Salt Sustainable Global Listed Property Fund Fact Sheet – September 2022

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 2022

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$26.44 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 30 September 2022

Application	0.7825
Redemption	0.7793

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 2022

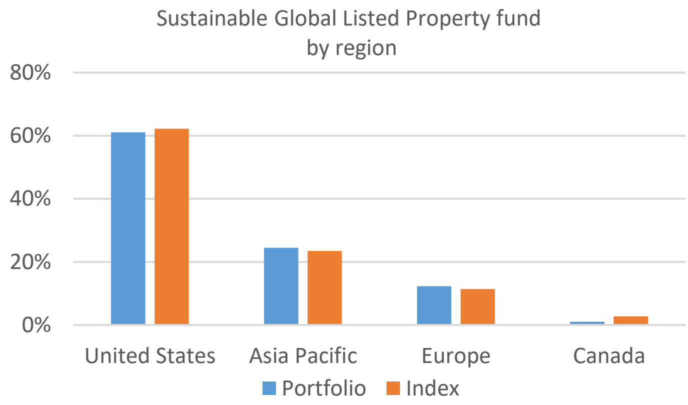
Global equities	98.9%
Cash and FX forwards	1.1%

Fund Performance to 30 September 2022

Period	Fund Return*	Benchmark Return
1 month	-12.22%	-11.98%
3 months	-10.55%	-10.50%
1 year	-19.16%	-19.27%
Since inception	-20.71%	-21.55%

*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 30 September 2022.

Fund regional weightings as at 30 September 2022*



Source: Cohen & Steers, Salt *data to 31 August 2022

Top 10 holdings at 30.09.22	
Prologis	Simon Property Group
Public Storage	Welltower
Invitation Homes	UDR
Digital Realty Trust	Duke Realty Corp
Realty Income Corp	Extra Space Storage

The fund's top 10 holdings comprise 39.4% of the portfolio

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.1	5.9
MSCI ESG score	5.8	5.7

Source: Cohen & Steers Quarterly Investment Report, 30 Sep. 2022

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Market Review

Global listed property has continued to react negatively to a higher bond yield environment, however the sector remains attractive at now-improved valuations, given its inherent inflation protection and defensive characteristics. Over the fourth quarter of the year, growth conditions will continue to deteriorate as central banks continue to tighten with terminal rate likely to be met in late 2022 or early 2023.

- After a strong rally at the start of the quarter, equity and bond markets sold off sharply in August and September. In USD terms, developed market equities ended the quarter 6% lower while global bonds fell 7%.
- The rally in July was supported by markets starting to price in interest rate cuts by the Federal Reserve in 2023, suggesting an economic soft landing was likely. However, in August, the Fed along with other central banks renewed their commitment to prioritise returning inflation to target over supporting growth.
- The tough talk was followed up by aggressive action as the key global central banks raised interest rates over the quarter, by 1.5% (in the US) and 1.25% (in the eurozone). Guidance indicative of further hikes saw markets price in significantly higher terminal rates as the quarter progressed.
- Headline inflation moderated in many countries as last years' increases fell out of annual calculations and prices for key commodities fell, most notably oil. However, core inflation is proving to be more stubborn and remains well in excess of central banks targets, supporting indications of more tightening to come.
- The global growth outlook continues to weaken as central banks continue to hike and signal further interest rate increases to come.
- The odds of a "soft landing" are diminishing in several countries. Despite a technical recession over the first half of 2022, the US economy remains one of the more resilient. That is especially the case for the labour market where an unemployment rate of 3.7% and nominal wage growth in excess of 5% remain inconsistent with 2% inflation.
- The energy crisis continues to dominate the headlines in Europe as Russia halted all gas flows through the Nord Stream 1 pipeline in early September. Activity data continued to weaken over the quarter and recession now appears the most likely outcome. However, with inflation still stubbornly high, the ECB will continue to hike interest rates.
- Despite better economic data recently, the Chinese economy remains fragile as it confronts a number of headwinds including its zero-Covid policy, weather-related disruptions and weakness in the housing market. But given the benign inflation environment the PBoC has eased monetary policy further and the State Council has announced new fiscal measures to support the economy.
- Fiscal policy was the hot topic in the UK towards the end of the quarter. The announcement of significant unfunded tax cuts by the new Chancellor brought a severe negative reaction from markets and intervention from the Bank of England. The package has since been partially reversed.

Portfolio Review

Real Estate securities were hard-hit by surging bond yields and monetary policy around the world moving steadfastly into tightening mode. This is typical of listed property performance in the initial period of phases of monetary policy restrictiveness. However, the asset class benefits from a more balanced medium-term view on interest rates and inflation, and from upward adjustments to leases.

In September month, the portfolio had a gross return of -12.09%, which compared with a total return of -12.0% for its benchmark. For the third quarter of 2022, the portfolio had a gross total return of -10.15%, compared with a decline of -10.50% for its gross benchmark.

From its 16 September 2021 inception through to 30 September 2022, the portfolio had a gross total return of -19.79% and outperformed its gross benchmark index by 1.76%, with the benchmark down -21.55%.

Portfolio Review (Cohen & Steers commentary)

Global real estate securities broadly declined in the quarter, along with risk assets generally, amid ongoing interest rate and growth concerns. The US Federal Reserve hiked short-term rates by 75 basis points twice during the quarter to fight persistently high inflation; other central banks made similar moves.

The US labour market and consumer spending remain healthy, suggesting further rate hikes to come. The US dollar strengthened against most major currencies in the quarter, contributing to inflation pressures in those markets.

In the US (–10.2% total return), shorter-lease-duration properties outperformed secular-growth and e-commerce property assets amid elevated inflation and rising interest rates. Self-storage move-ins remained strong, and operators do not appear to be feeling a direct impact from lower housing turnover or higher inflation. Rent growth is expected to continue to normalize from the high levels seen during the early part of the pandemic, but to remain in the 5–6% area, even in the event of a recession. Hotel REITs also defended well, with a large index constituent reporting margins and revenue per available room ahead of our expectations. Retail sectors, cushioned somewhat by a still-positive outlook for store openings, also outperformed.

Outperformance among residential stocks reflected continued challenges in home affordability, with mortgage rates climbing to their highest level in 15 years. Industrial and data centre REITs trailed, pressured by rising interest rates.

European real estate securities declined sharply on recession concerns. The relative resilience of companies with retail assets cushioned performance in France (–6.0%), Spain (–11.0%) and the Netherlands (–11.3%). Sweden (–8.8%), which declined sharply in the first half of the year, added to its losses, as leveraged property developers were seen as vulnerable to reduced economic activity and higher interest rates. Belgium (–15.7%) was pressured by declines among industrial and diversified property owners.

The **UK** (–19.5%) underperformed amid faltering business and consumer confidence. Toward quarter-end, a liquidity crisis following the announcement of unfunded tax cuts prompted intervention from the Bank of England in an effort to stabilize financial markets. Germany (–23.4%), which is dominated by the rate-sensitive residential sector, suffered a meaningful decline despite an operationally strong apartment market.

The **Asia Pacific** region outperformed but was not immune to the macro challenges facing other regions. Japan (–1.2%) fared well on relatively less inflation pressure and continued momentum from economic reopening. Australia (–5.7%) was weighed down in the quarter by rising real bond yields. Retail property owners were among the outperformers, though discretionary spending is likely to slow given rising mortgage rates, declining home prices and broader inflationary pressures. In Singapore (–7.5%), where the economy has continued to normalize since the relaxation of mobility restrictions earlier in the year, retail-oriented names outperformed. However, cyclical headwinds are increasing as demand in the US and Europe slows and the semiconductor sector enters a downturn. In Hong Kong (–11.3%), worsening China economic data and more-hawkish-than-expected monetary policy weighed on performance.

The portfolio had a negative total return in the quarter and performed in line with its benchmark.

Key contributors

• Stock selection in Hong Kong (–11.3% total return in the index): An out-of-index position in Sands China contributed. The Macau-based resort developer benefited from the relaxation of virus-related restrictions.

• Overweight allocation in France (–6.0%): The portfolio's benefited from an overweight position in pan-European retail property owner Klépierre. Strong overall retail demand has resulted in increasing occupancies for the company.

• Security selection in Japan (–1.2%): Overweight positions in diversified landlords Japan Metropolitan Portfolio Investment and Tokyo Tatemono aided relative performance.

Key detractors

• Overweight allocation in the UK (–19.5%): The UK underperformed broader global real estate securities amid concerns around business and consumer confidence.

• Selection in the US (–10.2%): Our selection in the country, including adverse currency effect, detracted from relative performance.

• No allocation to Switzerland (–7.5%): The portfolio's non-investment in the country, which was seen as a relative safe haven, detracted.

Investment Outlook (Cohen & Steers commentary)

We believe global real estate, which has seen improved valuations with the recent correction in share prices, offers attractive return potential relative to broad equities. Slowing economic growth and high 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 this year and next. 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.

We maintain a positive view of US REITs, with a preference for assets with shorter lease durations and strong pricing power. We favour self-storage, which should continue to have good pricing power given occupancy rates well above historical levels. Within health care, we have a positive outlook on senior housing, where occupancies are improving following early-pandemic declines. We see the residential sector benefiting from insufficient supply and home affordability issues in the for-sale market, which are leading to higher demand for rental housing, especially within single family homes.

Companies that provide data and logistics infrastructure, including data centres and industrial warehouses, should continue to benefit from strong secular demand in the shift toward a digital economy, in our opinion.

While we believe secular headwinds remain for retail, we think certain landlords with high-quality properties and strong balance sheets stand to gain market share over time. However, we are mindful of the impact of elevated inflation on the US 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—however, we have trimmed our positions in light of growing macro headwinds. The risk to growth is a concern, especially as the costs associated with Europe's energy transition away from Russian supplies are likely to be inflationary. 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 have a preference for assets with shorter lease durations and strong pricing power, which should benefit from an environment of rising prices. We like logistics, health care and self-storage, which tend to be more defensive and have structural growth characteristics.

We like continental retail, but we are cautious about offices, as the demand outlook remains uncertain and, in many cases, current valuations do not adequately compensate investors for the perceived risk.

Near-term Covid risk in Asia Pacific is somewhat mitigated by China's supportive policy stance. Within Australia, we favour property sectors that are relatively insulated from the encroachment of e-commerce activity. In Singapore, we are positive on underlying fundamentals for hospitals and constructive on the medium-term outlook for offices, given the prospect of potential corporate relocations within Asia Pacific. In Japan, we have taken advantage of developer strength to move our overweight position to neutral on expectations for a global slowdown. Within Hong Kong, we are overweight domestic non-discretionary retail landlords.

Greg Fleming, MA