Salt Enhanced Property Fund Fact Sheet – March 2022

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 March 2022

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$30.4 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 March 2022

Application	1.8312
Redemption	1.8237

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 March 2022

Long Exposure	99.54%
Short Exposure	4.95%
Gross Equity Exposure	104.50%
Net Equity Exposure	94.59%

Fund Allocation at 31 March 2022

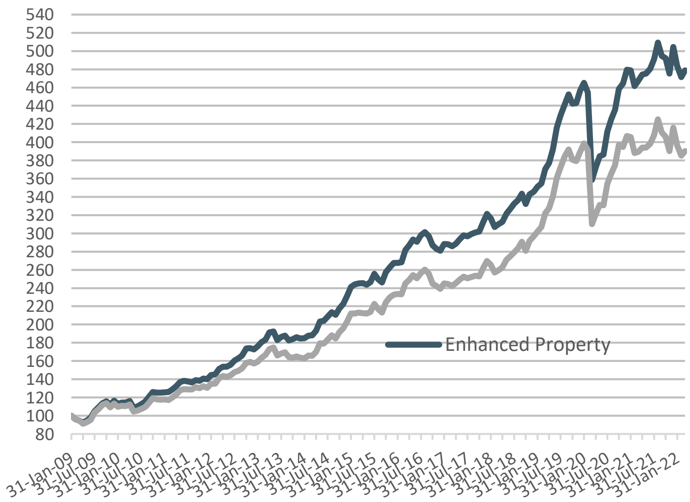
NZ Listed Property Shares	87.25%
AU Listed Property Shares	8.23%
Cash	4.53%

Fund Performance to 31 March 2022

Period	Fund Return	Benchmark Return
1 month	1.52%	1.25%
3 months	-5.10%	-6.18%
6 months	-3.23%	-4.46%
1-year p.a.	2.42%	0.76%
2 years p.a.	15.54%	12.51%
3 years p.a.	8.93%	6.83%
5 years p.a.	10.87%	10.12%
7 years p.a.	10.04%	9.11%
Inception p.a.	11.27%	10.20%

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

Cumulative Fund Performance to 31 March 2022*



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 November 2014, performance is from a fund with the same strategy and the same portfolio manager.

Top Overweights	Top Underweights/Shorts
GDI Property Group	Goodman Property Trust
Elanor Commercial Property Fund	Arena REIT No 1
REP Essential Property	Precinct Properties NZ
360 Capital REIT	Vital Healthcare Property Trust
Peet	Property For Industry

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

The S&P/NZX All Real Estate Gross Index declined by -6.18% in the March quarter as it contended with strong headwinds from 10-year bond yields that rose from 2.37% to 3.27% over the period. The RBNZ lifted its OCR target by 0.25% to 1.0% and signalled numerous further raises, with the market generally viewing it as being behind the curve. Russia's invasion of Ukraine added to a generalised mood of risk aversion.

Property actually slightly outperformed the wider NZ equity market, which declined by -7.09%. The S&P/ASX200 A-REIT Accumulation Index experienced similar weakness to NZ, falling by -7.10%, while the global FTSE EPRA/NAREIT Index fell by -1.07%.

Sector news was limited, with Asset Plus halting future dividends until the completion of their major Munroe Lane development. Goodman Property released draft valuation gains of +3.4%, with these coming largely from rent rather than cap rates and it is becoming increasingly evident that the lows in the cycle for cap rates have been seen.

Evidence of the impact of rising funding costs started to come through. Investore issued a 5-year bond at a 4% interest rate, whereas in August 2020, they issued 7-year debt at just 2.4%. Similarly, Goodman Property had to pay 3.66% for 6-year money. The era of breaking swaps to support reported earnings is over. Syndicators and property fund managers will find this a more difficult environment.

Performance in the quarter was clearly led by Vital Healthcare Property (VHP, +4.0%) thanks to its inclusion in the FTSE-EPRA NAREIT Index. Fundamentally, VHP's long leases and short debt duration see it more exposed than most to rising real interest rates. The small caps, CDI Investments (CDI, +7.1%) and NZ Rural Land (NZL, +6.1%) also rose. Key laggards were Asset Plus (APL, -13.6%), Argosy Property (ARG, -12.6%) and Investore (IPL, -10.7%).

Salt Enhanced Property Fund Commentary

The Fund delivered a quarter of strong outperformance, declining by -5.10% compared to the -6.18% turned in by the S&P/NZX All Real Estate Gross Index. The source was almost entirely bottom-up stock selection, with the Fund being fully invested over the period and Australia underperforming NZ slightly.

Our overall collection of Australian holdings made a strong positive contribution of +0.58%. Our shorts did well against the backdrop of a negative market, returning +0.50% as a group. Pleasingly, this meant our longs also defied the market weakness to add a modicum of value.

Our short in Healthco REIT (HCW, -12.7%) fell as its long duration nature made it sensitive to rising yields. While sell-side analysts highly rate this and indeed all the Homeco vehicles, it is bereft of any relative valuation attraction on our modelling. The other key win from the short-side was Centuria (CNI, -17.7%). While we generally rate them as solid fund managers, the outlook for the sub-segment is becoming tougher as higher bond yields will drive higher cap rates.

The largest contributors in a negative quarter were some of our larger NZ underweights, with highlights including Goodman Property (GMT, -7.9%), Argosy Property (ARG, -12.6%) and Property For Industry (PFI, -5.6%). We used the weakness to close a degree of these underweights at favourable levels.

Several small Australian holdings defied the weakness in their market and did well for us. They were led by 360 Capital REIT (TOT, +6.1%) which leveraged its position in Irongate Group (IAP, +10.4%) to achieve a break-up of that entity with very satisfactory outcomes for TOT. We also hold IAP. Our holding in the land developer Peet Limited (PPC, +12.0%) also did well and we believe its land holdings are carried in its books at a material discount to current market valuations.

Headwinds were generally immaterial, with the largest being a small holding in Ram Essential Services Property (REP, -6.5%) which fell in line with the market and a slight underweight in Vital Healthcare Property (VHP, +4.0%) which we widened on its unusual index-driven strength.

Matthew Goodson, CFA