Salt Enhanced Property Fund Fact Sheet – April 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 April 2020

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$12.2 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 April 2020

Application	1.5248
Redemption	1.5186

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%

1To NZ and Australian property and property related securities.

Fund Exposures at 30 April 2020

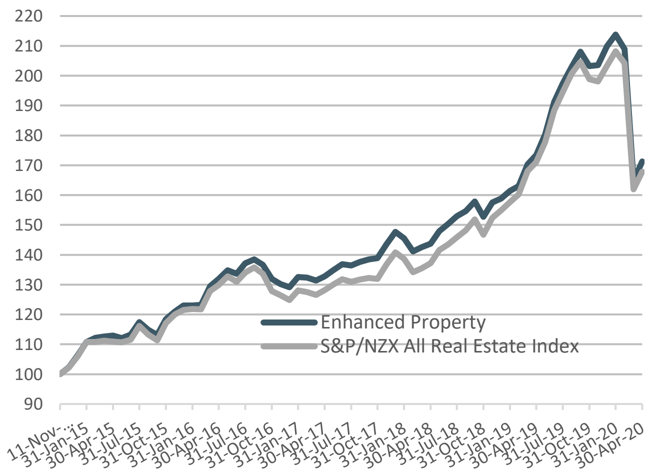
Long Exposure	98.79%
Short Exposure	5.11%
Gross Equity Exposure	103.90%
Net Equity Exposure	93.68%

Fund Performance to 30 April 2020

Period	Fund Return	Benchmark Return
1 month	3.93%	3.68%
3 months	-19.87%	-19.38%
6 months	-15.71%	-15.58%
1-year p.a.	-1.23%	-1.87%
2 years p.a.	9.17%	10.60%
3 years p.a.	8.87%	9.39%
5 years p.a.	8.70%	8.63%
Inception p.a.	10.35%	9.93%

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

Cumulative Fund Performance to 30 April 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 April 2020

NZ Listed Property Shares	81.57%
AU Listed Property Shares	3.80%
Cash	14.63%

Top Overweights	Top Underweights/Shorts
Investore Property	Property for Industry
Elanor Commercial Property Fund	Goodman Property Trust
Vitalharvest Freehold Trust	Precinct Properties NZ
Garda Diversified Property Fund	Vital Healthcare Property Trust
Millennium & Copthorne Hotels	Stride Property

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

Quarterly Property Market Commentary

NZ property stocks rebounded moderately from their -20.7% plunge in the month of March with a somewhat tepid +3.68% rise in April. This sharply lagged global peers, with the FTSE EPRA/NAREIT Index advancing by +8.89% and the S&P/ASX200 A-REIT Accumulation Index rising by +13.73%. They had however previously fallen more sharply than the less volatile NZ market. NZ 10-year bond yields fell from 1.10% to a remarkably low +0.79% which is well below the current rate of inflation and reflects a collapse in expectations thanks to Covid-19. This was moderately helpful to property entities but the key focus for investors at present is top-line rental growth. As the economy gradually reopens and greater certainty regarding the level and receipt of rentals is restored, a helpful environment for property stocks could resume.

In general, listed property companies across Australia and NZ are in a far better balance sheet position than was the case prior to the GFC. That said, a decline in rentals coupled with an increase in cap rates can erode the apparent margin of safety quite quickly. Valuers are still coming to grips with the new environment but our sense is that cap rates will expand across all asset classes, with the logistics segment of industrial best-placed and secondary retail worst placed. Office is somewhere in-between, with there being significant uncertainty regarding the net impact of divergent post-Covid forces on office occupancy.

Australia saw a plethora of equity raisings, while NZ was confined to Investore Property raising $100m. While their gearing was perhaps a touch high in the low 40% region, this was appropriate given their ultra-long-term leases and very strong tenant covenant. It will be challenging for IPL to invest the proceeds at a similar discount to NTA at which they raised. Just after month-end, Augusta Capital raised $45m at $0.55. The timing of Covid-19 was most unfortunate for this entity given they had to abandon two private fund raisings but were left with commitments to the properties which they had sourced for these. Centuria returned to the fray by participating in the raising to a degree that gives them a 25% shareholding.

Early property valuation changes are beginning to filter through, with 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.

One positive for all commercial property companies is the re-introduction of a tax depreciation deduction for all commercial properties.

Performance in the month again saw major dispersion. Goodman Property (GMT, +5.1%) and Precinct Property (-6.7%) reverted somewhat from their major outperformance in March when they were unexpectedly added to the global FTSE-EPRA NAREIT Index. Leaders in April were Argosy Property (ARG, +17.8%) following a solid update and Stride Property (SPG, +10.2%).

Salt Enhanced Property Fund Commentary

The Fund moderately outperformed in April, delivering +3.93% compared to the +3.68% turned in by the benchmark.

The largest headwind by some distance was Property For Industry (PFI, +7.4%) which surprised us somewhat with its advance given that some of its industrial property holdings are at the end of the spectrum where rent collection and tenant solvency could perhaps be issues. While they likely face lesser risks than many property peers, they now trade at a 10% premium to NTA based on historic valuations.

Other headwinds came from not owning CDL Investments (CDI, +12.7%) which experienced a somewhat random bounce and from a moderate underweight in Goodman Property (GMT, +5.1%). GMT has performed extremely well thanks to index inclusions and the reality of its defensiveness due to high quality industrial properties and a lightly geared balance sheet. This is however reflected in a valuation that sees it trade at a 30% premium to NTA. A final problem child was a negative mark to market on our small holding in Millennium & Copthorne Hotels (MCKPA, -20.8%) preferred securities. This has historically been a strong performer for the Fund but was obviously caught by Covid-19. The $1.90 share price compares to an ungeared prior NTA that was north of $5.00. We look forward to a multi-year recovery.

Positives were led by our underweight in Precinct Property (PCT, -6.7%). This gave back its previous index-driven outperformance and faces some unfortunate timing challenges regarding the impact of Covid-19 on its massive new Commercial Bay & 1 Queen St office, retail, and hotel development. Other tailwinds came from Investore (IPL, +3.6%) which initially performed solidly post equity raising; GDI Property (GDI, +11.8%) which has little debt, trades 20% below NTA and has a large syndication business; Centuria Office Property (COF, +17.9%) and 360 Capital Total Return Fund (TOT, +9.3%).

We ended the month with moderate risk exposures of 104% gross and 94% net. This gives the Fund plenty of room to potentially participate in the multitude of equity raisings that are currently occurring. Despite a powerful upswing in the Australian market, our modest group of shorts actually added 0.01%, while our small overall exposure to Australia contributed 0.44%.