
# Salt Sustainable Global Listed Property Fund Fact Sheet – February 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 28 February 2022

| | |
|---|---|
| **Benchmark** | FTSE EPRA Nareit Developed Real Estate Index hedged into NZD |
| **Fund Assets** | $30.96 million |
| **Inception Date** | 16 September 2021 |
| **Underlying Manager** | Cohen & Steers |

## Unit Price at 28 February 2022

| | |
|---|---|
| **Application** | 0.9947 |
| **Redemption** | 0.9906 |

## Investment Guidelines

The guidelines for the Sustainable Global Listed Property Fund are:

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|---|---|
| **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 28 February 2022

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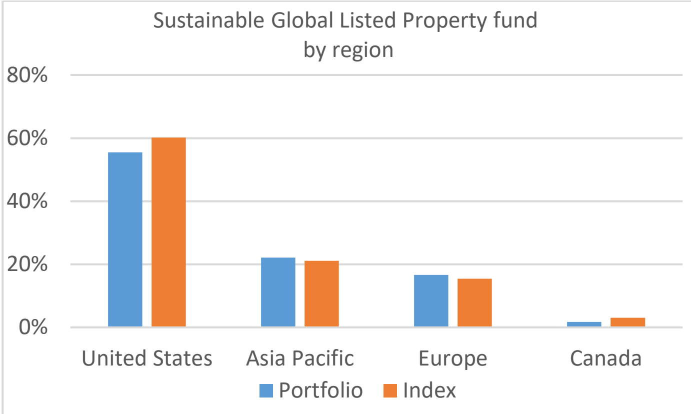
|---|---|
| **Global equities** | 95.88% |
| **Cash and FX forwards** | 4.12% |

## Fund Performance to 28 February 2022

| Period | Fund Return* | Benchmark Return |
|---|---|---|
| 1 month | -3.19% | -2.45% |
| 3 months | -2.44% | -2.24% |
| Since inception | -0.74% | -1.96% |

*Performance is after fees and does not include imputation credits or PIE tax.

**Fund regional weightings as at 28 February 2022***




Source: Cohen & Steers, Salt *data to 28 February 2022

The fund's top 10 holdings comprise 34.3% of the portfolio

| Top 10 holdings at 28.02.22 | |
|---|---|
| Public Storage | Vonovia SE |
| Prologis | Digital Realty Trust |
| Simon Property Group | Invitation Homes |
| Welltower | Essex Property Trust |
| UDR | Realty Income Corp |

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

Source: Cohen & Steers Quarterly Investment Report, Dec 2021

## Market Review

**Equity and bond markets experienced a difficult month in February as geopolitical tensions rose between Russia, Ukraine, and NATO. Russia launched a large-scale invasion of Ukraine on February 24th.**

The first half of the month was dominated by increasing expectations of the number of rate hikes likely to be delivered by the major developed central banks in 2022, most notably the **US** Federal Reserve, and that growth would suffer consequently. As Ukraine tensions grew, rate hike expectations were reassessed downwards, but growth concerns intensified.

There is still a high degree of uncertainty as to how the Russia-Ukraine conflict will play out. Right now, the clearest economic impact appears likely to be via energy and food prices. This will have a dampening impact on growth, intensifying concerns of a period of stagflation, particularly in Europe.

Activity data in **Europe** improved over the month with PMI results pointing to increasing economic momentum. Headline inflation reached 5.1% y/y, with more than half of that increase already coming from higher energy prices. The ECB signalled a calm and gradual approach to withdrawing stimulus, which seems even more appropriate now.

Early 2022 concerns about the strength of the US consumer were allayed with the release of a strong January retail sales report showing that consumers had simply delayed spending due to Omicron. The headline CPI reached 7.5% y/y in January and the payrolls report was stronger than expected with nominal wage growth reaching 5.7% y/y.

Interest rate markets expected six rate hikes in 2022 from the US Federal Reserve at the end of the month, though the evolution of the Russia-Ukraine conflict will impact rate-hiking expectations.

The US Federal Reserve is on schedule to end its bond purchase programme in March. The January meeting of the Federal Open Market Committee (FOMC) all-but-confirmed interest rate lift-off in March and that they are actively pursuing plans to reduce the size of their bloated balance sheet. Investors' concern about significantly tighter overall monetary conditions, given high equity valuations, translated into a rapid deterioration in sentiment, compounded by the Ukraine crisis.

**Global real estate securities declined in February along with broader equities. The Asia Pacific region outperformed the index, while Europe and North America trailed**. Investors remained focused on monetary policy amid a stronger-than- expected US jobs report (despite omicron pressures) and as US inflation hit four-decade highs. As in January, investors favoured value above growth-oriented companies in various markets. Stocks were volatile toward month-end on Russia's invasion of Ukraine. **In the US**, real estate securities fell in a macro-driven sell off, despite robust earnings results. US REIT earnings season concluded in the month, with the majority of companies beating earnings expectations. In our view, the results demonstrate the continued sound fundamental backdrop for commercial real estate. Investors continued to favour value-oriented companies, with outperformance among **office and hotel REITs**, which benefited from abating omicron concerns and the gradual return to office and business travel. **Specialty REITs** gained, lifted by some of the sector's more cyclically oriented businesses. Apartment owners defended well, with outperformance among Sunbelt-focused property types. **Shopping centre** landlords modestly outperformed amid mixed performance within retail. **Self-storage** names benefited from strong earnings reported within the sector, including strong rental rate and occupancy trends. Health care REITs, among the more interest rate sensitive sectors, trailed. Growth-oriented sectors, including data centres, industrial, single-family home for rent and non-index infrastructure REITs, also lagged.

**In Europe**, healthy real estate fundamentals were overshadowed by Russia's invasion of Ukraine. The Netherlands and France were supported by strong performance in retail-oriented property types in early February, though they pared back most gains towards the end of the month. Spain outperformed driven by diversified REIT Merlin Properties, which reported strong earnings results. In the UK, weakness among office property types weighed on performance. Germany underperformed, with weakness in residential company Vonovia, its largest index constituent, as the market grappled with the potential implications of higher energy prices in the event oil supplies from Russia were disrupted. Belgium trailed, with underperformance from industrial REIT Warehouses De Pauw and diversified REIT Cofinimmo. Sweden trailed, notably weighed down by apartment company SBB, which is highly levered and thus particularly interest-rate sensitive.

**In the Asia Pacific** region, investors favoured value-oriented businesses amid abating virus concerns in certain regions and rising interest rates. **Australia** was lifted by strong performance among retail and office landlords. **Singapore** also advanced, with outperformance among REITs with exposure to office properties, as office landlords and brokers provided a positive outlook for Singapore office fundamentals in 2022. Defensive and growth-oriented companies underperformed on market preference for value/cyclical companies. Singapore continued to relax border controls as the government transitions from a Covid zero strategy to living with the virus. In **Japan** , developers rose over most of the month but were pressured as the Russia invasion-driven risk off sentiment impacted the more economically sensitive companies. J-REITs fell, likely due to higher interest rates. **Hong Kong** also trailed as Covid cases accelerated and the city further restricted mobility.

## Portfolio Review (Cohen & Steers commentary)

From its 16 September 2021 inception through to 28 February 2022, the portfolio had a small negative total return of -0.74%(after fees) and outperformed its gross benchmark index by 1.22%. In February, the portfolio had a negative total return in the month, underperforming its benchmark by 0.74%.

**Key contributors**

• Stock selection in Canada (1.2%): Our overweight position in retail oriented RioCan REIT, benefiting from an improving occupancy and a growing development pipeline, contributed.

• Stock selection in Japan (-1.4% total return in the index): Our overweight in large-cap developer Mitsui Fudosan contributed. Large cap developers outperformed mid-cap names, as the latter are considered to be more economically sensitive.

• Selection in France (-1.0%): Our overweight in retail REIT Klépierre, which reported better-than-expected guidance amid improving rent collection and declining vacancies, contributed. The expectation is for net operating income to return to pre-pandemic levels in 2023.

**Key detractors**

• Stock selection in the U.S. (-3.4%): We were overweight healthcare REIT Healthpeak Properties, which detracted despite reporting solid earnings, including strength in its life sciences portfolio.

• Selection in Australia (4.0%): Our non-investment in mall landlords Scentre Group and Vicinity Centres, which outperformed as investors favoured value-oriented companies, detracted.

• Out-of-index position in Czech Republic: Our positions in industrial names CTP and VGP detracted.

### Portfolio Outlook (Cohen & Steers commentary)

**We believe global real estate offers improving fundamentals and inflation protection**. While a strengthening economy is contributing to greater inflation and pushing interest rates higher, we believe REITs are well positioned to tolerate an increase in rates. A strong economic backdrop should lead to higher demand for many real estate property types. Construction starts in many sectors have been delayed by labour shortages and higher costs for building materials, reducing supply pressures. This dynamic is allowing landlords to raise rents, leading to above average cash flow growth. Meanwhile, REITs continue to offer attractive levels of income relative to traditional asset classes, and the "new-economy normal" could create sector opportunities for the next several years.

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 enjoy improving demand due to increased economic and relocation activity. We anticipate demand will significantly outpace supply through 2022, suggesting companies will continue to have pricing power. 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, cell towers and industrial warehouses, will continue to benefit from strong secular demand in the shift toward a digital economy, though we are mindful of elevated valuations.

While we believe secular headwinds remain for retail, the US consumer remains strong, which should benefit retailers and drive healthy demand for brick-and-mortar real estate. In particular, we believe retail landlords with high-quality properties and strong balance sheets stand to gain market share over time. However, we are mindful that US retail sales will likely decelerate from elevated levels in 2021. 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 markets may not recover until 2023.

Our position in **Europe,** our largest regional overweight, reflects our view that European real estate securities, which have lagged the recovery of their US peers, offer attractive upside potential. Our current positioning 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. Within logistics, we favour companies that are geared to the development side, as we believe this exposure to be particularly advantageous given current demand. We also see a case for retail and office to recover, although we are cautious on offices in some markets, as the demand outlook remains uncertain and, in many cases, current valuations do not adequately compensate investors for the perceived risk.

**China** policy moves temper our view of **Asia Pacific**. 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 corporate relocations within Asia Pacific. We are overweight **Japanese developers**, although we recently shifted some of that allocation to J-REITs based on valuation.

We are cautious on heightened policy risk in **Hong Kong** and China, although we see pockets of value within Hong Kong retail.

Greg Fleming, MA