
# Salt Enhanced Property Fund Fact Sheet – June 2020

## Manager Profile

Salt Funds Management is a boutique investment management firm wholly owned by its employees which specialises in managing NZ/Australian equity and listed property mandates for wholesale and retail clients.

## Investment Strategy

The Salt Enhanced Property Fund targets a portfolio of shares of New Zealand and Australian property trusts, companies and other property related securities with exposure to commercial, residential, retail, tourism, industrial, medical, educational, rural, retirement, and other property sectors. The Fund may also, at our discretion, short sell securities, hold cash, lever its assets and utilise active currency management to generate returns.

## Fund Facts at 30 June 2020

| | |
|---|---|
| **Benchmark** | S&P/NZX All Real Estate Gross Index |
| **Fund Assets** | $10.4 million |
| **Inception Date** | 11 November 2014 |
| **Portfolio Manager** | Matthew Goodson, CFA |

## Unit Price at 30 June 2020

| | |
|---|---|
| **Application** | 1.5419 |
| **Redemption** | 1.5357 |

## Investment Limits

The limits for the Enhanced Property Fund are shown below:

| | |
|---|---|
| **Gross Equity Exposure[1]** | 70% – 200% |
| **Net Equity Exposure[1]** | 70% – 100% |
| **Unlisted securities[1]** | 0% – 5% |
| **Cash or cash equivalents** | 0% – 30% |

1. To NZ and Australian property and property related securities.

## Fund Exposures at 30 June 2020

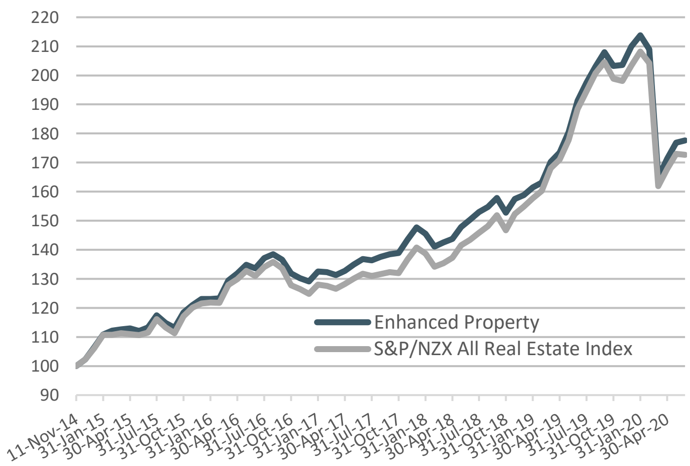
| | |
|---|---|
| **Long Exposure** | 103.20% |
| **Short Exposure** | 5.11% |
| **Gross Equity Exposure** | 108.30% |
| **Net Equity Exposure** | 98.09% |

## Fund Performance to 30 June 2020

| Period | Fund Return | Benchmark Return |
|---|---|---|
| 1 month | 0.44% | -0.18% |
| 3 months | 7.76% | 6.67% |
| 6 months | -15.39% | -15.07% |
| 1-year p.a. | -7.12% | -8.32% |
| 2 years p.a. | 8.70% | 9.71% |
| 3 years p.a. | 9.08% | 9.43% |
| 5 years p.a. | 9.42% | 9.13% |
| Inception p.a. | 10.73% | 10.17% |

Performance is after all fees and does not include imputation credits or PIE tax.

## Cumulative Fund Performance to 30 June 2020




Fund performance has been rebased to 100 from inception.
Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.

## Fund Allocation at 30 June 2020

| | |
|---|---|
| **NZ Listed Property Shares** | 95.47% |
| **AU Listed Property Shares** | 4.24% |
| **Cash** | 0.30% |

| Top Overweights | Top Underweights/Shorts |
|---|---|
| Investore Property | Property for Industry |
| Elanor Commercial Property Fund | Stride Property Group |
| Vitalharvest Freehold Trust | BWP Trust |
| Garda Diversified Property Fund | Vital Healthcare Property Trust |
| Millennium & Copthorne Hotels | Goodman Group |

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## Quarterly Property Market Commentary

**NZ property stocks posted a strong advance of +6.67% in the June quarter, reversing some of the -20.38% damage done in the March quarter. This sharply lagged the +19.9% advance turned in by Australia's S&P/ASX200 A-REIT Accumulation Index and the +9.9% recorded by the global FTSE EPRA/NAREIT Index. These indices had however staged sharper falls in the March quarter, highlighting the less volatile nature of the NZ benchmark.**

The bond yield environment remained supportive with ten-year yields declining from 1.06% to 0.91% over the period although they did reach a stunning low of just 0.49% on 14 May. Relative dividend yields are far less of a question for property investors than gauging the sustainability or otherwise of projected rental revenues, with this varying by company and sector.

The quarter saw a veritable flood of equity raisings in Australia although NZ has so far been confined to Investore Property raising $100m and Augusta Capital raising $45m. We would be surprised if there were not more raisings now that market conditions appear to be stabilising.

While Investore's gearing was perhaps a touch high in the low 40% region, it will be challenging for them to invest the proceeds at a similar discount to NTA at which they raised. Augusta suffered from dreadful timing with Covid-19, forcing them to abandon two private fund raisings but being left with commitments to the properties which they had sourced for these. Centuria participated in the raising and subsequently launched a scrip plus cash takeover bid which looks likely to succeed.

Early property valuation changes are beginning to filter through albeit with major caveats from the valuation firms. For example, Stride Property reporting industrial +14% YoY, office -2% and retail -11%. Note however that industrial was bolstered by their outstanding Waste Management development and that these valuations were 3-12% below early-March pre-Covid drafts. Company reports generally showed moderate levels of rental rebates to tenants, no vacancy issues of any note appearing just yet, and cost savings accruing from lower interest rates and the reinstatement of building depreciation. We are cautious on the vacancy outlook in retail and Auckland office.

The Goodman Property result did surprise with a restated dividend policy set at 80-90% of future cash earnings, which equates to a cash dividend yield below 3%. Other news of note saw Mansons TCLM place their 30,000sqm office development at Albert St on hold. This followed Precinct Property freezing the 1 Queen St development.

Performance in the quarter was led by rebounds from deep prior plunges, with Stride (SPG, +31.7%) and Argosy (ARG, +31.2%) leading the way. There was a gap back to Property For Industry (PFI, +17.0%) which had held up far better in March. Key laggards were Precinct Property (PCT, -7.0%) and Goodman Property (GMT, -4.5%) although these had been bolstered by forced passive buying in March when they were unexpectedly included in a major global property index.

Matthew Goodson, CFA

## Salt Enhanced Property Fund Commentary

**The Fund pleasingly outperformed in the June quarter, turning in a return of +7.76% compared to the +6.67% delivered by the benchmark. A tailwind came from the Fund's modest net allocation to Australia and that market sharply outperforming NZ.**

The largest headwind by a considerable distance was our familiar underweight in Property For Industry (PFI, +17.0%). The retail investor enthusiasm for this stock has continued to surprise us and we see no fundamental reason for it to trade at a 17% premium to NTA. It has some problematic secondary office assets, while its main industrial assets range from high quality to properties that may prove difficult in the weak economy that lies ahead. It ranks poorly in our relative valuation modelling.

Other detractors unsurprisingly came from other underweights and shorts in what was a strongly positive quarter. A moderate underweight in Stride Property (SPG, +31.7%) was the most notable although we had earlier covered some of the position on weakness.

Our collection of shorts detracted a moderate -0.27% but these as always allowed us to have a slightly larger holding in high conviction longs. Overall, our modest net positive exposure to Australia added an extremely sizeable +1.54%.

The largest positive was our overweight in Investore Property (IPL, +12.9%), whose defensive supermarket assets did their job in solidly outperforming during a period of turmoil. They slightly frustratingly raised equity at a time when their gearing in the low 40% region was arguably appropriate given the long-WALT nature of their assets.

Other notable positives were led by GDI Property (GDI, +23.4%) which we bought aggressively on weakness. It matches up well in our relative valuation model, we like its Perth exposure, it has little debt and it still trades 14% below its NTA of $1.32 despite having a material syndications business. They are sensibly buying back stock at these discounted levels.

Another highlight was our holding in Vitalharvest Trust (VTH, +15.2%). VTH is Costa Group's landlord for many of its citrus orchards and berry farms. It earns a mix of fixed and variable rentals, with the latter having been hit hard due to the drought. This has now ended. There is a major market rental uplift in five years that will deliver a dividend yield well into the teens for a NZ investor, while the currently depressed gross yield of almost 7% is perfectly acceptable, especially given the uncorrelated nature of VTH's returns. The listed Primewest (PWG.AU) noticed this situation during the period and bought an 18% stake and the management rights. In our view, VTH remains cheap and there could be further corporate machinations to follow.

At quarter's end, the Fund had a gross position of 108% and net exposure of 98%. The economic outlook is difficult but central banks are determined to hold interest rates at very low levels for an extended period of time. In our view, this means a premium will be placed on tenant and rental certainty, which can deliver an income stream for investors in this complex and volatile environment.