Salt Enhanced Property Fund Fact Sheet – February 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 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 29 February 2024

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$23 million
Inception Date	11 December 2014
Portfolio Managers	Matthew Goodson, CFA Nicholas Falconer, MBA

Unit Price at 29 February 2024

Application	1.425
Redemption	1.4192

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 29 February 2024

Long Exposure	103.44%
Short Exposure	5.06%
Gross Equity Exposure	108.49%
Net Equity Exposure	98.38%

Fund Allocation at 29 February 2024

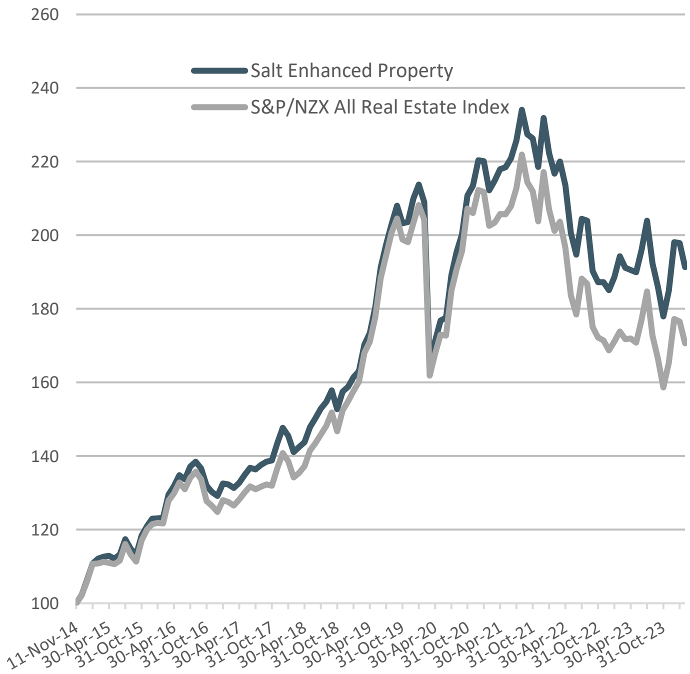
NZ Listed Property Shares	90.22%
AU Listed Property Shares	8.14%
Cash & Cash Equivalents	1.64%

Fund Performance to 29 February 2024

Period	Fund Return	Benchmark Return
1 month	-3.28%	-3.38%
3 months	3.48%	3.31%
6 months	-0.55%	-0.77%
1 year	-1.53%	-1.40%
2 years p.a.	-6.71%	-7.70%
3 years p.a.	-3.85%	-5.23%
5 years p.a.	2.96%	1.48%
7 years p.a.	5.20%	4.40%
Inception p.a.	7.06%	6.03%

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

Cumulative Strategy Performance to 29 February 2024



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.

Top Overweights	Top Underweights/Shorts
GDI Property Group	Precinct Properties NZ
Asset Plus	Property For Industry
Elanor Commercial Property Fund	Goodman Property Trust
Servcorp	Stockland Corporation
RAM Essential Services Property Fund	Kiwi Property Group

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Property Market Commentary

The S&P/NZX All Real Estate Gross Index fell -3.4% across the month. This meant the index underperformed the NZX50 Gross Index and the global FTSE EPRA/NAREIT Index down -1.1% and -1.0% respectively. All of these underperformed the S&P/ASX200 A-REIT Accumulation Index which gained +5.1% in the month, again lead by its largest constituent Goodman Group (GMG, +16.8%).

As generally expected, the Reserve Bank held rates at 5.5%. with yields on a NZ 10-year bond increasing slightly to 4.77% from 4.66% at month-end, although it was higher mid-month on some market expectations of a cash rate increase.

In a disappointing month overall none of the NZX50 REITs registered positive returns – the best being Goodman Property Trust (GMT, 0%) closing at the same level as last month. Investore (IPL, -7.6%), Precinct (PCT, -6.4%) and Stride (SPG, -6.1%) were the worst – although all three providing opportunities to reduce our underweights at good prices.

In what was a perhaps more interesting results season than usual, the NZ REITs provided a few areas of interest.

GMT made a surprise announcement that they plan to internalise the management contract currently held by GMG (subject to shareholder approval). The cost for doing this is almost $300m (contract buyout, brand license, transitional services, fees) and is proposed to deliver approx. $22m of fee savings per annum. In principle we prefer internalised vehicles, however experience has shown that an external manager can provide more discipline than the market. In this case, with GMG's reinvestment of their payment taking their ownership stake to over 30% and retaining some influence over leadership incentives we take comfort this discipline will remain. After considering tax benefits and likely cost growth we view the internalisation as broadly neutral. At the same time (and implied as dependent) GMT proposed to setup a fund that can take external capital and invest off balance sheet. We view this as positive if at least half of the targeted $2b size can be achieved and if the fund takes on the more marginally dilutive Villa Maria development pipeline.

PCT traded down on the last day of the month following the block trade of a 15% strategic holding for $1.10 per share. The owner of this stake was Haumi (part of ADIA – the Abu Dhabi Investment Authority) who has not stated its reason for the sale. Given their stake was considered a strategic holding this has resulted in more than 200 basis point increase in PCT's index weighting, with all other REITs being proportionately decreased. We were active participants in this trade securing a large allocation at the well-discounted sale price.

Kiwi Property (KPG, -2.9%) confirmed a market rumour that they are in "advanced negotiations for the conditional sale" of Vero Centre at a "small discount" to its $467m valuation. If this is achieved it would be a good result from a balance sheet perspective given it is valued on a 5.5% cap rate. However, these funds will effectively be used to support the development of Drury and build-to-rent at Sylvia Park – both of which have long-dated and uncertain return profiles. KPG would only be left with two standalone office assets (ASB North Wharf in Auckland and Aurora Centre in Wellington – on which a sale fell through last year) making their previously stated strategy of establishing an office fund unlikely.

Property For Industry (PFI, -1.8%) who was the only REIT reporting its full year (FY23) result did not provide any further surprises, however they are moving their balance date to 30 June so the next financial 'year' for PFI (i.e. FY24) will only include six calendar months.

Salt Enhanced Property Fund Commentary

The fund outperformed the NZ benchmark again, by 11 basis points, although the return to investors was negative at -3.3% for the month.

Our biggest performance driver came from our large underweight in PCT. Its weakness post the sell-down and our significant stock purchase at the discount added 36 basis points of relative value. The next best contributor was the Australian-based serviced-office provider Servcorp (SRV, +15.2%). It posted a solid result during the month, but more importantly we hope is being noticed for the great value it offers.

Disappointingly, after a strong gain last month, GDI Property (GDI, -9.0%) dragged down performance. The company reported their half-year result which included strong leasing updates. However, as the CEO noted, despite the company's positive Perth market exposure and underlying value in its funds, the market overall is not currently favourable towards small-cap office vehicles in general at the current time. Analyst coverage was supportive and the stock is gaining more broker interest.

The other main drag on relative performance was our small position in 360 Capital REIT (TOT, -22.1%) who announced a rights issue alongside their result. Similar to GDI, TOT is a small cap office fund with high-quality well-located assets but highly geared. They have decided to raise capital from existing shareholders rather than sell assets in the current market where offers have been below replacement value. We engaged with management and will fully take-up our rights in the offer.

At month-end, we estimate that the Fund offers a year-ahead gross dividend yield of 7.0% to a NZ investor.

Nicholas Falconer, MBA