Salt Enhanced Property Fund Fact Sheet – August 2021

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 31 August 2021

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$19.3 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 August 2021

Application	1.9722
Redemption	1.9643

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 August 2021

Long Exposure	100.26%
Short Exposure	3.94%
Gross Equity Exposure	104.20%
Net Equity Exposure	96.33%

Fund Allocation at 31 August 2021

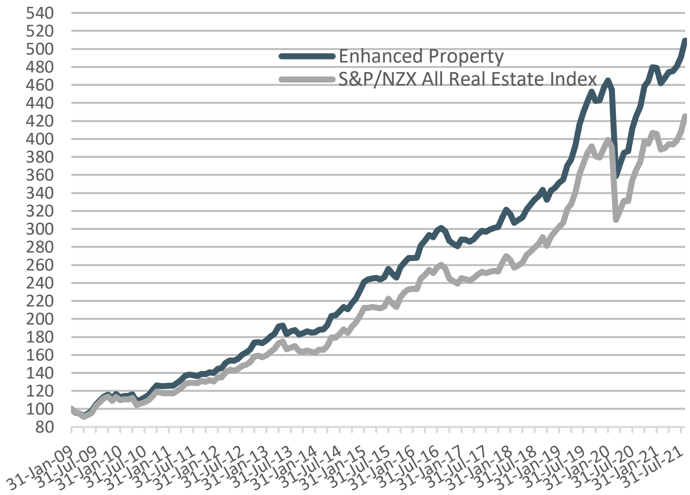
NZ Listed Property Shares	92.30%
AU Listed Property Shares	5.79%
Cash	1.91%

Fund Performance to 31 August 2021

Period	Fund Return	Benchmark Return
1 month	3.69%	4.26%
3 months	7.13%	7.88%
6 months	10.30%	9.54%
1-year p.a.	19.77%	16.36%
2 years p.a.	7.38%	5.14%
3 years p.a.	14.80%	14.41%
5 years p.a.	11.07%	10.32%
Inception p.a.	13.50%	12.60%

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

Cumulative Fund Performance to 31 August 2021*



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.
*From 1 January 2009 to 30 October 2014, performance is from a fund with the same strategy and the same portfolio manager.

Top Overweights	Top Underweights/Shorts
Elanor Commercial Property Fund	Goodman Property Trust
GDI Property Group	Property For Industry
Garda Diversified Property Fund	Stride Property Group
Irongate Group	Vital Healthcare Property Trust
Millennium & Copthorne Hotels	Precinct Properties NZ

Monthly Property Market Commentary

The S&P/NZX All Real Estate Gross Index advanced by +4.34% in the month of August. The S&P/ASX200 A-REIT Accumulation Index was even stronger with a return of +6.26%, while the global FTSE EPRA/NAREIT Index only rose by +2.1%.

A key driver of the strength in Australia and NZ appeared to be the announcement of the pending inclusion of a number of mid-cap names in the FTSE EPRA/NAREIT Index for the first time due to a lowered size threshold. This sparked aggressive passive buying in names likely to enter the index, although just after month end it was confirmed that Argosy Property and Stride Property would be the only two NZ entrants, with Vital Healthcare Property narrowly missing.

Elsewhere, continued general strength in industrial stocks and property fund managers was also notable. The strength came despite a sharp rise in NZ 10-year bond yields from 1.51% to 1.72%. Ever tightening property cap rates may perhaps become vulnerable if this bond yield move continues, putting future valuation movements at a degree of risk unless rental growth is strong. News-flow in the month was quiet, with the only highlight being a small $36m asset purchase by Investore at a seemingly tight cap rate of 4.0%.

Performance in the month was again led by Goodman Property (+7.2%) which continued to advance following its parent, Goodman Group paying $2.50 to lift its holding to 24.8%. Precinct Property (PCT, +6.9%) and Property For Industry (PFI, +5.9%) were other highlights. The retail exposed stocks underperformed, with Investore (IPL, -0.5%) and Kiwi Property (KPG, -0.4%) lagging.

Salt Enhanced Property Fund Commentary

The Fund lagged its benchmark in the month of August, returning +3.69% compared to the +4.26% advance turned in by the S&P/NZX All Real Estate Gross Index.

In a strong month for property indices, our small group of shorts were unsurprisingly painful, detracting 0.30% from returns. These did allow larger Australian longs so that our overall returns from that market contributed +0.12% but this was still a little disappointing given the strength of the market in the month.

In such a strong month for property stocks, the Fund simply did not have enough “beta” to keep up with the strength of the advances. In particular, headwinds came from being underweight the very expensive but high momentum pair of Goodman Property (GMT, +7.2%) and Property For Industry (PFI, +5.9%). Stride Property (SPG, +5.6%) also ran hard on what appeared to be passive buying pressure. Our short in the ultra-expensive Arena REIT (ARF, +17.8%) ran hard due to a passive index inclusion.

The Fund’s overweights tend to be somewhat cheaper and not necessarily always possessing the same momentum. The largest positive came from our overweight in GDI Property (GDI, +7.1%), which is now almost entirely exposed to Perth property. With rents at levels that are well below replacement value, net absorption being the strongest of the Australian office markets and cap rate differentials to Sydney being unusually high, we are very bullish on the potential valuation upside from this name.

Other positives came from Irongate Property (IAP, +10.5%) and Garda Property (GDF, +9.0%) whose strategy of developing industrial property appears very sensible in a market where purchasing such assets has become very difficult thanks to a wall of direct property fund management money.

Matthew Goodson, CFA