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

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$30.67 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 December 2023

Application	0.8400
Redemption	0.8366

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 December 2023

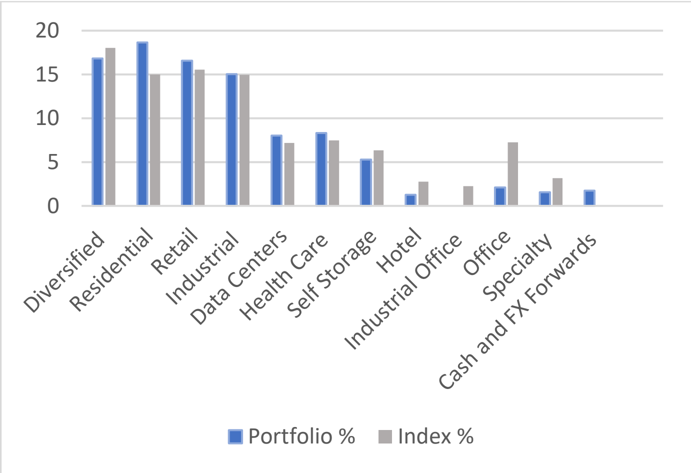
Global equities	98.3%
Cash and cash equivalents	1.7%

Fund Performance to 31 December 2023

Period	Fund Return*	Benchmark Return
1 month	7.28%	8.37%
3 months	12.93%	12.87%
6 months	7.04%	7.43%
1 year	11.96%	9.37%
2 years p.a.	-6.88%	-8.82%
Since inception p.a.	-2.74%	-5.23%

*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 December 2023.

Fund Sectoral Weightings in % as at 31 December 2023



Source: Cohen & Steers

Top 10 holdings as at 31 December 2023	
Prologis	Digital Realty Trust
Welltower	Equinix
Simon Property Group	Sun Communities
Invitation Homes	Extra Space Storage
Realty Income Corp	Kimco Realty Corp

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

Source: Cohen & Steers Monthly Report 31 Dec. 2023

Sustainability metrics

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.21	6.00
MSCI ESG score	5.84	5.84

Source: Cohen & Steers Year End Investment Report Dec. 2023

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SALT

Market Review

The Salt Sustainable Global Property Fund rallied by 7.28% (before fees) in December, as interest-rate sensitive global equities continued rising for a second month. The Fund's monthly return was behind the benchmark's gross return of 8.37%. Relative performance for the three-month period saw the fund in line with the benchmark, at 12.93% compared with 12.87% for the index. Over the year to 31 December, the Salt fund has performed well ahead of its benchmark return, rising by 11.96% (before fees) compared to a gain of 9.37% for the index.

Since inception, the Fund has outperformed its benchmark by 2.49% p.a. Absolute returns in 2023 were very strong, but the path was erratic as positive sentiment regarding lower future interest rate pressures reversed prior declines due to uncertainty on inflation and central bank monetary policy, which dominated earlier in the year.

- After something of a reality check in the third quarter of the year, the December quarter saw strong returns across nearly all asset classes. Further progress on inflation saw markets anticipating earlier interest rate cuts leading to an 11.5% (in USD) rally in developed market equities and an 8.1% (in USD) return from the global aggregate bond index.
- Asset classes that have struggled most under the interest rate mantra of "higher for longer" such as real estate investment trusts showed some of the highest returns. Global REITS rallied 15.6% over the quarter.
- As the quarter began markets were becoming increasingly convinced that interest rates in the key developed markets had peaked. Softer than expected inflation prints in the US and Europe had markets bringing forward rate cut expectations.
- This expectation was reinforced by a dovish December statement from the US Federal Open Market Committee where the latest projections removed the final hike from prior projections and added an extra cut into 2024. By the end of the quarter US interest rate markets were anticipating six 25-basis point cuts in the Fed funds rate in 2024, an expectation we think will ultimately be disappointed.
- Activity data in Japan remained somewhat sluggish over the quarter. September quarter GDP data showed weaker-than-expected domestic demand, consumption, and capital expenditure. The focus remains on wage growth where the strength of corporate earnings supports the expectation of further wage growth next year. The Bank of Japan left monetary policy unchanged at its December meeting, though we expect they may end their Yield Curve Control and Negative Interest Rate policies as early as their January meeting. This is based on our view that such moves are as much about policy normalisation as concerns about inflation.
- The sluggish December PMI readings out of China suggest that fourth GDP will likely slip further. Some rebound in the manufacturing PMI in January 2024 is likely with pass-through of the Rmb1trn additional fiscal support to infrastructure projects flows through. However, its sustainability still bears watching. China's reflation journey will remain bumpy and gradual.
- As we expected, the Reserve Bank of Australia resumed rate hikes in November following a run of stronger than expected activity, labour market and inflation data. The 25bp hike took the cash rate to 4.35%. They left rates unchanged at the December meeting, though we continue to expect one further hike to 4.6%, most likely at the February meeting.
- In New Zealand, there was a meaningful softening in labour market pressures with a decline in employment and a rise in the unemployment rate from 3.6% to 3.9% over the September quarter. Wage growth also moderated. The biggest surprise of the quarter came with weaker than expected third quarter GDP growth which was accompanied by significant downward revisions to prior data. This seems to put the nail in the coffin of the one further hike included in the RBNZ's November interest rate projections. However, it does not necessarily bring forward rate cuts. That will depend on whether the weaker growth data will be followed by soft inflation readings, particularly non-tradeable inflation. The next NZ CPI data is due for release on January 24th.

Portfolio Review for December 2023

Global real estate stocks posted strong gains in 2023 as inflationary pressures eased in various markets and as property fundamentals generally remained healthy. Interest rates played an outsized role in influencing share prices throughout the year, with the market focused on the potential timing and magnitude of central bank pivots following extensive monetary policy tightening. The U.S. 10-year Treasury yield fell to a low of 3.3% during the March banking crisis; it then rose steadily to 5.0% by October, only to fall back below 4.0% (ending the year where it began). In the fourth quarter, softer-than-expected inflation data in the U.S. and Europe drove increased optimism around a shift in monetary policy, pushing bond yields sharply lower. Expectations rose that the Federal Reserve and the European Central Bank could begin cutting benchmark lending rates as early as the first half of 2024.

In the U.S. (11.8% total return), real estate shares rose, bolstered by generally healthy real estate fundamentals and, toward year-end, optimism around a "soft landing" for the U.S. economy. Data centres surged, benefiting during the year from strength in cloud demand and the early innings of an expected multi-year tailwind from artificial intelligence (AI). Solid leasing activity and consumer resilience buoyed retail-oriented property types, including regional malls. Shopping centre leasing remained strong as retailers continue to invest in high-quality brick-and-mortar locations.

Single-family homes for rent benefited from favourable fundamentals amid challenged affordability in the homes-for-sale market, which, in our view, supports attractive rent growth. Apartments trailed on weakened rent growth, with the previously strong Sunbelt region challenged by increased supply.

Certain sectors found favour late in the year amid a more benign interest rate environment, despite decelerating fundamentals. Industrial outperformed on the prospect of an economic "soft landing." But while rent growth in some U.S. cities appears to be stabilizing, other markets are still decelerating. Lower mortgage rates could lead to more housing transactions, driving demand for self-storage space, though street rates for new storage customers may not have bottomed. Moreover, those companies anticipate 2024 same-store revenues to face a headwind of elevated move-out rates. Office REITs, where longer-term demand is uncertain, trailed.

European real estate shares outperformed as inflationary pressures eased and property fundamentals generally remained solid. Germany (30.9%), one of the more rate-sensitive markets in the region, led the advance. Despite a sharp downturn in economic activity, Germany rose meaningfully, as the market is dominated by residential companies— a property type that benefits from steady demand due to housing undersupply. France (19.9%) and Spain (19.3%) benefited from strength in retail and office properties. Retail landlords gained on positive leasing momentum amid improving consumer trends. Sweden (18.7%) meaningfully outperformed, despite having one of the least favourable macro backdrops in the region, on expectations for lower interest rates.

The U.K. (9.8%) underperformed as stagflation concerns limited gains. Industrial property owners enjoyed steady tenant demand, while several diversified property owners had healthy gains as solid leasing trends trumped macroeconomic concerns. The Netherlands (4.8%), which is largely composed of retail REITs, posted a more modest return despite rising occupancy as well as footfall traffic that was significantly above pre-pandemic levels. Belgium (3.7%) lagged as investors avoided health care landlords.

The Asia Pacific region was weighed down by weakness in Hong Kong listed real estate. Japan (10.5%) benefited during the year from strength among developers, which reported generally positive earnings results. Among J-REITs, hotels fared well while logistics companies trailed. The interest rate–sensitive Australian listed real estate market (4.7%) ended the year in positive territory, led by companies with residential sector exposure. In Singapore (3.1%), large-cap industrial REITs and data centres outperformed while names with China exposure trailed.

Hong Kong (–19.8%) significantly trailed amid China's property and macroeconomic woes; China's anticipated post-Covid economic reacceleration failed to materialize as expected. Though Hong Kong listed real estate broadly declined, developers with strong balance sheets fared relatively well, while discretionary retail trailed.

Portfolio Performance

The last eighteen months has been a turbulent period for listed Real Estate, as interest rate and banking uncertainties have been in a tug-of-war with better valuations and fundamentals. Substantially more positive sentiment is returning as inflation continues to subside, the interest rate outlook is pivoting towards lower policy rates, and value opportunities are recognized. The portfolio had a positive total return for the year and outperformed its benchmark.

Key contributors

• Stock selection in the U.S. (11.8% total return in the index): An overweight allocation in senior housing owner Welltower contributed. Senior housing fundamentals remain robust, driven by rate increases, growing occupancy, declining labour costs and, in the case of Welltower, accretive acquisition opportunities.

An overweight in data centre landlord Digital Realty Trust also rose, with steady demand and historically low supply leading to record pricing power.

• Security selection in Australia (4.7%): An out-of-index position in Goodman Group, which we favour for its through-cycle proposition as an infill logistics developer and manager (with a value-accretive pivot into data centres), aided performance.

• Selection in Germany (30.9%): Overweight investments in the residential sector were beneficial amid the sharp fourth quarter decline in interest rates and given company results that largely matched expectations. In particular, we held an overweight in an apartment landlord that benefited from strong results and sustained progress on asset disposals, which reduced balance sheet concerns.

Key detractors

• Selection in Japan (10.5%): An overweight investment in industrial property owner Nippon Prologis REIT detracted, as did the timing of our investment in diversified property owner Sumitomo Realty & Development.

• Underweight in Sweden (18.7%): Highly leveraged companies in the country meaningfully outperformed on expectations for lower interest rates.

• Security selection in Canada (3.2%): The timing of our investment in RioCan REIT detracted. Although company fundamentals were healthy (with nearly all condo units under development pre-sold, insulating the company from near-term macro risks), the stock was under pressure until late October due to a softening consumer backdrop and lower earnings contribution from condominium developments.

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. Within health care, we have a positive outlook on senior housing, where accelerating occupancy and pricing power are driving revenue growth higher.

We are underweight self-storage, as rents revert back to pre-pandemic norms. 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 a somewhat cautious view of European real estate securities, given concerns around growth prospects. 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 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, and we are modestly overweight offices. We have been reducing our weighting in Hong Kong on concerns around a China macro slowdown.