SALT

Salt Sustainable Global Listed Property Fund Fact Sheet – June 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 June 2024

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$30.46 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 30 June 2024

Application	0.8185
Redemption	0.8151

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 June 2024

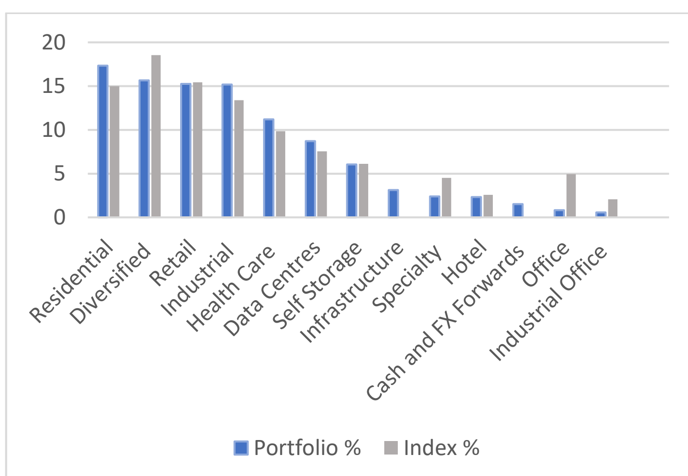
Global equities	98.6%
Cash, Short term & Sundry	1.4%

Fund Performance to 27 June 2024

Period	Fund Return*	Benchmark Return**
1 month	0.05%*	-0.05%**
3 months	-1.39%	-1.83%
6 months	0.12%	-1.55%
1 year	7.17%	5.76%
2 years p.a.	2.35%	0.13%
Since inception p.a.	-2.28%	-4.99%

Performance is before fees and PIE tax and adjusted for imputation credits. Benchmark performance is gross. * Fund performance shown to 27th June only due to a NZ holiday on final trading day of month. ** full month's benchmark return for June was +0.75%.

Fund Sectoral Weightings in % as at 30 June 2024



Source: Cohen & Steers

Top 10 holdings as at 31 May 2024	
Prologis	Realty Income Corp
Welltower	Goodman Group
Digital Realty Trust	Essex Property Trust
Simon Property Group	Equinix
Invitation Homes	Sun Communities

The fund's top 10 holdings comprise 44.3% of the portfolio

Source: Cohen & Steers Monthly Report 30 June 2024

Sustainability metrics

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.82	6.64
MSCI ESG score	5.97	5.94

Source: Cohen & Steers Investment Report 30 June 2024

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

SALT

Market Review

The Salt Sustainable Global Property Fund was positive in June as interest-rate sensitive global equities improved on enhanced hopes of a US soft landing. Real assets respond positively to declines in bond yields, even as investors weigh the exact timing of interest rate cuts from central banks.

- The June quarter of 2024 proved to be another positive quarter for global equities. The quarter started poorly as overheating concerns from the first quarter weighed on markets, though those fears abated during the quarter as hopes of a soft landing were revived. Developed market equities rose 2.8% (in USD) over the quarter.
- The flipside of resilient economic data has been felt in stubborn services inflation which remains inconsistent with central bank 2% inflation targets. At the end of the quarter, markets continued to price in fewer rate cuts by developed central banks than they did at the start of the year. In this environment the global aggregate bond index returned -1.1% (in USD) over the quarter.
- After the initial strength at the start of the quarter, US economic data softened during May and June. Despite this and reflecting prior upside inflation surprises, the US Federal Reserve delivered a hawkish message in June, reducing the number of expected rate cuts in 2024 from three to one. Given the subsequent softer data, markets were by the end of the quarter expecting two cuts this year.
- The European Central Bank became the first of the major central banks to cut interest rates. This move had been signalled well in advance of the June meeting. But reflecting the uncertainty of the inflation outlook, the ECB was careful not to commit to any particular future path for monetary policy, reinforcing their ongoing data dependence.
- Following the outcome of the European parliamentary election, President Macron of France called a snap election. This election is in two rounds, the first on June 30th and the second on July 7th. Between those two polls, the UK had a general election on July 4th, and markets welcomed the change in government after 14 years with a Labour landslide.
- The weakness in the Yen continues to be a key focus in Japan over the quarter. While this is usually positive for Japan exports and the export-heavy Topix, the very low level of the Yen is starting to impact negatively on consumer and service sector business confidence.
- Partial inflation data in Australia has been surprising to the upside recently, keeping the RBA's August meeting live for a possible rate hike. At the end of the quarter market pricing was evenly split between a hike and a hold at that meeting. Full June quarter inflation data to be released in July will be critical to the outcome.
- In New Zealand, activity data has been weak and labour market data has been softening. Forward indicators of inflation are continuing to trend in the right direction. The latest ANZ Business outlook saw cost expectations falling a bit further, though they remain uncomfortably high. However, with the economy struggling, it's harder to pass those costs on. Pricing intentions fell to a net +35.3%, its lowest level since 2020. This better of data has markets expecting the RBNZ to start easing monetary policy earlier than signalled.

Portfolio Review June 2024

Global real estate securities declined for the quarter despite generally improving inflation in Western markets.

Real estate shares were pressured early in the quarter on concerns around elevated U.S. inflation, though the sector rebounded as worries about "higher for longer" interest rates abated. While the U.S. Federal Reserve left its benchmark interest rate unchanged in June, lower-than-expected May U.S. inflation data strengthened the market's expectations for rate cuts later this year. With improving inflation data in Europe, the European Central Bank (ECB) cut its key benchmark interest rate in June.

In the U.S. (–0.5% total return), real estate shares declined modestly as investors digested macro updates amid normalizing demand for real estate. At Nareit's June investor conference, market participants noted that, while demand is slowly normalizing back to pre-Covid trends, new supply has materially declined due to tighter lending standards and higher financing costs. Among residential property types, apartment REITs advanced on better-than-feared fundamentals, particularly in coastal markets. Single-family homes for rent shares outperformed amid signs of strong market rent growth.

Manufactured homes trailed. Health care REITs were lifted by robust senior housing fundamentals. Self-storage REITs outperformed on the market's anticipation of a gradual recovery in housing activity, which drives self-storage demand. While pricing power with new tenants remains weak, companies have been able to increase rents for existing customers.

Data centres gave back some first-quarter outperformance, despite continued strong pricing power due to a favourable supply/demand imbalance. One company's shares were pressured on a short seller report, though it was later announced that an audit committee had determined the company's financial reporting had been accurate and that it would not need to restate its financial statements. Industrial REITs lagged as a bellwether name lowered its outlook on 2024 funds from operations and rent growth into 2026.

Hotel REITs declined amid volatility in domestic leisure travel demand, though group demand has demonstrated continued strength.

European real estate securities defended well amid declining inflation and a widely anticipated June interest rate cut from the ECB. The elections in the U.K. and France weighed on performance given concerns around potential implications for inflation, budgets and the broader European economy. The Netherlands (6.1%), which is composed largely of retail-oriented property companies, outperformed. Spain (5.0%) rose, lifted in part by shares of a company that has diversified part of its business into data centres.

In the U.K. (–0.2%), inflation fell, and the economic environment continued to improve. Shares of U.K. self-storage companies strongly outperformed amid signs of improving occupancy growth heading into what tends to be a seasonally strong leasing period. Health care, retail and residential trailed. Germany (–0.3%) was weighed down by weakness among residential property types. In Belgium (–0.6%), health care operators outperformed, while logistics specialists trailed. France (–1.5%) declined as investors digested the latest political developments, with a final outcome still uncertain. However, retail property types advanced amid resilient retail demand. Sweden (–3.3%), among the more interest rate–

sensitive countries, had weak performance among industrial/office property types.

The Asia Pacific region trailed following first-quarter outperformance. In Singapore (–3.9%), most sectors declined.

Data centres were a bright spot; one data centre REIT rose, potentially benefiting from improved China sentiment and expectations that it could acquire another Singapore data centre from its sponsor.

In Japan (–6.7%), developers saw profit-taking following strong first-quarter performance. J-REITs were pressured on higher Japanese government bond yields amid market expectations for additional monetary tightening. In Hong Kong (–7.8%), stocks were pressured on mixed China macro data, a lower Chinese yuan and weak Hong Kong property fundamentals.

Australian REITs (–5.6%) traded down with the region but benefited from a strong Australian dollar. An industrial developer and fund manager advanced, continuing to benefit from a growing logistics-to-data-centre pipeline.

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 positive total return for the year, outperforming its benchmark for multi-year periods since inception.

Key contributors

• Stock selection in the U.S. (–0.5% total return in the index): An overweight allocation in Welltower benefited from continued strong senior housing fundamentals. An overweight in Iron Mountain, which owns a data centre business, also aided performance. An overweight in data centre REIT Digital Realty Trust advanced; the company has benefited from a supply/demand mismatch that has led to strong pricing power in the sector.

• Security selection in Australia (–5.6%): Our non-investment in residential developer Mirvac Group was beneficial. A subdued outlook for CBD office fundamentals weighed on the company's shares, as did a number of new subcontractor issues for certain apartment developments. Our non-investment in office landlord Dexus also contributed.

• Selection in Singapore (–3.9%): Our non-investment in a number of Singaporean contributed to performance.

Key detractors

• Security selection in Japan (–6.7%): Overweight allocations in Sumitomo Realty & Development and Mitsui Fudosan detracted as the market took profits in Japanese developers.

• Selection in Spain (5.0%): An out-of-index position in Cellnex Telecom detracted despite evidence of favourable fundamentals.

• Selection in Hong Kong (–7.8%): An overweight in developer Sun Hung Kai Properties 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 the remainder of 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 see value opportunities in European real estate. 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, and we continue to like hotels and offices. We remain cautious on Hong Kong given concerns around the China macro slowdown.

Disclaimer: The information in this publication has been prepared from sources believed to be reliable and accurate at the time of preparation but Salt Funds Management Limited, its officers, directors, agents, and employees make no representation or warranty as to the accuracy, completeness, or currency of any of the information contained within, and disclaim any liability for loss which may be incurred by any person relying on this publication. All analysis, opinions and views reflect a judgment at the date of publication and are subject to change without notice. This publication is provided for general information purposes only. The information in this publication should not be regarded as personalised advice and does not take into account an individual investor's financial situation or goals. An individual investor should, before making any investment decisions, seek professional advice. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.