Salt Sustainable Global Listed Property Fund Fact Sheet – April 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 April 2022

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$31.60 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 30 April 2022

Application	1.0076
Redemption	1.0055

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 April 2022

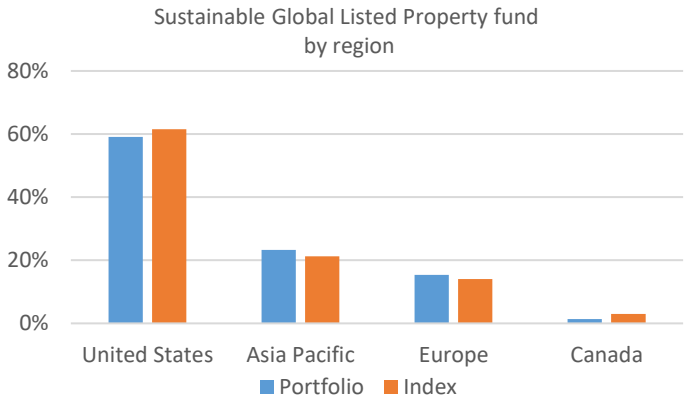
Global equities	98%
Cash and FX forwards	2%

Fund Performance to 30 April 2022

Period	Fund Return*	Benchmark Return
1 month	-3.05%	-4.00%
3 months	-1.38%	-1.82%
6 months	-1.08%	-2.98%
Since inception	0.75%	-1.33%

*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 April 2021.

Fund regional weightings as at 30 April 2022*



Source: Cohen & Steers, Salt *data to 30 April 2022

Top 10 holdings at 31.03.22	
Prologis	Simon Property Group
Public Storage	UDR
Digital Realty Trust	Realty Income Corp
Invitation Homes	Extra Space Storage
Welltower	Vonovia SE

The fund's top 10 holdings comprise 37.9% of the portfolio

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.3	5.9
MSCI ESG score	5.5	5.4

Source: Cohen & Steers Quarterly Investment Report, Mar 2022

Market Review

- Following a difficult first quarter of 2022 for markets, there was little respite in April. The ongoing war in Ukraine, Covid lockdowns in China and the prospects of significantly tighter monetary policy in several major countries all weighed on markets. Listed property was no exception, although it has generally outperformed broader equity markets due to its

tangible qualities which appeal in risky times, and to its efficacy in hedging against higher inflation.

- The global economy entered 2022 with strong tailwinds, many of which including tight labour markets and high levels of pent-up savings remain. But the risks to the outlook are building, especially as monetary policy tightening peaks in 2023 and the economic cycle bottoms out.
- Global equites returned -8.0% in April and fixed income was not far behind as US 10-year Treasury yields approached 3%. Expectations of the degree of monetary policy tightening was ramped up over the month, most notably in the US, the UK and Australia. More defensive equity markets such as Japan, the UK and Switzerland were more resilient than the US and Emerging Markets.
- The war in Ukraine intensified over the month with no sign of resolution in sight. The most notable economic impact is on energy markets as Europe faces into the challenge of reducing its energy dependency on Russia.
- Chinese authorities are struggling to contain a major Covid outbreak, with Shanghai spending the whole of April in lockdown. Easier monetary and fiscal policy will provide some support to growth, but the official 2022 GDP target of 5.5% is increasingly challenged by the rigid Covid-zero policy stance.

In the US the Federal Open Market Committee (FOMC) appears ready to accelerate the pace of rate hikes from as early as their May meeting. Markets are now pricing a series of 50bp hikes following comments from several FOMC participants suggesting the need for an expeditious move in the Fed funds rate to neutral.

Central Bank's shift in tone to a more inflation-adverse stance, combined with the rapidly escalating Ukraine crisis, has challenged investor sentiment throughout much of 2022. It appears unlikely that such factors darkening the global growth outlook for the present will not clear quickly, and we will maintain a preference for Real Assets.

Global real estate securities declined in April but outperformed broader equities. Global equities were pressured by concerns around elevated inflation, slowing economic growth and the Russia-Ukraine conflict. The Asia-Pacific region outperformed, while North America and Europe trailed. The US economy contracted in the first quarter (after expanding at a 6.9% annualized rate in the fourth quarter of 2021), while US inflation reached a 40-year high amid elevated food and energy prices. Growth appeared to slow meaningfully in other markets.

In the US (–4.5% total return), real estate securities (and US equities broadly) were pressured at month-end by a disappointing Amazon earnings report. **Industrial REITs** outperformed amid continued strong spot-market rent growth, as demand continues to outpace supply. However, at month-end, news of e-commerce giant Amazon's plan to scale back its industrial space usage weighed on the sector. Data centre REITs only modestly declined; Amazon's commentary on its earnings call supported an acceleration in data centre spending even as it pares its warehouse budget.

Self-storage owners trailed; while the sector continues to report strength in fundamentals, Amazon's news likely had a knock-on effect on performance.

Hotel landlords outperformed, as business travel continues to improve relative to last year. Manufactured homes rose modestly in the month, with reported earnings indicating solid results within the recreational vehicle and marina businesses. Single family homes for rent defended well, with earnings results meeting market expectations. Shopping centre landlords also defended value; as these companies are oriented more toward consumer-staples spending. In contrast, regional malls, which are particularly vulnerable to pressure on discretionary spending, trailed. Apartment and office REITs lagged amid lacklustre earnings results. Health care REITs also underperformed.

Europe declined on continued geopolitical concerns and the prospect of slowing growth. Spain (–2.0%) declined amid weakness in diversified REIT Merlin Properties and office landlord Inmobiliaria Colonial. In the UK (–2.1%), self-storage and retail property types weighed on performance. The Netherlands (–2.1%) saw weakness among retail property types. In Belgium (–2.2%), industrial property types trailed. France (–4.0%) was weighed down by retail and office landlords. Germany (–9.5%) and Sweden (–15.9%) both trailed on interest rate sensitivity among residential property types.

The **Asia Pacific** region proved relatively resilient to global macro concerns. Singapore (0.9%) rose modestly with the relaxation of most social distancing measures. Office property types were in positive territory (in local currencies) given their potential to benefit as companies seek to relocate operations from mainland China and Hong Kong. In Japan (0.2%), developers outperformed REITs on concerns around rising interest rates.

In **Australia** (–0.6%), the performance of growth and value names was mixed, despite the continued rise in bond yields. In **Hong Kong** (–1.5%), new Covid cases slowed to more reasonable levels, and lockdown restrictions were relaxed in mid-April. Despite this, Hong Kong property stocks corrected alongside the broader market.

Portfolio Review (Cohen & Steers commentary)

From its 16 September 2021 inception through to 30 April 2022, the portfolio had a positive total return of 0.75% (after fees) and outperformed its gross benchmark index by 2.08%. In April, the portfolio had a negative total return in the month of -3.05%, outperforming its benchmark by 0.95% (on an after-fees basis.)

Key contributors

• Stock selection in the US. (–4.5% total return in the index): Our overweight in a single-family homes company, which reported first-quarter core funds from operations in line with consensus expectations, aided relative performance. Our overweight position in a data centre owner, which reported leasing spreads at record levels and raised its FFO outlook, also contributed.

• Stock selection and overweight in Singapore (0.9%): Contributors included an overweight position in a diversified landlord that is viewed as a reopening play. A substantial overweight in health care REIT, which provided a favourable quarterly update, also aided relative performance.

• Out-of-index in the Czech Republic: An industrial position in the Eastern European market contributed.

Key detractors

• Underweight in Switzerland (2.0%): Switzerland outperformed the European region in the month; our underweight was a modest detractor.

• Selection in Australia (–0.6%): Our selection in Australia was a modest detractor in the month; this included our out-of-index position in a fund manager that underperformed on rising bond yields, despite health fund inflows and transaction activity.

• Non-investment in Israel (4.6%): Our non-investment in the outperforming market was a modest detractor.

Portfolio Outlook (Cohen & Steers commentary)

We believe global real estate offers improving fundamentals and inflation protection.

We consider that global real estate is attractively valued and offers the potential to mitigate inflation's impact. Russia's invasion of Ukraine has led to a commodity supply shock that has driven up inflation and raised concerns over the pace of global growth in 2022. Despite the possible impact of slower growth and higher inflation on listed real estate securities, we believe real estate fundamentals remain sound. REITs have the potential to show meaningful growth in cash flows and income. Traditional asset allocations have less ability to defend against a prolonged environment of higher inflation than real estate assets, which have historically performed well in elevated inflationary periods. We believe the asset class can post meaningful returns relative to stocks and bonds even against a slower-growth, higher-inflation backdrop, particularly as valuations remain attractive.

We maintain a positive view on **US REITs**, with a preference for shorter-lease-duration assets, which should benefit from an environment of rising prices. We favour **self-storage**, which should continue to have strong pricing power given occupancy well above historical levels. We have a favourable view on **health care**, where we have a positive outlook on life science properties. We also see value in **senior housing**, where occupancies are improving following early pandemic declines. We see the **residential and hotel sectors** benefiting from continued economic expansion and an eventual return of business travel, respectively. We believe 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, though valuations for some companies remain elevated. We are overweight **single-family homes** for rent, where we have recently added to certain positions based on our positive view on rental housing demand and demographic tailwinds.

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 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. We estimate that rents in some office markets may not recover until 2023.

European real estate securities, which have lagged the recovery of their US peers, offer attractive upside potential. However, we are closely monitoring developments around Russia's actions in Ukraine and may make adjustments to the portfolio as we deem appropriate. The risk to growth is a concern, especially should Russia continue to cut off energy supplies to the region in retaliation for sanctions.

Our positioning in Europe is differentiated more by property sector and individual security than by country, based on the common drivers underlying property types across the region. We like **logistics**, **health care** and **self-storage**, which tend to be more defensive and have structural growth characteristics. We have become more cautious on sector positioning in the region, trimming in more cyclical areas such as retail. We are mindful of the potential impact on consumers (and, by extension, on demand for retail real estate) should the disruption in energy supplies lead to further elevated inflation.

While there is a case for recovery in offices, we are cautious about some 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. We are overweight **Japanese developers**, although we recently shifted some of that allocation to J-REITs based on valuations. We have added slightly to **Hong Kong** as Covid cases have started to stabilize and valuations have become more compelling.

Greg Fleming, MA