

SALT

Salt Sustainable Global Listed Property Fund Fact Sheet – March 2023

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 March 2023

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	\$27.66 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 March 2023

Application	0.8002
Redemption	0.7970

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 March 2023

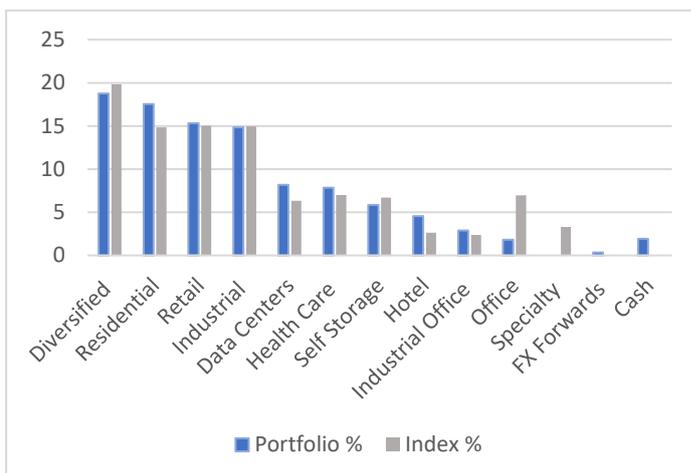
Global equities	97.7%
Cash and cash equivalents	2.3%

Fund Performance to 31 March 2023

Period	Fund Return*	Benchmark Return
1 month	-3.65%	-3.69%
3 months	1.00%	0.57%
6 months	4.65%	4.63%
1 year	-20.16%	-20.88%
Since inception p.a.	-12.05%	-13.25%

*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 March 2023.

Fund Sectoral Weightings in % at 31 March 2023



Source: Cohen & Steers

Top 10 holdings as at 31 March 2023

Prologis	Simon Property Group
Welltower	Public Storage
Digital Realty Trust	Equinix
Realty Income Corp	Mid-America Apartment Communities
Invitation Homes	Sun Communities

The fund's top 10 holdings comprise 44.24% of the portfolio

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.2	5.9
MSCI ESG score	5.9	5.8

Source: Cohen & Steers Quarterly Report 31 March 2023

SALT FUNDS MANAGEMENT

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Market Review

March month and quarter saw broad global stocks edging higher despite periods of heightened volatility, though special factors surrounding banking risk held real estate securities back. Markets overcame uncertainty over economic growth, still-elevated inflation, and central bank policy to post positive returns for the first quarter. This strength was partially catalysed by sharply lower interest rates and expectations for reduced monetary tightening going forward.

All to the Global Real Estate sector's positive quarterly return was, however, delivered in the strong January month. Sentiment deteriorated after bank stresses in the US developed. The global property benchmark declined by -3.7% in March month and the Salt Sustainable Global Property Fund performed in line with benchmark (after fees) for the month. Over the last three months, the Salt fund logged a return of 1.00% (after fees) which was ahead of its benchmark return of 0.57%. Since inception, the Fund has returned -12.05% p.a. (after fees) but beat its benchmark by 1.2% p.a.

Going forward, global listed property is favoured due to its inherent inflation protection, and compelling valuations now are present in a range of markets after recent interest-rate driven price drops bringing about discounts to NAVs particularly in the energy transition domain, but also in transportation.

- Global growth has generally surprised to the upside in the first quarter of 2023. This has largely been enabled by lower energy prices (including oil) and has been reflected in upbeat purchasing manager indices (PMI), particularly in Europe and the United States.
- Reflecting the lower energy prices, headline inflation rates continued to ease over the quarter, though in line with our long-held view, core inflation remains stickier. As a result, central banks continued to tighten monetary policy over the period.
- The collapse of Silicon Valley Bank and problems in several finance firms along with a swift response from policy makers set off a wave of finance sector volatility during the quarter. We do not see these issues as systemic, or signalling any kind of generalised finance sector malaise, but rather as symptomatic of idiosyncratic factors relevant to each institution. That said, it serves to illustrate the lags between monetary policy actions and their impact being felt is just as relevant to the finance sector as it is to the real economy.
- In the US, the labour market remains particularly resilient. The economy added 815,000 jobs in the first two months of the year, though the unemployment rate ticked higher in February and wage growth is moderating. The Federal Reserve hiked 25bp in March to a target range of 4.75%-5.00% but left the projected terminal rate at 5.1%.
- Despite the finance sector turmoil, the European economy continued to benefit from lower energy prices, avoiding the much-anticipated contraction in activity expected for the fourth quarter of 2022. Headline inflation fell over the quarter, but core inflation rose. The ECB hiked its deposit rate by 50bp, with the next move data dependent.
- The abandonment of China's Covid-zero policy has led to a sharp rebound in economic activity, while inflation has remained surprisingly in check. 2023 is the first time in four years that economic, regulatory and Covid policies have been aligned in a pro-growth, pro-business fashion. This is being reflected in improving PMIs that are all in expansionary territory.

- Recent data out of Australia has been mixed with GDP surprising to the downside, but the labour market continuing to surprise on the upside. The RBA hiked interest rates by 25 bp in February, but paused the hiking cycle, in their April meeting.
- In New Zealand, the RBNZ remained resolute in raising the Official Cash Rate 50bp to 4.75% in February and again to 5.25% in April. That was despite the devastation of cyclone Gabrielle. December quarter 2022 GDP came in significantly weaker than expected. While possible still reflecting Covid "noise", there are clear signs in the data that tighter monetary conditions are starting to bite.

Portfolio Review

Global real estate securities rose in the quarter despite volatility (amid banking turmoil) and persistent inflation concerns. Various central banks raised rates to combat elevated inflation, with the US Federal Reserve raising its overnight rate by 25 basis points twice in the quarter. Markets were rocked in March by the collapse of several banks, including a technology-centric US bank. The 10-year US Treasury yield fell on the news, declining roughly 40 basis points for the quarter.

In the US (2.3% total return), investors generally favoured more growth-oriented and defensive sectors over those perceived to be more economically sensitive/cyclical. Among U.S. REITs reporting fourth-quarter earnings results, most companies met or beat market expectations. However, reported outlooks for 2023 largely disappointed, with lower top-line estimates tempered by higher expenses as well as conservatism from reporting companies. Self-storage owners substantially outperformed on solid earnings and a takeover attempt. Industrial and data centre REITs were lifted by resilient demand and moderating interest rates. Among residential property types, the single-family homes sector was likely supported by lower housing starts and limited inventory.

Some of the more economically sensitive sectors trailed. Among residential property types, apartments lagged. One of the more West Coast-centric apartment names trailed amid concerns around technology sector layoffs and the tech-centric West Coast bank collapse. Retail-oriented REITs underperformed, as did office landlords, the latter struggling with concerns around office loan defaults and the bank collapses.

Europe trailed other regions on concerns that persistent inflation will weigh on economic activity and real estate demand. In the Netherlands (1.2%), performance was bolstered by outperformance among retail-oriented names. In France (0.9%), a health care REIT, which appointed a new CEO and reported earnings with a full-year 2023 outlook that met expectations, rose substantially. Belgium (0.8%) was lifted on outperformance from logistics specialists.

The UK (-1.5%) benefited from outperformance among self-storage, student housing and industrial specialists. Spain (-4.3%) was hindered by its largest index constituent, a diversified REIT. Sweden (-5.8%), which is interest rate sensitive due to the presence of highly levered developers, trailed. Germany (-19.7%) fell amid weakness among rate-sensitive residential names, which saw dividend cuts.

The Asia Pacific region has benefited from a generally more benign inflation backdrop as well as border reopening sentiment. In Singapore (3.2%), S-REITs with more defensive balance sheets and economically resilient property fundamentals generally outperformed. Underperformance among office REITs was attributable to earnings that missed expectations and a generally weaker outlook for the sector. In Hong Kong (-0.6%), a diversified developer with a strong balance sheet benefited from strong project sales, while a non-discretionary

retail-oriented REIT fell after announcing a rights issue to recapitalize its balance sheet).

In **Australia** (-2.1%), a residential developer outperformed amid the bottoming of landed housing fundamentals. Office landlords were pressured on growing questions around the longer-term demand profile of larger financial and other corporate tenants in this environment.

Japan (-2.2%) experienced weakness early in the quarter following the Bank of Japan's (BOJ's) surprise decision in December to raise the band on 10-year government bond yields. In February, a new BOJ governor nominee was announced. It is largely anticipated that the BOJ will eventually revise or abolish its recently implemented yield curve control (YCC) strategy.

Portfolio Performance

The last year has been a turbulent one for listed Real Estate as interest rate and banking uncertainties have overshadowed better valuations and fundamentals in our preferred sub-sectors. For the quarter, the portfolio had a modest positive return of 1.0% (after fees.)

Key contributors

- Stock selection in the US (2.3% total return in the index): Our overweight in Welltower aided relative performance. The company, despite reporting a disappointing outlook due to expenses, benefited from senior housing occupancies approaching pre-Covid levels. We anticipate the REIT could see strong net operating income growth in the near term as rental growth improves and expenses decline. An overweight allocation in Life Storage, which was the subject of takeover interest during the quarter, also contributed.
- Stock selection in Germany (-19.7%): Our non-allocation to residential specialist Vonovia, which is offering a scrip dividend (i.e., paid in new shares), contributed.
- Stock selection in Singapore (3.2%): An overweight in health care specialist Parkway Life REIT, which was favoured during the quarter along with other names seen as more defensive, aided performance.

Key detractors

- Stock selection and an underweight in Japan (-2.2%): Our non-investment in homebuilder Sekisui House detracted.
- Stock selection and an underweight in Canada (3.6%): Our underweight position, including our non-allocation to two logistics companies and an apartment REIT, hindered performance. Our position reflects our view that better relative value exists elsewhere.
- Stock selection in Australia (-2.1%): An out-of-index position in fund manager Charter Hall Group hindered performance. The company's shares declined on nearer-term credit concerns and given its one-third underlying exposure to central business district (CBD) office. We remain constructive on the multi-year outlook for the company.

Investment Outlook (Cohen & Steers commentary)

We believe global real estate, which has seen improved valuations with the correction in share prices in 2022, offers attractive return potential relative to broad equities. Slowing economic growth and high (albeit moderating) 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 in 2023.

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 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. Data centres and industrial landlords should continue to benefit from strong secular demand in the shift toward a digital economy, in our opinion. Within health care, we have a positive outlook on senior housing, where occupancies are improving following early-pandemic declines. With growth rates normalizing in self-storage, we have pared our overweight in the sector.

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 impact of elevated inflation on the 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. The portfolio remains substantially underweight to Office.

European real estate securities, which have lagged their U.S. 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 and self-storage, which tend to be more defensive and have structural growth characteristics. We also favour high-quality continental retail. We are cautious about offices outside of France and the U.K., as the demand outlook in other markets remains less certain.

We see opportunities in Asia Pacific from re-openings and China's supportive monetary 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 hospital fundamentals and constructive on the medium-term outlook for offices, given the prospect of potential corporate relocations within Asia Pacific (though we are mindful of the impact of rising rates on cash flows). In Japan, we favour diversified developers and industrial REITs, although we have cut our weight to JREITs (via industrial REITs) in anticipation of the new BOJ governor exiting YCC. We have increased our exposure to hotels, which have benefited from increased inbound travel volume and government subsidies encouraging domestic travel. Within Hong Kong, we are overweight domestic non-discretionary retail landlords.



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