SALT

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

Benchmark	FTSE EPRA Nareit Developed Real Estate Index hedged into NZD
Fund Assets	$34.70 million
Inception Date	16 September 2021
Underlying Manager	Cohen & Steers

Unit Price at 30 September 2024

Application	0.9291
Redemption	0.9253

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 September 2024

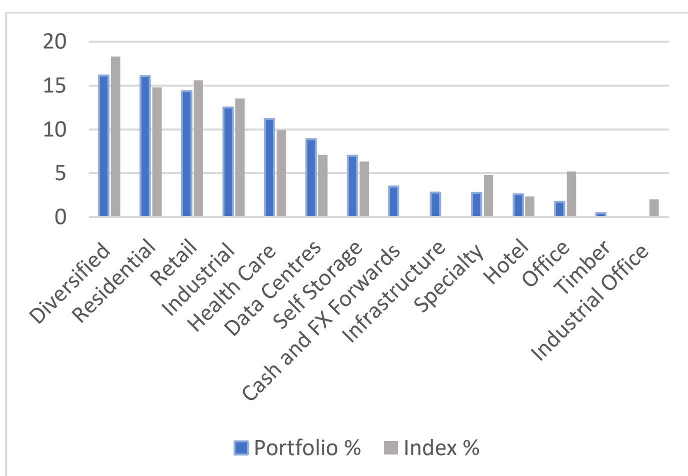
Global equities	96.5%
Cash, short term & sundry	3.5%

Fund Performance to 30 September 2024

Period	Fund Return	Benchmark Return
1 month	2.69%	2.53%
3 months	14.04%	13.73%
6 months	12.45%	11.66%
1 year	28.94%	26.37%
2 years p.a.	15.31%	12.87%
3 years p.a.	2.97%	0.94%
Since inception p.a.	2.30%	-0.32%

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

Fund Sectoral Weightings in % as at 30 September 2024



Source: Cohen & Steers

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

The fund's top 10 holdings comprise 41.0% of the portfolio

Source: Cohen & Steers Monthly Report 30 Sep. 2024

Sustainability metrics

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.84	6.66
MSCI ESG score	6.01	5.97

Source: Cohen & Steers Investment Report 30 Sep. 2024

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Market Review

The Salt Sustainable Global Property Fund was positive in September as interest-rate sensitive global equities improved on enhanced hopes of a US soft landing and equity sector rotation toward better-valued securities. Real assets respond positively to lower bond yields, and to the Federal Reserve's 0.5% rate cut.

- The September quarter was a good one for diversified investors with solid returns across most major asset classes. However, it was not a smooth ride with several bouts of volatility along the way. A weak labour market report out of the US combined with an interest rate hike by the Bank of Japan saw stocks hit hard in August. That was soon followed by the long-awaited start of the US rate cutting cycle, a less hawkish tone from the BoJ and a super-sized stimulus package in China that all helped sentiment and paved the way for a strong rally in stocks by quarter end.
- Developed market equities rose 6.4% over the quarter, while the global aggregate bond index rose 7.0%. Interest rate sensitive asset classes did particularly well with global REITs up 16.2%. All percentages are in USD terms.
- The US Federal Reserve began its easing cycle with a 50bp cut at its September meeting. While a cut had been well-telegraphed, the quantum was a surprise. Various FOMC member comments had increasingly focussed on the softening labour market, though markets weren't of the opinion that the deterioration had been sufficiently significant to warrant a super-size cut. While 25bp cuts appear likely from here, the Fed has demonstrated a willingness to be more aggressive if needed.
- The European Central Bank has been taking a "cut at every other meeting" approach, cutting in June and September while skipping August. Ongoing disinflation and recent weak activity data could see them stepping up to cuts at every meeting from October. The Bank of England has taken a similarly cautious approach by cutting in July but skipping September on the back of persistent strength in wage growth.
- In Japan a rate hike by the BoJ along with hawkish guidance from Governor Ueda led to a sharp appreciation in the Yen and a sudden unwinding of "carry trades" that rely on cheap Japanese borrowing costs. Stocks fell sharply, though pared those losses as Ueda struck a less hawkish tone later in the quarter.
- The Chinese authorities announced a raft of easing measures in September. None of them were significant in themselves, but the fact they were all announced together as a package was welcomed as a sign the authorities were taking China's challenges more seriously.
- In New Zealand, data continued to point to the dire state of the economy. June quarter GDP growth came in at -0.2% q/q which was better than expected but underlined the ongoing weakness in activity. The unemployment rate rose to 4.6%, also in the June quarter, and is expected to head sharply higher over the next few months. The RBNZ cut the Official Cash Rate by 25bp to 5.25% in August and signalled further cuts to come in the months ahead.

Portfolio Review September 2024

Global real estate securities advanced in the third quarter amid dovish monetary policy actions in various markets. The 10-year U.S. Treasury yield declined over the quarter. First, amid easing inflationary pressures and cooling labour market conditions, the Fed signalled that a rate cut was imminent. It then cut its benchmark interest rate by 50 basis points in September, suggesting future cuts would occur at a measured pace.

The Bank of England cut its benchmark rate in August, and the European Central Bank followed suit in September, as inflation and economic growth slowed.

U.S. real estate shares advanced as the 10-year U.S. Treasury yield declined, and the Fed made a (widely anticipated) rate cut. Shares of office REITs showed strength early in the quarter and outperformed as interest rates declined. While vacancies are still rising, they are rising at a slowing pace, and the financing market is beginning to improve. Self-storage REITs outperformed, with optimism for a 2025 pricing recovery driven by lower supply and improved housing mobility. Further, a resilient consumer has been supportive of increases in existing customer rates.

Data centre REITs gained but trailed the index as investors rotated into other sectors; however, these companies found favour again toward quarter-end. Comments from a senior housing conference in September suggested that occupancies were accelerating, rent growth remained solid, and expenses were moderating. Among retail-oriented properties, free standing REITs (which tend to be sensitive to interest rates) outperformed. Shopping centres advanced during the quarter on signs of steady fundamentals. Regional malls gained relatively modestly following strong performance earlier in the year.

Among residential property types, apartment REITs benefited during the quarter from better-than-expected results, including those from companies exposed to coastal markets. Single-family homes for rent rose only modestly for the quarter, pressured as falling mortgage rates appeared to reduce the relative attractiveness of renting. Industrial REITs were weighed down by concerns around soft rent growth, which a bellwether company expects to persist over the next 12 months before inflecting higher.

European real estate securities advanced as eurozone inflation eased. Earnings releases were generally in line with expectations, pointing to a bottoming of asset values in certain sectors (e.g., retail and residential). September saw a pickup in acquisition announcements as liquidity improved across many sectors. Many companies are now viewing external growth as a potential path to increased earnings, assuming they can buy at attractive levels.

German listed real estate securities, dominated in the index by residential property types, posted double-digit gains as the 10-year German bund yield fell. A large residential real estate company reported solid first-half results and raised the upper end of its outlook. France benefited from solid earnings reports among office property types. Sweden, which tends to be interest rate sensitive, also outperformed. A logistics company executed an equity raise, utilizing its strong cost of capital to look for acquisition opportunities.

In Spain, a diversified property owner raised $1 billion to invest in its data centre pipeline. An office landlord benefited from an agency upgrade of its credit rating. In the U.K., self-storage and health care companies outperformed, while industrial names trailed.

In Belgium, self-storage outperformed. Broadly, the self-storage sector is seeing improvement in fundamentals, helped by expectations for a rate-driven recovery in the housing market.

The Asia Pacific region rose on more dovish central bank actions and the announcement of policy stimulus from China. Markets rose sharply in September following China's announcement of policy stimulus targeting consumers as well as the property and stock markets. The government also pledged to do more to stabilize the economy. In Singapore, health care and data centre property types outperformed, while retail and hotel landlords trailed.

The Australian REIT sector rose, benefiting from more dovish central bank policy, but modestly trailed the global index. A housing developer strongly outperformed after reporting a broadening recovery across its national project book. Office property types outperformed, while industrial lagged.

The Japanese listed real estate market trailed amid volatility in the wake of hawkish commentary from the BOJ and, at quarter-end, the election of a new prime minister. Office and residential property types fared well, while hotel landlords trailed.

Portfolio Performance

The last few months has seen a very strong upward-adjustment period for listed Real Estate, as interest rate and inflation uncertainties diminished, and the focus has moved onto better valuations and fundamentals. The portfolio had a positive total return for the quarter, and it continued outperforming its benchmark for multi-year periods since inception.

Key contributors

• Stock selection in Hong Kong: Our overweight in discretionary retail landlord Wharf Real Estate Investment rose more than 30% in the period amid news of stimulus policies in China.

• Security selection in Spain: An out-of-index position in Cellnex Telecom was strong on lower interest rates, accretive asset sales and share buyback activity.

• Non-investment in Switzerland: Our non-investment in Switzerland, which had a gain but trailed global REITs broadly, contributed.

Key detractors

• Security selection in the U.S.: An overweight in single-family residential REIT Invitation Homes declined amid concerns that lower interest rates would hurt rental demand. An overweight in data centre landlord Digital Realty Trust also hindered performance.

• Selection in Japan: Overweight positions in J-REIT KDX Realty Investment and developer Mitsui Fudosan detracted.

• election in France: An overweight in retail operator Unibail-Rodamco-Westfield, which rose but trailed French listed real estate securities broadly, 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 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, with mortgage rates moderating, 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.

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