Salt Sustainable Global Listed Property Fund Fact Sheet – October 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 31 October 2024

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$43.06 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 October 2024

Application	0.9011
Redemption	0.8974

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 31 October 2024

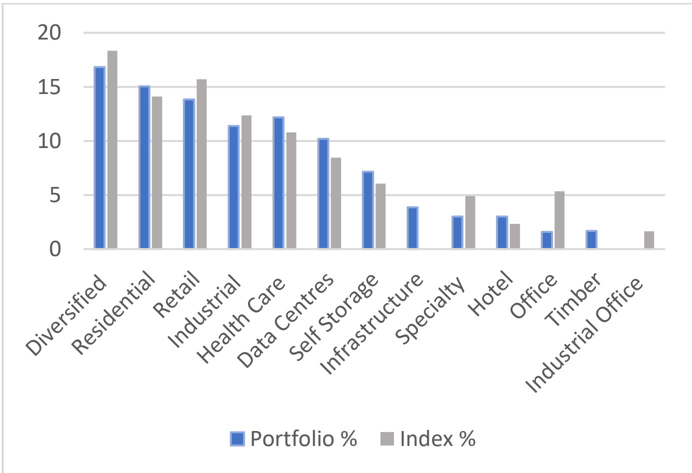
Global equities	97.3%
Cash & short-term	2.7%

Fund Performance to 31 October 2024

Period	Fund Return	Benchmark Return
1 month	-2.89%	-3.73%
3 months	4.45%	3.65%
6 months	15.06%	13.51%
1 year	30.71%	27.32%
2 years p.a.	12.30%	9.11%
3 years p.a.	0.42%	-2.14%
Since inception p.a.	1.28%	-1.52%

Performance is before fees and PIE tax and adjusted for imputation credits.
Benchmark performance is gross.

Fund Sectoral Weightings in % as at 31 October 2024



Source: Cohen & Steers

Top 10 holdings as at 30 September 2024	
Welltower	Invitation Homes
Digital Realty Trust	Goodman Group
Prologis	Public Storage
Simon Property Group	Crown Castle
Equinix	Iron Mountain

The fund's top 10 holdings comprise 43.2% of the portfolio
Source: Cohen & Steers Monthly Report 31 Oct. 2024

Sustainability metrics

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.87	6.68
MSCI ESG score	6.01	5.96

Source: Cohen & Steers Investment Report 31 Oct. 2024

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Market Review

The Salt Sustainable Global Property Fund declined in October as interest-rate sensitive global equities slipped on an upward reversal in global bond yields. After several months of lower yields, concerns about the US deficit's future path returned.

- October was a volatile month for markets. Developed market equities gave back some of their gains of 2024 thus far, falling -2.0% over the month. The global aggregate bond index also posted a negative return for the month, falling -1.5% (NZD-hedged.) This was largely on the back on the recalibration of the likely pace of interest rate cuts by the US Federal Reserve.
- In the US, inflation data for September came in hotter than expected. Headline CPI posted its lowest annual rate in over three years, though core remained sticky at 3.3% y/y. Activity and labour market data also came in stronger than expected. This has seen markets pare back the likely pace of US interest rate cuts. After cutting the Fed Funds rate by 50bp in September, markets now expect the Fed to deliver smaller 25bp moves in November and December.
- US election uncertainty also contributed to higher bond yields. Market focus is on fiscal sustainability and likely bond issuance, as well as the prospect of tariffs after a Trump victory.
- In Europe, annual inflation moved up to 2.0% in October, but this was primarily due to energy base effects. There were signs of weakening economic momentum over the month, particularly in the manufacturing sector. This prompted the European Central Bank to deliver a third 25bp cut in the deposit rate, taking it to 3.25%.
- In the UK, headline inflation fell to 1.7% y/y, though core remained higher at 3.2%. The labour market remains tight with the unemployment rate falling to 4.0%, while the UK Budget announcement put upward pressure on Gilts.
- The Bank of Japan left interest rates unchanged in October, though the tone of the statement was hawkish. Annual Tokyo inflation came in at 1.8% y/y, supporting the case of higher wage increases flowing through into more generalised inflation.
- The Chinese authorities announced further support measures for the ailing property market over the month. Collective stimulus measures to-date should result in improved activity levels, but we still think more is required, particularly more meaningful action to boost consumption.
- The labour market remains tight in Australia. Jobs growth beat expectations for the sixth consecutive month in September. For now, that demand is being met by increased labour supply. The disinflation process is continuing, but the risk for the central bank is that labour supply growth cools before demand does, reigniting wage inflation. No interest rate cuts are expected here until next year.
- In New Zealand annual CPI inflation came in at 2.2% in the year to September, the first time it has been in the RBNZ's 1-3% target band since the March quarter of 2021. Most of the work has been done by the lower cost of imports and import-competing goods (-1.6% y/y), while non-tradeable inflation remains too high (+4.9% y/y). The RBNZ will be watching the latter closely as they now muse on the challenge of sustaining inflation within the target band.

Portfolio Review October 2024

Global real estate securities declined in October as bond yields rose in various markets. The rise in the 10-year U.S. Treasury yield marked the largest increase following a Federal Reserve interest rate cut since 1990. Signs of economic strength, including stronger-than-expected September jobs and retail sales data, tempered market expectations around additional Fed rate cuts. Investors also focused on the upcoming U.S. presidential election and potential economic implications. The European Central Bank (ECB) cut its rate by 25 basis points on lower inflation risks and a weakening growth outlook.

In the U.S., real estate shares fell as interest rates rose on inflation concerns ahead of the U.S. presidential election. Data centre companies advanced on continued strong fundamentals. A data centre REIT with exposure to AI demand from large tech companies reported earnings that beat expectations and raised its outlook. The company reported record leasing in the third quarter (double that of the previous quarter), along with record pricing.

Office companies outperformed, with coastal office property owners reporting leasing data that was supportive of an improved outlook. Health care REITs were also in positive territory; a senior housing landlord reported earnings that beat expectations and raised its outlook. The company's occupancies rose 300 basis points year over year, and it continues to be acquisitive. Among retail property types, regional malls and shopping centres were roughly flat, benefiting from a resilient economy.

Among residential property types, apartments trailed, with underperformance among Southern and Sunbelt landlords. Single-family homes for rent lagged; one index constituent reported moderating leasing activity as business normalized following a period of outsized growth. The company also indicated that it has seen pressure from existing home supply, as well as from build-to-rent communities that have been delivered.

Self-storage companies trailed as earnings results revealed demand and pricing that were in line with, or in some cases lower than, market expectations. Rising mortgage rates also weighed on the sector, as demand for storage tends to be correlated with moving activity. Industrial REITs were weak on uncertainty around when demand for industrial real estate might begin to reaccelerate.

European real estate securities trailed as the region's growth outlook weakened. In the Netherlands, a retail REIT raised its 2024 outlook on improved operations. In France, one retail landlord outperformed amid indications of increasing retail sales and footfall. Another large retail operator trailed despite reporting strong operational results. Germany, largely composed of residential property types, declined amid rising interest rates.

In the U.K., where the 10-year gilt yield rose meaningfully, health care and residential property types outperformed, while industrial and office landlords trailed. In Belgium, listed real estate shares broadly declined, lagging the region. Two health care companies declined despite increasing their outlooks. An industrial REIT, which reported lacklustre earnings results, was weak along with the sector globally. In Spain, a diversified landlord lagged despite an agency upgrade of its credit rating. Sweden, a market that tends to be interest rate sensitive, trailed.

The Asia Pacific region fell as bond yields rose and the market awaited confirmation of China stimulus. The Japanese listed real estate sector declined but outperformed global listed real estate broadly. Shares of developers fell, following outperformance in September. Among J-REITs, hotel names performed well following weakness over the summer. Residential REITs were soft following results that showed strong fundamentals but relatively weak distribution-per-unit growth.

The Australian REIT sector gave back some of its recent gains and declined over October against a backdrop of rising global bond yields. An industrial and data centre developer continued to outperform in October, benefiting from its growing, value-accretive logistics-to-data-centre conversion pipeline. An office landlord and a diversified company underperformed as CBD office fundamentals remained underwhelming on the ground.

In Hong Kong, stocks corrected following a sharp rise in September as the market awaited confirmation of China stimulus. Markets were not helped by strength in the U.S. dollar amid higher uncertainty around interest rate cuts. From a property perspective, retail stocks underperformed after the strong rally the month prior.

In Singapore, the Monetary Authority of Singapore remained on hold as inflation continued to trend down. Third-quarter 2024 gross domestic product came in higher than expected, with growth drivers including technology exports and financial/technology services. Data centre REITs outperformed on strong third-quarter 2024 earnings results and in anticipation of strong external growth. REITs with China exposure trailed.

Portfolio Performance

The portfolio had a negative total return in the month of October, but continues to outperform its benchmark.

Key contributors

• Stock selection in the U.S.: An overweight in Digital Realty Trust rose on strong earnings and a raised outlook. The data centre landlord reported record leasing in the third quarter (double that of the previous quarter), along with record pricing. An overweight position in Welltower advanced as the senior housing landlord reported earnings that beat expectations and raised its outlook.

• Underweight in Sweden: The rate-sensitive market (due to high leverage) was hindered by the sharp rise in bond yields in the month.

• Security selection in Singapore: An overweight in data centre landlord Digital Core REIT Management rose on strong third-quarter 2024 earnings results and in anticipation of external growth.

Key detractors

• Security selection in Hong Kong: An overweight in Wharf REIC detracted, as retail stocks trailed following a strong rally in September.

• Selection and an overweight in Canada: An overweight in Dream Industrial REIT hindered performance; its shares were weak along with industrial names broadly.

• Selection and an overweight in the U.K.: Overweight allocations in self-storage landlord Safestore and industrial operator Tritax Big Box REIT detracted.

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 for the remainder of 2024 and 2025.

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 artificial intelligence. The residential sector has benefited from affordability issues in the for-sale market, which have led to higher demand for rental housing. However, we have recently trimmed in single-family homes, and we have rotated out of Sunbelt multi-family markets and into coastal properties.

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), though we have added recently in anticipation of an inflection in sector fundamentals. 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 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 see value opportunities in European real estate, but we are wary of rising geopolitical tensions in the region. 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.

In Asia Pacific, we prefer 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.

We have reduced our weighting in Japan; however, we favour developers with strong shareholder return potential. We continue to like hotels, although we have reduced our weighting due to the sector's yen sensitivity.

We remain cautious on Hong Kong on concerns around economic conditions in China.