

# SALT

## Salt Sustainable Global Listed Property Fund Fact Sheet – October 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 October 2022

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	\$27.14 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

### Unit Price at 31 October 2022

Application	0.8002
Redemption	0.7969

### 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 October 2022

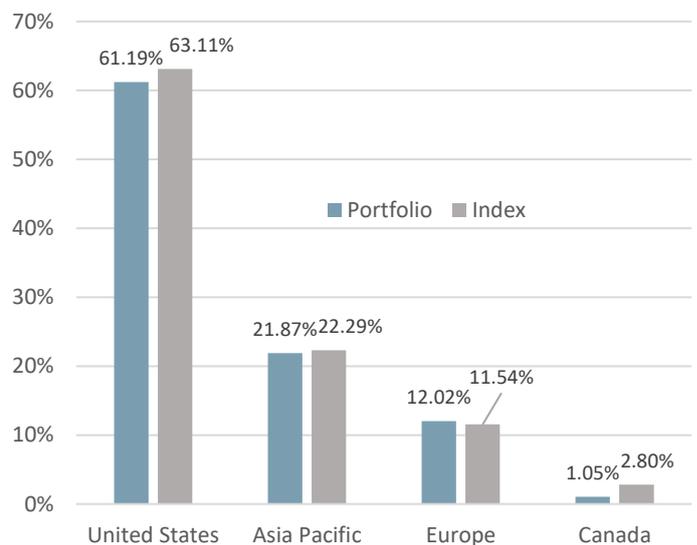
Global equities	96.24%
Cash and cash equivalents	3.76%

### Fund Performance to 31 October 2022

Period	Fund Return*	Benchmark Return
1 month	2.26%	3.02%
3 months	-15.09%	-14.47%
6 months	-19.52%	-18.85%
1 year	-20.97%	-21.26%
Since inception	-18.92%	-17.95%

\*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.

### Fund Regional Weightings at 31 October 2022



Source: Cohen & Steers

### Top 10 holdings at 31 October 2022

Prologis	Digital Realty Trust
Public Storage	Invitation Homes
Simon Property Group	UDR
Welltower	Extra Space Storage
Realty Income Corp	Equinix

The fund's top 10 holdings comprise 42.23% 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

### SALT FUNDS MANAGEMENT

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## Market Review

Global real estate securities rebounded in October along with global equities broadly. Interest rates continued to climb in most markets as inflation reached new highs. Following on from September, stocks remained under pressure for much of the month as major central banks maintained their commitment to tightening monetary policy. But with economic activity slowing, in late October, many investors began to believe that the pace of central bank rate hikes would moderate in the coming months, which sparked a rally in financial assets.

In the U.S. (4.6% total return, local currencies), a resilient consumer and a strong start to earnings season supported gains. Of the roughly half of the U.S. REIT universe that has reported quarterly results, the overwhelming majority met or beat expectations and maintained or raised their 2022 outlooks. Retail property companies outperformed, buoyed by healthy consumer spending amid a robust job market and lower oil prices aiding discretionary spending. Hotels were supported by strength in demand from leisure travel, group events and business travel. Industrial tenant demand remained healthy despite macroeconomic headwinds; construction cost inflation is expected to constrain new builds, suggesting mid-single digit rent growth is possible for the sector in 2023.

Office REITs trailed after defending well in the September selloff. Data centres underperformed along with technology-oriented stocks generally. Health care lagged, weighed down in part by a senior housing REIT that announced it was tracking below the midpoint of its outlook (as labour costs continued to affect margins). Residential property companies underperformed on concerns around elevated operating expenses and taxes.

Europe rebounded, with warm weather alleviating pressure from natural gas prices. France (10.1%) and the Netherlands (9.6%) were lifted on gains from retail property owners, which benefited from indications of a resilient consumer. Spain (7.3%) advanced amid a lower-than-expected inflation reading. Sweden (5.0%) gained, with particular outperformance among industrial property owners. The U.K. (2.9%) rose as Rishi Sunak was installed as prime minister; bond yields declined and the pound stabilized as the market-roiling policies announced in September (during Liz Truss's short tenure as PM) were rolled back, helping to stabilize the country's financial markets. Office, self-storage and industrial landlords gained. In Germany (−0.3%), prices were checked by rising rates and investor doubts around companies' ability to sell assets at attractive prices in the current environment. Belgium (−1.9%) was weighed down in part by weakness in health care and mixed performance among industrial landlords.

The Asia Pacific region trailed, reversing its recent outperformance amid mixed policy signals. Australia (10.5%) rebounded along with its global peers, supported by a more dovish pivot from the Reserve Bank of Australia. Japan (1.8%) gained but lagged behind its global peers after prior outperformance. The country opened its borders to allow visa free tourists for the first time since the Covid pandemic began. In Singapore (−6.0%), the Monetary Authority of Singapore tightened policy in response to accelerating inflation. Its economy has continued to normalize with the relaxation of restrictions, but cyclical headwinds are increasing as U.S./Europe demand slows and the semiconductor sector enters a downturn. Hong Kong (−11.4%) corrected as China's Xi secured a third term as president and consolidated his power by installing loyalists to the seven-member Politburo Standing Committee. The news led to lower confidence on policy direction, given an increasing lack of transparency. Also weighing on shares were new U.S. sanctions on the sale of semiconductors to China.

## Portfolio Performance

In the month, the Fund had a total return of 2.26%, which compared with a total return of 3.02% for its benchmark.

### Key contributors

- Security selection in Germany (−0.3% total return in the index): The portfolio was overweight LEG Immobilien, which outperformed other residential property companies due to its less onerous upcoming debt maturities, which will be partially funded through asset sales.
- Stock selection in Sweden (5.0%): The portfolio's overweight position in industrial landlord Catena benefited from nine-month results that exceeded expectations; the news came amid strong demand for all of Catena's properties and lower-than-expected financing costs.
- Stock selection in the U.K. (2.9%): The portfolio benefited from overweight positions in self-storage companies, which rebounded sharply following broad market weakness in September. While there is nervousness around the sector's exposure to consumers in a potential economic downturn, occupancy rates remain strong.

### Key detractors

- Security selection in the U.S. (4.6%): Detractors included an overweight allocation in single family home leasing company Invitation Homes, which reported quarterly results that modestly disappointed on expense pressures and, to a lesser extent, higher bad debt.
- Overweight and security selection in Hong Kong (−11.4%): Investor sentiment turned negative following the end of the National Congress of the Chinese Communist Party, given uncertainties around economic and Covid policies. The portfolio's out-of-index investment in Sands China, a gaming company with exposure to a Greater China reopening, detracted.
- Stock selection in Singapore (−6.0%): An overweight investment in CapitaLand Investments underperformed due to the company's high China exposure and fears that China could maintain its Covid-zero policy for longer than expected.

## Investment Outlook

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. 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.



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