Salt Sustainable Global Listed Property Fund Fact Sheet – March 2024

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 March 2024

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$31.06 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 March 2024

Application	0.8495
Redemption	0.8460

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 March 2024

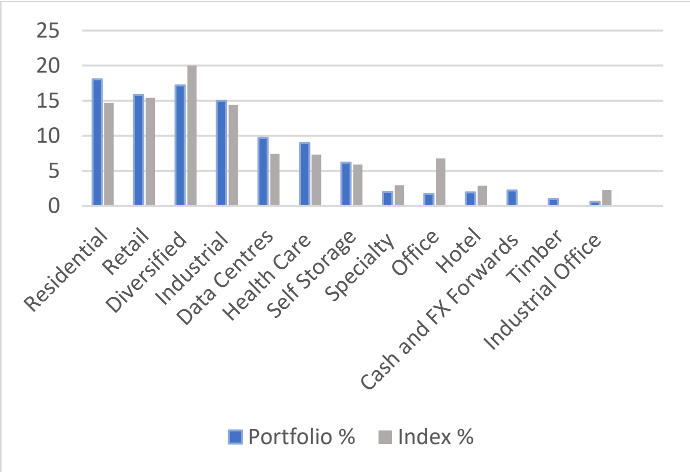
Global equities	97.8%
Cash, Short term & Sundry	2.2%

Fund Performance to 31 March 2024

Period	Fund Return*	Benchmark Return
1 month	4.19%	3.81%
3 months	1.53%	0.27%
6 months	14.66%	13.18%
1 year	12.13%	9.05%
2 years p.a.	-4.62%	-7.11%
Since inception p.a.	-1.89%	-4.63%

*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 at 31 March 2024.

Fund Sectoral Weightings in % as at 31 March 2024



Source: Cohen & Steers

Top 10 holdings as at 31 March 2024	
Prologis	Realty Income Corp
Welltower	Equinix
Invitation Homes	Extra Space Storage
Digital Realty Trust	Mitsui Fudosan
Simon Property Group	Goodman Group

The fund's top 10 holdings comprise 46.3% of the portfolio

Source: Cohen & Steers Monthly Report 31 Mar. 2024

Sustainability metrics

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.27	6.07
MSCI ESG score	5.90	5.90

Source: Cohen & Steers Investment Report March 2024

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

SALT

Market Review

The Salt Sustainable Global Property Fund rose by 4.19% in March (before fees) as interest-rate sensitive global equities recovered from weakness in January. Real assets responding uncertainly to an increase in bond yields as investors became more realistic about interest rate cuts from central banks. The Fund's monthly return was above the benchmark's gross return by 0.38%. Relative performance for the three-month period saw the fund outperform the benchmark, at 1.53% (gross) compared with 0.27% for the index. Over the year to 31 March, the Salt fund has performed well ahead of its benchmark return, gaining 12.13% (before fees) compared to a rise of 9.05% for the index, giving a gross outperformance of 3.08%.

Since inception, the Fund has outperformed its benchmark by 2.74% p.a. Absolute returns for the year to March were positive, but the path was erratic as sentiment regarding lower future interest rates continues to fluctuate, regarding both the timing and scale of monetary policy easings, and uncertainty on rates continues to dominate near-term returns.

- The first quarter of 2024 was a positive period for equity markets as activity data around the world was supportive of a soft landing. In response, developed market equities rose 9.0% (in USD) over the quarter. A 5% fall in NZD/USD boosted unhedged returns in Q1 2024.
- It was a more challenging period for bond investors as the resilient growth along with sticky inflation prints and a less dovish Federal Reserve saw the global aggregate bond index returning -2.1% (in USD) over the three-month period.
- The most obvious implication of the strong activity/sticky inflation scenario was reflected in the shift in market pricing of the number of US rate cuts expected in 2024. At the end of 2023 seven rate cuts were expected in the US in 2024. By the end of the quarter that had been brought into line with the Fed's "dot plot" of three cuts.
- The best performing equity market of the quarter was once again Japan, with the Topix up 18.1% over the three months. That's despite the Bank of Japan beginning normalisation of its monetary policy in March. The central bank announced the end of its negative interest rate policy, yield curve control, and its purchases of equity exchange traded funds and real estate investment trusts.
- Inflation in the Euro area continued its downward trajectory, coming in at 2.6% in February. The ECB left interest rates on hold in March, with President Lagarde saying the ECB was unlikely to be able to cut rates in April, though June remains live for a first cut.
- The Swiss National Bank became the first developed central bank to ease policy, surprising the market with a 25bps cut in its policy rate to 1.5%. This was in the context of inflation already having fallen back to below the central bank's 2% target. The annual rate of increase in headline inflation came in at 1.2% in February.
- The Chinese economy appears to be responding to recent stimulus. Official data on retail sales, industrial production and fixed asset investment for January and February beat expectations across the board.
- However, we continue to believe further stimulus will be required if the Chinese Government's official target of around 5% GDP growth in 2024 is to be met.
- In Australia, Q4 GDP data confirmed a subdued end to 2023. More recent partial indicators point to ongoing below-trend growth in early 2024. With the effects of tight monetary policy increasingly evident in activity data and inflation trending in the right direction, monetary policy is expected to remain on hold for the foreseeable future.
- In New Zealand, December 2023 quarter GDP came in at -0.1% q/q and -0.3% y/y. The economy has now contracted in four of the last five quarters. This justified the RBNZ's decision to keep rates on hold at its February Monetary Policy Statement, where it also signalled a reduced probability of future interest rate increases. We continue to believe the next move is a cut, but not until November.

Portfolio Review Q1 2024

Global real estate securities were flattish in the quarter (in local currency terms) as investors focused on potential pivots in central bank monetary policy. On the heels of a strong interest rate–led rally in the fourth quarter of 2023, January saw profit-taking on concerns that markets had been too optimistic about the timeline of the Federal Reserve's policy easing. Global real estate securities then rose in March as interest rates moderated in various markets.

The 10-year U.S. Treasury yield was volatile but ended higher for the quarter as investors remained highly attuned to inflation data and comments from the Federal Reserve. In the U.S. (–0.9% total return QoQ), real estate shares modestly declined for the quarter despite gains in February and March. Among retail-oriented property types, regional malls gained on strong performance from a high-quality mall operator that reported robust net operating income growth and occupancies. Shopping centres trailed despite evidence of solid leasing activity and occupancy growth. In the hotel sector, shares of one REIT gained on a better-than-expected 2024 outlook.

Data centre demand continued to outpace supply, as evidenced by limited vacancies. Strength in demand was underscored by robust recent results from a large chipmaker, whose flagship product is used in data centre assets. Among residential property types, investors favoured single-family homes over multi-family residences due to the former's relatively favourable supply profile.

The manufactured home REIT sector lagged. Office REITs declined but outperformed, finding favour in March alongside other economically sensitive sectors. Health care REITs modestly outperformed U.S. REITs broadly. Performance within the sector was mixed, with notable dispersion among senior housing companies.

Logistics property types trailed on constrained demand. Industrial REITs underperformed; a large industrial index constituent has seen its occupancies tick lower year to date. The self-storage REIT sector also lagged, as move-in demand remained weak on an absolute basis.

European real estate securities trailed, despite strong outperformance late in the quarter due to optimism around a shift in central bank monetary policy. In March, the Swiss central bank cut its benchmark interest rate in a surprise move on a reduced inflation forecast, making it the first central bank to pivot from its tightening policy stance.

This appeared to drive optimism for more European central bank interest rate cuts to follow. Sweden (2.0%), which tends to be among the more interest rate–sensitive countries, rebounded in March. The Netherlands (1.0%) and France (–0.5%), aided by retail-oriented property types, defended well. In France, a bellwether retail-oriented company reported year-over-year growth in funds from operations that was above consensus. The company has continued to demonstrate its commitment to decreasing leverage via asset disposals. In the U.K. (–2.7%), the industrial and retail sectors outperformed, while office and self-storage trailed. U.K. industrial sector demand appears to be generally returning to pre-Covid levels, with greater resilience than some feared.

Germany (–4.8%) trailed on weakness in residential companies. Spain (–5.2%) was weighed down by underperformance from an office REIT. Belgian listed real estate (–7.0%) was pressured, with particular underperformance among health care operators, which trailed on legacy tenant concerns, though they gained in March's rally.

The Asia Pacific region outperformed, though performance among countries was mixed. In Japan (14.4%), the Bank of Japan raised its policy rate in March for the first time in seventeen years. It also abolished yield curve control (YCC). Guidance was more dovish than the market expected, which led to further yen weakness and strength in the market. Developers were strong during the quarter, while J-REITs rebounded in March.

In Australia (9.9%), listed real estate traded strongly up in March given the decline in long-term government bond yields globally, and significant buying flows relating to the inclusion of Goodman Group in the FTSE EPRA Nareit Developed Index.

In Singapore (–7.7%), industrial REITs were hindered by rising interest rates during the quarter and weak full-year results. Office property types also trailed, while hotel and retail companies outperformed. In Hong Kong (–13.9%), market sentiment remained sensitive to China macro concerns and geopolitical risk. Many companies reported full-year 2023 earnings results; with an increasing focus on dividends and cash flow, companies that reported in-line earnings results and stable dividends outperformed, while those that cut dividends and/or had weak balance sheets lagged.

Portfolio Performance

The last eighteen months has been a turbulent period for listed Real Estate, as interest rate and inflation uncertainties have been in a tug-of-war with better valuations and fundamentals. The portfolio had a positive total return for the March month, quarter, and year, outperforming its benchmark for all periods since inception.

Key contributors

• Stock selection in the U.S. (–0.9% total return in the index): An overweight allocation in Simon Property Group contributed. The company reported better-than-expected earnings results, including strong occupancies. An out-of-index position in Iron Mountain also aided performance. The company has benefited from steady pricing power in its storage business along with accelerating fundamentals in its data centre business.

• Security selection and an overweight in Australia (9.9%): An overweight position in Goodman Group aided performance. The industrial REIT strongly outperformed after reporting a better-than-expected first-half fiscal year result. Shares were also boosted by the company's addition to the FTSE EPRA Nareit Developed Index.

• Selection in Sweden (2.0%): Overweight allocations in industrial REIT Catena and diversified developer Balder contributed.

Key detractors

• Security selection in the U.K. (–2.7%): Overweight positions in self-storage companies Safestore and Big Yellow Group hindered performance.

• Selection in Hong Kong (–13.9%): The timing of our investment in Sun Hung Kai Properties hindered performance. An overweight position in CK Asset Holdings, which unexpectedly cut its dividend in March, also detracted.

• Overweight and security selection in Belgium (–7.0%): While often a relatively defensive market, Belgium declined significantly, underperforming broadly and within Europe.

Investment Outlook (Cohen & Steers commentary)

We believe global real estate offers attractive return potential relative to broad equities. An end to central bank tightening tends to be followed by notable strength in listed real estate performance. In addition, cash flows generally remain sound, and we anticipate healthy earnings growth in 2024.

We maintain a positive view of U.S. REITs, with a preference for assets with strong secular growth profiles and pricing power. Data centres should continue to benefit from strong demand for cloud computing and, increasingly, artificial intelligence. We see the residential sector benefiting from affordability issues in the for-sale market, which are leading to higher demand for rental housing, especially within single-family homes. However, elevated supply has made us cautious on Sunbelt multi-family markets. Within health care, we have a positive outlook on senior housing, where accelerating occupancy and pricing power are driving revenue growth higher.

Within 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 a somewhat cautious view of European real estate securities, given concerns around growth prospects, though we have added on the margin as we've seen value opportunities. 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 favour industrial, self-storage and residential developers; we are cautious on retail and offices. In Singapore, we are positive on underlying hospital fundamentals and continue to favour retail, as 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, and we are modestly overweight offices. We have been reducing our weighting in Hong Kong on concerns around a China macro slowdown.