

SALT

Salt Sustainable Global Listed Property Fund Fact Sheet – January 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 January 2024

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	\$29.69 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 January 2024

Application	0.8127
Redemption	0.8094

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%
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Fund Allocation at 31 January 2024

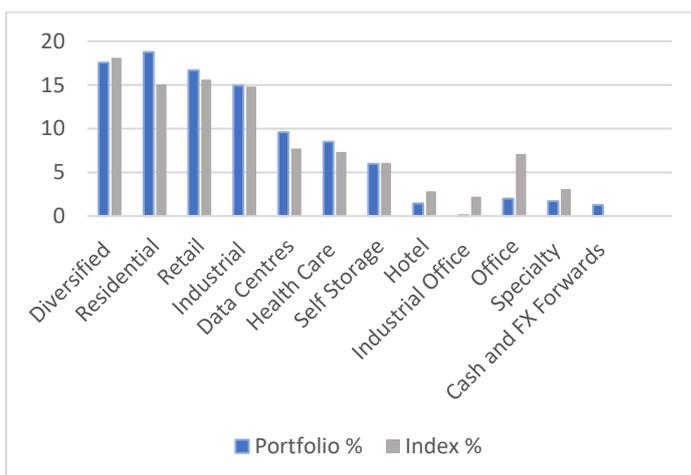
Global equities	98.3%
Cash and cash equivalents	1.7%

Fund Performance to 31 January 2024

Period	Fund Return*	Benchmark Return
1 month	-3.10%	-3.32%
3 months	14.23%	14.20%
6 months	0.60%	0.54%
1 year	-0.08%	-2.30%
2 years p.a.	-6.07%	-7.76%
Since inception p.a.	-3.93%	-6.38%

*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 January 2024.

Fund Sectoral Weightings in % as at 31 January 2024



Source: Cohen & Steers

Top 10 holdings as at 31 January 2024

Prologis	Digital Realty Trust
Welltower	Equinix
Realty Income Corp	Sun Communities
Invitation Homes	Extra Space Storage
Simon Property Group	Essex Property Trust

The fund's top 10 holdings comprise 46.0% of the portfolio

Source: Cohen & Steers Monthly Report 31 Jan. 2024

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

SALT FUNDS MANAGEMENT

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Market Review

The Salt Sustainable Global Property Fund declined by -3.1% in January (before fees) as interest-rate sensitive global equities reversed some of the strength seen in November and December. A more realistic investor view of central bank's timeframe for easing rates led to weaker bond markets and this flowed into Real Asset types. The Fund's monthly return was above the benchmark's gross return of -3.32%. Relative performance for the three-month period saw the fund in line with the benchmark, at 14.23% compared with 14.20% for the index. Over the year to 31 January, the Salt fund has performed well ahead of its benchmark return, declining by -0.08% (before fees) compared to a loss of -2.30% for the index.

Since inception, the Fund has outperformed its benchmark by 2.45% p.a. Absolute returns in 2023 were very strong, but the path was erratic as sentiment regarding lower future interest rate has fluctuated, regarding both the timing and scale of monetary policy, easings, and uncertainty on rates has dominated the year.

- After a strong December month, markets were more circumspect in the New Year. Strong activity data, particularly in the US, was received favourably by equity markets, but that came with push-back from central banks of early expectations of rate cuts, which wasn't viewed favourably by fixed income markets. Developed market equities rose 1.2% (in USD) over the month while the global aggregate bond index was down by -1.4% (also in USD).
- In the US, data was more in line with a "no landing" than a "soft landing" scenario. The first estimate of December 2023 GDP data was exceptionally strong (+3.3%, q/q annualised), as was the December labour market report (unemployment rate unchanged at 3.7%). The euphoria was tempered somewhat later in the month by a hawkish tone to the Fed's January statement.
- The European Central Bank left interest rates unchanged in January and reiterated they would remain data dependent. That was followed by the composite purchasing managers index (PMI) rising to 47.9 in January. That's its highest level in three months, but still well below the benchmark 50 that separates expansion from contraction.
- In Japan, the TOPIX was the best performing major equity market over the month. This was helped by the Bank of Japan leaving monetary policy unchanged amid speculation (including ours) that we would soon see an end to their Negative Interest Rate Policy (NIRP) and Yield Curve Control (YCC). That now appears more likely in April.
- In China, December 2023 quarter GDP growth came in at 5.2% y/y, broadly in line with expectations but soft relative to history. Partial activity data also remained weak. The PBoC continued to add stimulus over the month, but this remains largely reactive and somewhat timid. We expect a fiscal package to support consumption in the next few months.
- In Australia, December 2023 quarter inflation came in below expectations at both the headline and core (trimmed mean) level. This followed weaker-than-expected retail sales and employment data. This combination of news means the RBA is more-than-likely done with interest rate hikes and will adopt a neutral bias at its February meeting.

Portfolio Review

Global real estate securities retreated in January amid moderating expectations around monetary policy shifts. On the heels of a strong fourth-quarter 2023 interest rate-led rally, January saw profit taking on expectations that perhaps markets were ahead of reality with regard to central banks' policy easing. The 10-year U.S. Treasury yield was volatile, though it ended the month little changed, as investors digested data suggesting U.S. economic growth and the labour market are not cooling as anticipated. The Federal Reserve and European Central Bank left their benchmark lending rates unchanged.

In the U.S. (-4.2% total index return), real estate shares, though underpinned by generally healthy property fundamentals, declined as better-than-expected economic data dampened hopes for aggressive Fed rate cuts.

Data centres gained after modestly retreating in December's rally. Data centre demand continued to outpace supply, as evidenced by limited vacancies. Commentary around data centres at a recent industry conference was remarkably positive, reflecting the sector's compelling secular growth story.

Hotels defended well on improved confidence around a "soft landing" for the U.S. economy. Group bookings have been solid, while urban hotel demand is expected to continue to recover. Retail landlords, including regional malls and shopping centres, generally benefited from a resilient consumer and expectations around an economic soft landing. Regional mall operators were buoyed by improving leasing spreads.

Among residential property types, single-family homes for rent shares were bolstered by an alternative asset manager's acquisition of a publicly traded Canadian operator at a large premium. The transaction was viewed as a positive read-through for the sector. Apartments also declined but outperformed.

Industrial REITs modestly underperformed. Earnings from a large industrial index constituent did not surprise, and its 2024 outlook was in line with expectations. However, the company offered mixed signals regarding industrial demand. The office sector trailed following outperformance in late 2023, as the sector continues to struggle with reduced demand.

Health care REITs were weighed down in part by a medical property operator that significantly trailed in the month, as its largest tenant has struggled to meet its rent obligations. The self-storage REIT sector lagged, as move-in demand remains weak on an absolute basis.

European real estate securities declined in a macro-driven month. There was profit taking in the first half of the month, with some recovery thereafter. There generally seemed to be optimism around the European real estate outlook, with expectation that value corrections and rate rises were priced in. Inflation, meanwhile, showed signs of easing, with an expectation for benchmark lending rate cuts in the second half of 2024. Germany (-1.0%) defended well on relative strength among its residential names. The Netherlands (-1.5%) and France (-3.1%) fared relatively well, aided by retail-oriented property types. French offices trailed amid signs that Paris office trends have continued to deteriorate in the wake of Covid, with investment volumes down almost to levels seen during the global financial crisis.

In the U.K. (-3.2%), industrial names outperformed. U.K. industrial sector demand appears to be generally returning to pre-Covid levels, with greater resilience than some feared. Health care and office names trailed. In Belgium (-4.2%), self-storage and industrial property owners outperformed. Sweden (-5.2%), which tends to be a more highly levered market, trailed following fourth-quarter outperformance. Spain (-8.4%) was among the biggest laggards, hindered by underperformance from an office REIT.

The Asia Pacific region declined relatively modestly, despite weakness stemming from China-related concerns. In Japan (3.0%), developers were strong performers, defying CPI prints that slowed from multi-decade highs in the fourth quarter of last year. Among J-REITs, residential names outperformed logistics-oriented property types.

Australia (1.3%) outperformed global listed real estate (gaining in local currency terms) as REITs benefited from lower-than-consensus inflation. A residential developer outperformed on limited new news after lagging the sector over recent months. There was some relative weakness in consumer-exposed names, including mall landlords, with consumption data points surprising on the downside in late December and into January.

In Singapore (-4.2%), retail-oriented property types outperformed, while industrial names and companies with relatively high China exposure trailed. In Hong Kong (-11.6%), market sentiment remained weak due to China macro concerns and geopolitical risk. While a stream of policy announcements was made late in the month, markets remained sceptical about their effectiveness.

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. However, premature market optimism on inflation and interest rates is keeping the sector volatile. The portfolio had a positive total return for the year, outperforming its benchmark again in January.

Key contributors

- Stock selection in the U.S. (-4.2% total return in the index): A substantial overweight in data centre REIT Digital Realty Trust aided performance. Though the company has not yet reported fourth-quarter earnings, the sector has been benefiting from robust fundamentals.
- Security selection in Spain (-8.4%): Our non-investment in Spanish office operator Inmobiliaria Colonial, which declined substantially, contributed.
- Overweight in Australia (1.3%): Our overweight aided performance, as Australian shares benefited from the country's lower-than-consensus inflation print.

Key detractors

- Security selection and an underweight in Canada (0.2%): Our non-investment in Tricon Residential, the target of a public-to-private acquisition by Blackstone Group, detracted.
- Non-investment in Switzerland (-1.6%): Switzerland, generally viewed as a more defensive market, fared relatively well in January's listed real estate selloff.

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.



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