

The Salt Sustainable Global Property Fund declined -5.98% (before fees) in September, in line with weak global equities. The Fund's return was below the benchmark's gross return of -5.40%. Relative performance for the third quarter lagged the benchmark, at -5.21% compared with -4.38% for the benchmark. Over the year to 30 September, the Salt fund has performed well ahead of its benchmark return gaining 3.13% (before fees) compared to 0.81% 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.

- The September quarter of 2023 was somewhat reminiscent of the 2022 year as global equities suffered a reality check in the face higher bond yields. Developed market equities fell -3.4% (in USD) over the quarter, though were still up a healthy 11.6% year-to-date. The global aggregate bond benchmark had a similarly tough quarter, falling -3.6% (in USD).
- While the outcome was much like 2022, the reasons behind the moves were different. 2022 was all about the sharp trend higher in interest rates, while the quarter just gone was about the realisation that interest rates would remain higher for longer as central banks sought to tame stubbornly high inflation.
- Fiscal sustainability has been another focus for bond markets, particularly in the United States, where concerns are rising about the amount of issuance that will be required to sustain the large fiscal deficit.
- Oil prices surged higher over the quarter, rising 28%. Higher oil prices present another headwind to consumer demand and will be problematic for central banks as headline inflation reaccelerates.
- In the United States, key activity data including retail sales and industrial production all expanded. Third quarter GDP growth is tracking at a healthy 1.2% (q/q annualised). Headline inflation rose again on the back of higher oil prices, but core declined to an annual 4.3%. The Fed left interest rates unchanged in September, though projections showed one more hike and a tighter stance through next year. A government shutdown was avoided, but only provided funding through to November.
- Business surveys remained subdued across Europe in September. Composite PMIs were still in contraction territory with the euro area index at 47.1 and the UK index at 46.8. On a more positive note, inflation fell more sharply than expected in both the euro area and the UK. The ECB raised its deposit rate by 25bps to 4% but the Bank of England, in a surprise move, left rates unchanged at 5.25%.
- China economic data improved in August with a reacceleration in both retail sales and industrial production and, after a brief flirtation with deflation, the annual rate of CPI inflation rose to 0.1%. Real estate distress remained a key focus, but the authorities have been eager to signal support by easing banks' Reserve Requirement Ratio.
- In Japan, the BoJ kept its policy stance unchanged, maintaining its widened Yield Curve Control. The Statement was at the dovish end of expectations but did not assuage speculation on further monetary policy normalisation in the months ahead.

Portfolio Review for Q3 2023

Global real estate stocks declined in the third quarter, along with global equities broadly, against a backdrop of sharply higher interest rates. The U.S. Federal Reserve's Federal Open Market Committee paused its benchmark rate increases in September (following a July increase) but indicated it could raise rates again this year. U.S. policymakers now expect fewer rate cuts in 2024 than previously anticipated, partly due to a strong labour market. The European Central Bank raised rates during the quarter but signalled that its rate-hiking cycle was nearing an end. Investors viewed economic headwinds going into the year's final quarter as further reason for caution.

In the U.S. (–7.5% total return), real estate shares fell as concerns around "higher for longer" interest rates weighed on sentiment. Macro backdrop aside, most listed real estate companies beat expectations and raised their outlooks, underscoring a broadly supportive supply/demand environment for U.S. REITs. Office landlords, though still struggling in a challenged demand environment, enjoyed a rebound early in the quarter. Data centres outperformed; the sector has been benefiting from continued strength in cloud demand and the early innings of an expected multi-year tailwind from artificial intelligence (AI). Retail property owners outperformed; retail sales held up relatively well amid a low unemployment rate, solid wage growth and limited new supply (although concern exists around the health of consumers). Free standing REITs, which typically generate growth by acquiring accretively using an attractive cost of capital, trailed.

Within the residential sector, single-family homes for rent outperformed, aided by affordability challenges in the homes-for-sale market as a result of higher mortgage rates. Apartments generally reported healthy fundamentals, but the sector was checked partly by an oversupplied Sunbelt region. Self-storage companies trailed amid concerns around declining rents for new customers as demand normalizes from pandemic peaks.

European real estate shares advanced in the third quarter, though investors' conviction waivered amid uncertainty around inflation and interest rates. Germany (25.1%) rose despite a sharp downturn in the country's economic activity. Residential companies outperformed on expectations for lower interest rates to come. Switzerland (5.4%) rose as investors were attracted to the market's relatively strong economy and lower inflation. Sweden (3.2%) performed well despite companies' cyclical exposure and typically shorter-term debt maturities, as well as expectations the Riksbank will continue to hike interest rates to bring inflation under control. Stagflation concerns limited gains in the U.K. (1.1%). Although growth disappointed, persistent inflation has led to expectations that the Bank of England may continue to raise rates.

Spain (1.4%) benefited from relatively robust consumer spending. In the Netherlands (0.1%), retail landlords rose on healthy results, while the office sector struggled amid an uncertain demand outlook. In France (–0.4%), offices and retail outperformed on positive leasing momentum, while industrial declined on higher interest rates and concerns about the economy—even as underlying fundamentals remained sound.

In the Asia Pacific region, Japan (5.1%) was an outlier amid China's property and macroeconomic woes. Japanese developers outperformed, supported by a strong equity market, robust earnings results and peaking office vacancies. Among J-REITs, office and hotel property types gained, while industrial landlords trailed.

In Singapore (–3.9%), performance was impacted by negative sentiment toward China-related stocks. Industrial and data centres outperformed, while hospitality and office landlords trailed.

Australia (–6.5%) was pressured during the quarter amid increasing global long-term government bond yields. Residential companies outperformed as the primary residential market bottomed, while industrial names benefited from strong underlying fundamentals. Self-storage and office names trailed. Hong Kong (–12.6%) was negatively impacted by China's macro slowdown, defaults among large Chinese developers, and geopolitical concerns.

Portfolio Performance in Q3 2023

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. For the year to 30 September, the Fund has returned 3.13% (before fees) which is well ahead of its benchmark, which has gained 0.81% over the last 12 months.

Key contributors

• Stock selection in Australia (–6.5% total return in the index): An out-of-index position in industrial manager and developer Goodman Group rose on strong earnings results and a potentially value-accretive pivot into data centres.

• Security selection in Japan (5.1%): The portfolio held overweight investments in several diversified developers that outperformed on healthy earnings and strength in the Japanese economy.

• Overweight and selection in France (–0.4%): Contributors included an overweight position in pan-European retail property owner Klépierre, which benefited from resilient consumer trends.

Key detractors

• Stock selection in the U.S. (–7.5%): Realty Income was pressured (along with other free-standing REITs) by rising interest rates, and our overweight hurt relative returns. An overweight investment in medical office specialist Healthcare Realty Trust also detracted.

• Underweight in Switzerland (5.4%): The country benefited from relatively low inflation and a strong macro backdrop.

• Security selection and positioning in Sweden (3.2%): The portfolio had no investment in Fastighets AB Balder, and the highly leveraged diversified property owner reported better-than-expected results. Given the potential for further rate increases from the Riksbank, we believed more attractive valuations were available elsewhere.

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, which we generally expect in the coming months, 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 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 see opportunities in Asia Pacific from reopening and additional monetary policy support from the Chinese government. In 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, although we have trimmed both on strength. 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.