Salt Enhanced Property Fund Fact Sheet – December 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 31 December 2020

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$12.4 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 December 2020

Application	1.8851
Redemption	1.8775

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 31 December 2020

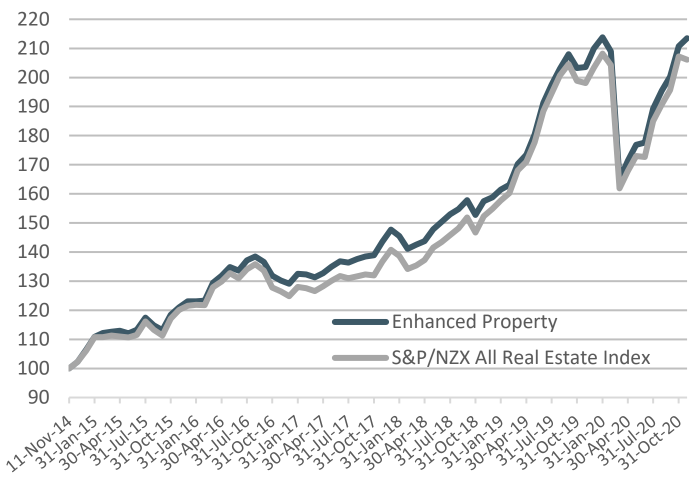
Long Exposure	99.84%
Short Exposure	2.92%
Gross Equity Exposure	102.76%
Net Equity Exposure	96.91%

Fund Performance to 31 December 2020

Period	Fund Return	Benchmark Return
1 month	3.26%	3.02%
3 months	10.05%	8.48%
6 months	24.09%	22.93%
1-year p.a.	4.99%	4.41%
2 years p.a.	17.81%	17.06%
3 years p.a.	14.27%	14.66%
5 years p.a.	12.37%	11.80%
Inception p.a.	13.95%	13.23%

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

Cumulative Fund Performance to 31 December 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 31 December 2020

NZ Listed Property Shares	88.69%
AU Listed Property Shares	10.67%
Cash	0.64%

Top Overweights	Top Underweights/Shorts
Vitalharvest Freehold Trust	Property for Industry
Elanor Commercial Property Fund	Vital Healthcare Property Trust
Garda Diversified Property Fund	Argosy Property
Centuria Industrial REIT	Stride Property Group
Millennium & Copthorne Hotels	Precinct Properties NZ

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Quarterly Property Market Commentary

The S&P/NZX All Real Estate Gross Index rose by +8.5% in the December quarter. This was despite NZ 10-year bond yields rising sharply from 0.46% to 0.99% over the period. While yields and more importantly bank deposit rates obviously remain at very low levels, investors have continued to flood into higher yielding stocks and ever lower quality property syndicates in search of dividend yield at any price. The longevity of this trend bears watching given the theoretically extreme valuation sensitivity of long duration assets such as equities to a slight rise in discount rates at such low yields.

After a long period of massive outperformance relative to its offshore peers, the NZ index lagged a little in the quarter, with the S&P/ASX200 A-REIT Accumulation Index charging ahead by +13.3%, while the global FTSE EPRA/NAREIT Index rose by +12.3%. Rising bond yields benefitted cyclical property securities such as retail shopping centres, which carry a heavier weight in overseas indices.

News-flow in the quarter was dominated by sizeable equity raisings which were rapidly swallowed up by the market. Stride Property raised $220m for two acquisitions in Wellington. SPG purchased the modern, long-leased 20 Customhouse Quay for $228m on a 4.5% cap rate and the older Grant Thornton House on Lambton Quay for $84.5m. SPG doubtless plans to spin these and other office assets into a new vehicle at some point.

Vital Healthcare Property (VHP) raising $150m to pay for a mix of future developments and fund rearranged terms with their key tenant Healthcare. Finally, NZ Rural Land (NZL) conducted a $75m IPO, with the aim being to use the cash to acquire rural land in the dairy sector.

Elsewhere, Investore (IPL) announced a $85m (10%) valuation gain on a 55bp fall in cap rates to 5.53%, while Goodman Property reported 20bp of cap rate compression and Argosy Property had a 4.3% valuation increase following a desktop assessment. This cap rate contraction is clearly indicative of investors being willing to aggressively chase direct property assets in the low-rate environment. We would be more bullish if the valuation upside were instead being driven by rental growth.

Performance in the quarter was led by Argosy Property (ARG, +18.7%) and Kiwi Property (KPG, +18.1%). Laggards were Goodman Property (GMT, -0.2%) and Investore Property (IPL, +1.0%).

Salt Enhanced Property Fund Commentary

The Fund delivered a strong period of relative performance in the December quarter, with a return of +10.05% compared to the +8.48% advance turned in by the S&P/NZX All Real Estate Gross Index.

The Fund had a higher-than-normal net weighting range of 8%-10% in the cheaper Australian market during the period. While this delivered a degree of volatility, the positioning was borne out by the general outperformance of that market relative to NZ. Unsurprisingly in such a strong period, our group of Australian shorts detracted -0.37% from returns but our overall Australian exposure contributed a strongly positive +1.40%.

The largest positive contribution came from a takeover bid for our sizeable holding in Vitalharvest Trust (VTH, +26.5%) from a subsidiary of Macquarie Group. In our view, the $1.00 price is a little light as VTH will have an exceptional year of variable rental income in 2021 in contradistinction to last year's drought; the market would re-rate VTH sharply if they can renegotiate their variable rentals into a higher fixed rental stream; and the likelihood of moving to a far higher fixed rental stream in 5 years has a lot of value. We hold some minor hopes of a bump but the cause was not helped by the manager, Primewest agreeing to sell its management contract and to sell its shares at $1.00 in the absence of a better bid.

VTH accounted for about 43% of the Fund's outperformance, so it was important but it was far from being the only driver. After earlier pain, our holding in the hotel company Millennium & Copthorne Hotels (MCK, +30.1%) surged as investors began to look forward to a post-Covid environment. Asset Plus (APL, +14.4%) performed well after a better-than-expected result and optimism regarding their future property development plans.

Other positives were led by our holding in Garda Property (GDF, +20.8%). GDF owns a mix of office and industrial assets. They have been hindered by a vacant office development in Melbourne but they signed their first tenant late in the period and delivered a solid overall valuation update. Other names included CDL Investments (CDI, +33.8%) which is benefitting from surging land development prices; GDI Property (GDI, +18.9%) as investors become more bullish on Perth property; and Eureka Group (EGH, +15.4%).

Headwinds were fewer in number and limited in magnitude, with the large underweight in the very expensive Property For Industry (PFI, +10.2%) being an unsurprising stand-out in a strong quarter for the market. Other modest detractors included smaller underweights in Argosy Property (ARG, +18.7%), Kiwi Property (KPG, +18.1%) and Stride Property (SPG, +13.3%). A short in the very expensive Bunnings Warehouse Property (BWP, +10.8%) was a final drag of note.

Matthew Goodson, CFA