Salt Sustainable Global Listed Property Fund Fact Sheet – July 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 31 July 2022

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$31.69 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 July 2022

Application	0.9423
Redemption	0.9385

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 July 2022

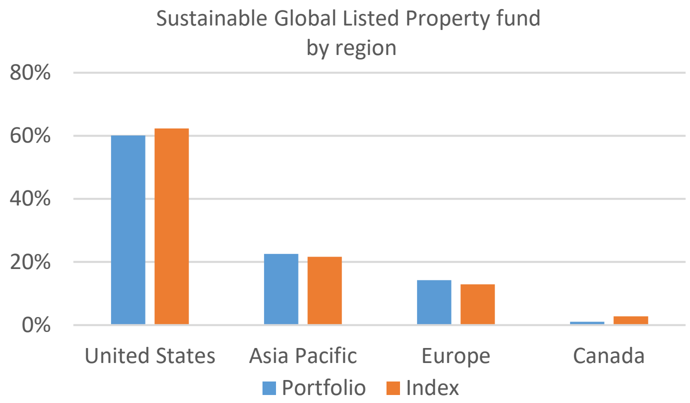
Global equities	97.9%
Cash and FX forwards	2.1%

Fund Performance to 31 July 2022

Period	Fund Return*	Benchmark Return
1 month	7.72%	7.81%
3 months	-5.23%	-5.12%
6 months	-6.86%	-6.85%
Since inception	-4.51%	-6.37%

*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 31 July 2022.

Fund regional weightings as at 31 July 2022*



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

Top 10 holdings at 31.07.22	
Prologis	Welltower
Invitation Homes	Simon Property Group
Digital Realty Trust	Extra Space Storage
Public Storage	UDR
Realty Income Corp	Duke Realty Corp

The fund's top 10 holdings comprise 38.8% of the portfolio

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.2	5.8
MSCI ESG score	5.8	5.7

Source: Cohen & Steers Quarterly Investment Report, 30 June 2022

Market Review

After the significant market weakness experienced in both equities and bonds in the first half of 2022, July saw stabilising investor sentiment and moderate rebounds in most key asset classes. Equities and Real Assets were particularly strong over the month, reflecting a shift down in longer-term interest rates on fears of a period of imminent economic weakness.

Global listed property has recovered in July more than a third of the value declines experienced in the First Half Year. 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 first period of phases pf monetary policy restrictiveness. However, the asset class benefited from a more balanced view on interest rate and inflation that has emerged recently, given its inherent inflation protection and defensive characteristics.

- July month saw further evidence of the slowdown in global economic growth, while at the same time, inflation continued to reach new highs. Labour markets remained strong, a good sign for activity growth, though strong wage growth points to ongoing core inflation pressure.
- A weaker growth outlook has contributed to suggestions of a pivot to the less hawkish by central banks, particularly in the US. This contributed to a "risk on" tone in both equity and bond markets, which is premature in our view.
- In the US the Federal Reserve raised interest rates by 75 basis points (bp) for the second time, taking the Fed funds rate to 2.5%, or around the Committee's estimate of the long run (neutral) rate. US GDP printed negative for the second consecutive quarter, meeting the definition of a technical recession. The National Bureau of Economic Research (the US cycle dating agency) is unlikely to confirm this as an economic recession given the narrowness of the weakness and the ongoing strength in the labour market.
- A similar set of circumstances prevailed in Europe during the month as the European Central Bank began its interest rate hiking cycle with a larger than expected hike of 50bp. The ECB also approved the Transmission Protection Instrument (TPI), a tool aimed at supporting orderly conditions across Eurozone government bond markets, in particular the region's peripheral markets such as Italy and Spain. At the same time, the economy remains on the brink of recession given concerns about the security of gas supplies from Russia.
- Activity data was more upbeat in China over the month though the authorities continue to grapple with current Omicron outbreak amidst its still stringent Covid-zero policy. While there have been minor steps to ease restrictions, a more fulsome relaxation is unlikely until after the upcoming Communist Party National Congress.
- The Reserve Bank of Australia continued its aggressive rate hikes with a further 50bp hike in July, with expectations of ongoing hikes of this magnitude.
- Inflation in New Zealand hit a fresh high of 7.3% in the year to June, higher than market and Reserve Bank expectations. All key core measure of inflation pushed higher also, confirming the Reserve Bank of New Zealand still has work to do, especially considering tightness in the labour market.

From its 16 September 2021 inception through to 31 July 2022, the portfolio had a total return of -4.51% (after fees) and outperformed its gross benchmark index by 1.86%. In July, the portfolio had a positive total return in the month of +7.72% (after fees,) close to the return from its benchmark, and more than recovering the weak return from the June month prior. For the three months to 31 July, the portfolio returned -5.23% (after fees) which was in line with its benchmark.

Portfolio Review (Cohen & Steers commentary)

Real estate securities rebounded in July, along with risk assets in general, on the heels of a weak second quarter.

Inflation concerns lessened somewhat alongside price declines in an array of commodities. While bond yields moved lower as economies continued to soften, data was generally better than anticipated. The US Federal Reserve raised its benchmark lending rate by another 75 basis points to what is generally considered a neutral stance. The market interpreted Chair Jerome Powell's comments after the latest hike to mean the Fed would strike a more balanced, if not cautious, trajectory going forward as it attempts to engineer a soft landing. Among listed real estate securities, Europe and North America outperformed while the Asia Pacific region trailed.

US real estate securities (9.0% total return) gained across all sectors. Investor apprehension about the near-term prospects for real estate moderated as REITs announced second-quarter results. Most sectors (with offices the notable exception) have pricing power in today's environment—this was on display in July as, by one accounting, more than 80% of reporting REITs exceeded consensus earnings expectations, while 65% raised their full-year guidance. Consumer oriented/cyclical property types gained favour, with outperformance among regional malls, hotels, and shopping centres.

Industrial REITs rebounded from Amazon-driven weakness in the second quarter, with companies reporting strong demand and low vacancies. Residential REITs modestly underperformed. While most apartment companies beat analysts' consensus earnings expectations, external growth outlooks were lowered. However, the single-family homes for rent sector was buoyed in part by the continuing tailwinds of home purchase affordability at a 20-year low, a healthy labour market and rising personal incomes. Office REITs lagged other sectors, as tenants continue to contend with hybrid work policies and uncertainty around future space needs. Additionally, slowing economic growth may weigh on the job market.

The more defensive health care sector gained modestly relative to US REITs broadly, with senior housing occupancy trends reported by the National Investment Centre for Seniors Housing & Care a positive read-through for several companies. Data centres trailed; the sector continued to enjoy healthy supply/demand trends, though foreign exchange rates have been a headwind.

Europe rebounded following the second quarter's underperformance. Sweden (22.7%), which fell earlier on concerns around reduced economic activity and rising rates, rebounded sharply in the month. France (15.2%) saw gains across sectors, notably among retail landlords. Spain (11.5%) was lifted by its largest index constituent, which has retail exposure. The Netherlands (10.6%) gained on strength among retail landlords. Belgium (9.3%) benefited from strength among industrial and health care names. Germany (9.2%), largely represented by the interest rate-sensitive residential sector, rebounded from the second quarter's declines. The UK (8.8%) benefited from strong performance among retail, industrial and self-storage property types.

The Asia Pacific region trailed in the month following earlier outperformance. In Singapore (2.6%), an off-cycle tightening of monetary policy was announced in response to accelerating inflation. Performance among S-REITs was mixed, with logistics-oriented names gaining favour as investors reduced their cyclical exposure.

In **Japan** (2.5%), stocks, led by industrial landlords, fared well on signs of peaking interest rates. In Hong Kong (0.0%), developers corrected amid concerns about rising interest rates. Performance among landlords was mixed, with strength in non-discretionary retail driven by continued strength in domestic consumption.

In **Australia** (10.1%), bond yields declined significantly in the month, fuelling outperformance among growth real estate names.

Key contributors

• Stock selection in Australia (10.1% total return in the index): The portfolio's out-of-index position in Charter Hall Group, which outperformed on a decline in real bond yields, contributed. The company also benefits from a healthy multi-year fundamental outlook.

• Overweight allocation in France (15.2%): An overweight, including an overweight in Klépierre, which outperformed along with retail-oriented property types generally, contributed.

• Overweight and selection in Spain (11.5%): Spain posted strong second-quarter 2022 GDP growth, bolstered by domestic demand. Out-of-index position Cellnex Telecom rose sharply; it reported better-than-expected results and announced it was withdrawing from the potential acquisition of a stake in the company that operates Deutsche Telekom's telecommunications infrastructure in Germany and Austria. The shares had been dragged by concerns Cellnex was overpaying and how it would fund the deal.

Key detractors

• Selection in the US (9.0%): An overweight in Digital Realty Trust, which reported positive pricing trends but softness in leasing, detracted. Our non-investment in VICI Properties also detracted; it outperformed as quarterly results exceeded expectations (although the company merely reaffirmed its full-year guidance).

• Overweight in Hong Kong (0.0%): After defending well last quarter, Hong Kong trailed in July's rally. While the government has pledged not to tighten social distancing measures, the potential for near-term reopening with China seems unlikely.

Portfolio 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 and other asset categories. Slowing economic growth and high inflation temper the near-term outlook for real estate, particularly for sectors lacking pricing power. However, fundamentals generally remain sound, and we anticipate healthy earnings growth this year and next. Moreover, real estate companies typically have high operating margins, low commodity and labour price sensitivity, 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.

Companies that provide data and logistics infrastructure, including data centres and industrial warehouses, will continue to benefit from strong secular demand in the shift toward a digital economy, in our opinion, though valuations for some companies remain elevated.

While we believe secular headwinds remain for retail, we think certain retail 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 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.

European real estate securities, which have lagged the recovery of their US peers, offer attractive upside potential. 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 prefer 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 believe net lease and towers are well protected against inflation. We like continental retail and see value in London offices, but we are cautious about offices in some other markets, 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 we are 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