

# SALT

## Salt Sustainable Global Listed Property Fund Fact Sheet – April 2024

### 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 2024

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	\$29.43 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

### Unit Price at 30 April 2024

Application	0.8051
Redemption	0.8017

### 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 30 April 2024

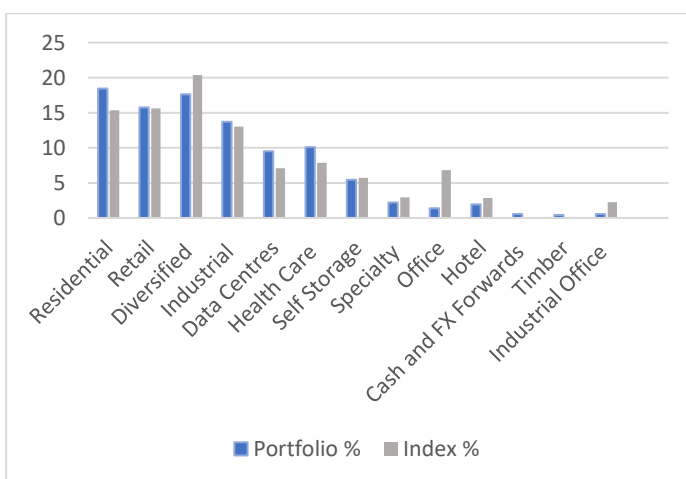
Global equities	99.1%
Cash, Short term & Sundry	0.9%

### Fund Performance to 30 April 2024

Period	Fund Return*	Benchmark Return
1 month	-5.09%	-5.30%
3 months	-0.55%	-1.78%
6 months	13.60%	12.17%
1 year	3.31%	1.12%
2 years p.a.	-5.68%	-7.75%
Since inception p.a.	-3.77%	-6.44%

\*Performance is before fees and PIE tax and adjusted for imputation credits. Benchmark performance is gross. Past performance is not a guarantee of future results. Data as at 30 April 2024.

### Fund Sectoral Weightings in % as at 30 April 2024



Source: Cohen & Steers

### Top 10 holdings as at 30 April 2024

Welltower	Realty Income Corp
Prologis	Equinix
Invitation Homes	Mitsui Fudosan
Digital Realty Trust	Goodman Group
Simon Property Group	Essex Property Trust

The fund's top 10 holdings comprise 44.5% of the portfolio

Source: Cohen & Steers Monthly Report 30 April 2024

### Sustainability metrics

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.27	6.07
MSCI ESG score	5.90	5.90

Source: Cohen & Steers Investment Report April 2024

### SALT FUNDS MANAGEMENT

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## Market Review

The Salt Sustainable Global Property Fund declines by 5.09% in April (before fees) as interest-rate sensitive global equities experienced weakness on strong US growth data. Real assets responded uncertainly to an increase in bond yields as investors became more realistic about interest rate cuts from central banks.

The Fund's monthly return was above the benchmark's gross return by 0.21%. Relative performance for the three-month period saw the fund outperform the benchmark, at -0.55% (gross) compared with -1.78% for the index. Over the year to 30 April, the Salt fund has performed comfortably ahead of its benchmark return, gaining 3.31% (before fees) compared to a rise of 1.12% for the index, giving a gross outperformance of 2.19%.

Since inception, the Fund has outperformed its benchmark by 2.67% p.a. Absolute returns for the year to April were positive, but the path continues to be erratic as sentiment on lower future interest rates continues to fluctuate, regarding both the timing and scale of monetary policy easings, and uncertainty on rates continues to dominate near-term returns.

- After a generally positive first quarter of 2024, the second quarter is off to a rough start. In the US, continued higher-than-expected inflation and a GDP print that, while weak at first blush, revealed still strong private demand. This fuelled fears that central banks will not ease monetary policy as quickly as previously hoped.
- Both equity and bond markets reacted negatively to this development with developed market equities down -3.7% (in USD) over the month and the global aggregate bond index down -2.5% (in USD).
- There was no US Federal Reserve meeting in April, though there were plenty of opportunities for FOMC members to voice their opinions. The most important of these was Chair Powell's observation that recent data had shown a lack of further progress on inflation, and it was therefore appropriate to give restrictive monetary policy more time to work.
- In Europe the annual rate of CPI inflation was unchanged at 2.4% in April, but the policy-critical services component fell from 4.0% to 3.7%.
- This, combined with low growth in the Euro area, has given markets confidence that a rate cut in June is still likely, though there are now fewer cuts priced in over 2024 than previously.
- Japanese equities gave up some of their recent gains in April. Ongoing downward pressure on the Yen in leading to fears of higher imported inflation weakening domestic demand.
- China's official manufacturing and non-manufacturing PMI indices for April weren't great but weren't bad either. Both came in lower than March but still in expansion territory (over 50). That suggests that growth is stabilising rather than sprinting ahead. That's consistent with the modest stimulus deployed to date. And given the ongoing issues in the property sector, stability isn't a bad thing.
- March quarter inflation came in hotter than expected in Australia. This led to speculation the RBA may be forced to hike interest rates again. Indeed, markets shifted from pricing in rate cuts this year to a chance the next move could be a hike.
- In New Zealand, March quarter inflation printed in line with expectations. The annual rate of CPI inflation fell to 4.0%, though the disinflationary process remains unbalanced.

## Portfolio Review April 2024

Global real estate securities declined in April amid concerns around elevated U.S. inflation. The 10-year U.S. Treasury yield rose during the month; the U.S. Federal Reserve left its benchmark interest rate unchanged and signalled "higher for longer" interest rates, as inflation remained higher than markets had previously expected. Government bond yields in various other markets also rose.

The European Central Bank also left rates unchanged but noted signs of easing inflation in the eurozone.

In the U.S. (-7.2% total return), real estate shares were pressured, along with equities broadly, on dimmed hopes for a near-term Fed pivot. Among REITs that reported first-quarter earnings, the majority of companies beat consensus expectations. Themes coming out of earnings season have included expectations for moderating rent growth, reduced external growth and higher interest expenses.

Among residential property types, apartment REITs gained amid the news that private equity firm Blackstone had made a bid within the sector. Single-family homes for rent shares were in negative territory but outperformed, with signs of strong market rent growth. Manufactured homes trailed.

Health care REITs outperformed; the sector benefited from its perception as a haven in the broader market selloff. Free standing REITs defended well despite their interest rate sensitivity. Among retail-oriented property types, shopping centres outperformed, benefiting from generally healthy fundamentals. Regional malls lagged following strong first-quarter performance. Office REITs declined but outperformed; national leasing velocity was negative in the first quarter of 2024 (following a depressed first quarter a year ago), though improving debt markets have been marginally positive for the sector.

Hotel REITs lagged on signs of choppy demand, particularly in leisure. Self-storage REITs trailed; earnings results from one storage operator fell short of market expectations, and the sector generally continues to contend with decelerating rents. Data centres underperformed; shares of one REIT have been weighed down by a recent short seller report.

Industrial REITs lagged on weakness in shares of a bellwether company, which lowered its outlook for 2024 funds from operations and rent growth into 2026.

European real estate securities fared better as inflation generally trended downward. Economic signals on growth and inflation in the region were mixed, but inflation rates (particularly in the EU) trended lower. Spain (4.2%) rose, lifted in part by shares of a REIT that has diversified part of its business into data centres. France (3.2%) was lifted by strength among retail property types, which have been benefiting from resilient retail demand. A bellwether retail landlord reported a strong update, with footfall and tenant sales up year over year. In Belgium (-0.2%), health care operators outperformed, building on strength from the prior month, while a logistics specialist trailed. Germany (-0.3%), a market composed mainly of residential property types, outperformed.

The Netherlands (-1.0%), which is composed largely of retail-oriented property companies, declined but outperformed the region. The U.K. (-3.0%) trailed as the market continued to contend with relatively sticky inflation. Logistics and retail underperformed. Shares of U.K. self-storage companies may have benefited from a Belgian self-storage company's bid for a U.K.-listed rival.

The Asia Pacific region had mixed performance as investors considered a shift in sentiment around U.S. monetary policy timing. In Hong Kong (0.5%), the broader market benefited from the perception that a potential delay in U.S. monetary policy easing could narrow the gap between U.S. and China macro conditions. The rise in Hong Kong property stocks was more modest given their correlation with U.S. monetary policy. In Japan (0.1%), developers were pressured, while J-REITs found favour following a weak first quarter. Residential REITs performed well in anticipation of higher rents.

Office property types outperformed; data from real estate broker Miki Shoji indicated that the Tokyo office vacancy rate had moved sharply lower due to improving demand from corporations amid record profit levels.

In Singapore (–2.2%), the Monetary Authority of Singapore remained on pause as inflation continued to trend down, albeit more slowly than expected. A health care REIT outperformed, benefiting from its defensive nature. Retail-oriented REITs outperformed after reporting strong first-quarter 2024 retail sales growth and accelerating rent reversions. Logistics REITs trailed.

The Australian REIT sector (–7.7%) traded down given the increase in long-term government bond yields globally and expectations for short-end interest rate cuts continuing to be priced out. Against this backdrop, residential developers underperformed. Mall landlords were mixed, while an office landlord trailed as the outlook for office fundamentals in Sydney and Melbourne remained subdued.

## Portfolio Performance

The last eighteen months has been a turbulent period for listed Real Estate, as interest rate and inflation uncertainties have been in a tug-of-war with better valuations and fundamentals. The portfolio had a negative total return for the April month, but was positive for the year to April, outperforming its benchmark for multi-year periods since inception.

### Key contributors

- Stock selection in the U.S. (–7.2% total return in the index): An overweight allocation in senior housing operator Welltower benefited from the health care REIT sector's perception as a safe haven. An overweight in apartment REIT UDR also aided performance.
- Security selection in Singapore (–2.2%): An overweight in health care landlord Parkway Life REIT outperformed due to the company's defensive nature.
- Selection and an overweight in the U.K. (–3.0%): Overweight allocations in Safestore and Big Yellow Group likely benefited from news of a bid for a U.K.-listed self-storage company.

### Key detractors

- Security selection in Japan (0.1%): An underweight and the timing of our investment in Mitsubishi Estate hindered performance. The developer's shares benefited from an expectation that a strong mid-term plan would be released in May.
- Selection and an underweight in Hong Kong (0.5%): Our non-investment in CK Asset Holdings hindered performance; Hong Kong developers outperformed, as they have higher sensitivity to the broader market (which rallied in the month.)

- No allocation to Switzerland (–0.9%): Our non-investment in Switzerland, which is considered a safe haven, hindered performance.

## Investment Outlook (Cohen & Steers commentary)

**We believe global real estate offers attractive return potential relative to broad equities. An end to central bank tightening tends to be followed by notable strength in listed real estate performance. In addition, cash flows generally remain sound, and we anticipate healthy earnings growth in 2024.**

We maintain a positive view of U.S. REITs, with a preference for assets with strong secular growth profiles and pricing power. Data centres should continue to benefit from strong demand for cloud computing and, increasingly, artificial intelligence. We see the residential sector benefiting from affordability issues in the for-sale market, which are leading to higher demand for rental housing, especially within single-family homes. However, elevated supply has made us cautious on Sunbelt multi-family markets. Within health care, we have a positive outlook on senior housing, where accelerating occupancy and pricing power are driving revenue growth higher.

We are underweight self-storage, as demand remains subdued (due in part to muted housing activity). Within 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 impacts that elevated inflation and a potential slowdown in the jobs market could have 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.

We have a somewhat cautious view of European real estate securities, given concerns around growth prospects, though we have added on the margin as we've seen value opportunities. 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 like logistics and self-storage, which tend to be more defensive and have structural growth characteristics. We also favour high-quality continental retail.

We see opportunities in Asia Pacific in countries with more favourable economic backdrops. Within Australia, we favour industrial, self-storage and residential developers; we are cautious on retail and offices. In Singapore, we are positive on underlying hospital fundamentals and continue to favour retail, as sales remain above pre-pandemic levels, which we believe should lead to an increase in rents. In Japan, we favour developers with strong shareholder return potential, and we continue to like hotels, and offices. We have been reducing our weighting in Hong Kong on concerns around a China macro slowdown.

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