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

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$28.30 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 30 November 2022

Application	0.8243
Redemption	0.8209

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 November 2022

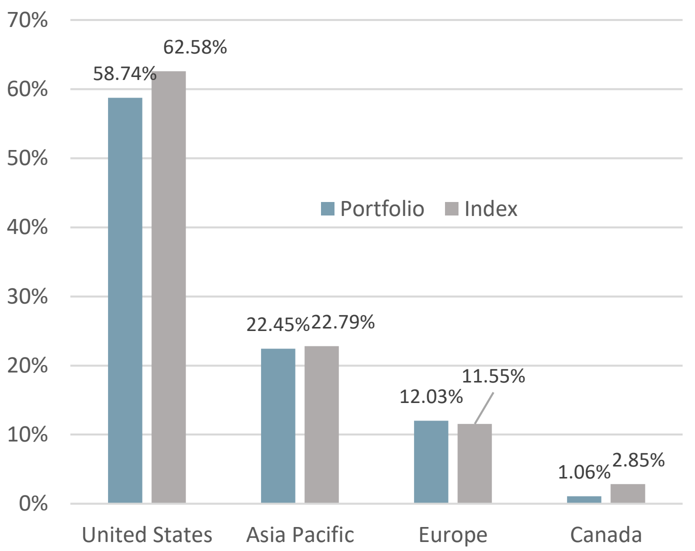
Global equities	95.0%
Cash and cash equivalents	5.0%

Fund Performance to 30 November 2022

Period	Fund Return*	Benchmark Return
1 month	5.40%	4.90%
3 months	-5.39%	-4.88%
6 months	-10.24%	-10.77%
1 year	-16.00%	-16.24%
Since inception	-14.54%	-13.47%

*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 30 November 2022



Source: Cohen & Steers

Top 10 holdings at 30 November 2022	
Prologis	Realty Income Corp
Welltower	Invitation Homes
Digital Realty Trust	Equinix
Public Storage	UDR
Simon Property Group	Sun Communities

The fund's top 10 holdings comprise 40.36% 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

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Market Review

Global real estate continued to advance in November, along with global equities broadly. Interest rates declined in the month amid a more dovish tone from major central banks. In the U.S. and Europe, better-than-expected October inflation readings and comments from the Federal Reserve and European Central Bank suggesting upcoming moderation in rate increases further fuelled the rally in financial assets. U.S. real estate management teams struck a cautiously optimistic tone at Nareit's annual REIT world conference, as demand for real estate has been generally strong despite macroeconomic headwinds.

In the U.S. (5.7% total return), resilient demand for real estate was reflected in quarterly earnings results. Among U.S. REITs, most companies reported earnings that beat expectations, and most companies that provided updates to guidance raised their outlooks. Data centre REITs, whose shares have been somewhat interest rate sensitive this year, rose sharply amid declining interest rates and as investors favoured higher-multiple stocks. Data centre demand and pricing power remain strong, with expectations for increased occupancy and margin expansion in 2023. Health care advanced on strength in senior housing, as improved occupancies are translating into higher rates charged to existing tenants. Retail property companies also outperformed, with malls and shopping centres reporting strong leasing trends; the companies expect positive net store openings in 2023 despite the challenging macro backdrop. Industrial REITs were lifted on gains from the index's largest constituent, as the company anticipates positive net rent growth next year.

Office REITs continued to trail amid expectations for negative earnings and occupancy growth in 2023. Residential property owners rose but underperformed, partly due to weakness in coastal apartment markets. Hotels traded modestly lower; while business travel continues to recover, leisure demand has been moderating, and labour issues remain challenging. Self-storage REITs declined, weighed down in part by one of the index's larger storage constituents, which lowered its guidance amid a greater-than-anticipated deceleration in rental growth.

In Europe, lower interest rates and improving retail fundamentals drove returns. Sweden (8.8%), a highly levered market, was broadly positive in response to lower interest rates. Spain (7.7%) was lifted in part by performance from several companies that reported strong third-quarter earnings owing to vacancy reductions; the companies also increased their full-year outlooks. The Netherlands (4.8%) and France (4.1%) were lifted on gains from shopping centre property owners. Several companies reported that tenant sales and rent collections were running well above year-ago levels. Given improving retail sector fundamentals, management teams expect to raise rents next year by high-single-digit percentages. Germany (2.4%) advanced, aided by the decline in interest rates. However, one residential property company struggled after cutting its dividend to preserve capital (a conservative move which we applaud). The U.K. (1.8%) was lifted by retail, office and diversified property types, while self-storage and health care landlords declined. Belgium (–2.5%), which tends to be a relatively defensive market, trailed in November's rally. One Belgian health care landlord struggled (as did another in the U.K.) amid a restructuring by a pan-European care home operator, which also faces allegations of mistreatment of nursing home residents at facilities in France.

The Asia Pacific region rallied on positive developments in China, including an easing of its stringent approach to Covid containment. Hong Kong (14.0%) rebounded sharply on positive news flow, including the news that China is significantly easing the way it responds to Covid outbreaks. China also issued directives to support its property sector, including ending one of its major equity fundraising bans on property developers, allowing listed builders to sell local shares for debt repayment and acquisitions. However, rising Covid cases and widespread protests late in the month clouded the growth outlook. In Singapore (7.8%), several large-capitalization REITs performed well on declining U.S. interest rates, while the hospitality sector, after strong performance in recent months, was weighed down by fears of peaking pricing. Australia (3.4%) gained amid a dovish pivot from its central bank (among others) and a decline in long-term Australian government bond yields. In Japan (0.8%), prior outperformers (such as cyclical diversified REITs) trailed, while prior laggards (such as logistics REITs) advanced.

Portfolio Performance

In the month, the Fund had a total return of 5.4% (after fees) which compared favourably to a total return of 4.9% for its benchmark. Over one year, the Fund has outperformed its benchmark by 0.24%, on an after fees basis.)

Key contributors

• Stock selection in the U.S. (5.7% total return in the index): Contributors included the portfolio's overweight allocation in senior housing specialist Welltower. The company reported earnings largely in line with expectations, and it has benefited from strengthening senior housing fundamentals. An overweight in cold storage specialist Americold Realty Trust also contributed as the stock rose strongly. The company anticipates continued improvements, with inventories (occupancy) exceeding expectations and labour pressures normalizing.

• Security selection in Hong Kong (14.0%): An out-of-benchmark investment in gaming company Sands China rose materially as China loosened its Covid policies.

• Stock selection in Australia (3.4%): An out-of-benchmark investment in industrial developer and fund manager Goodman Group outperformed, with the growth outlook for core infill industrial markets in gateway cities remaining strong.

Key detractors

• Security selection in Germany (2.4%): The portfolio's overweight allocation in LEG Immobilien detracted. The German residential property company surprised markets with its third-quarter report, announcing a new focus on adjusted funds from operations as its key outlook metric, which will translate to a sizable reduction in its 2023 dividend.

• Stock selection in Japan (0.8%): Overweight positions in certain lagging securities that had previously outperformed detracted from the portfolio's relative performance.

• Security selection in Spain (7.7%): The portfolio's out-of-index allocation to Cellnex Telecom detracted. The tower company modestly declined amid a secondary offering from a pair of banks (which reportedly had acquired the shares to manage their exposure to CK Hutchison, which sold assets to Cellnex).

Investment Outlook

We believe global real estate, which has seen improved valuations with the correction in share prices during the year, 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 U.S. 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. Self-storage should continue to have good pricing power given occupancy rates well above historical levels; however, with growth rates normalizing, we have pared our overweight in the sector. 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 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 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 uncertain.

We see opportunities in Asia Pacific from reopening's 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, and 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.

Greg Fleming

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