

SALT

Salt Enhanced Property Fund Fact Sheet – July 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 July 2022

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	\$28 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 July 2022

Application	1.6692
Redemption	1.6624

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 July 2022

Long Exposure	104.29%
Short Exposure	9.02%
Gross Equity Exposure	113.31%
Net Equity Exposure	95.27%

Fund Allocation at 31 July 2022

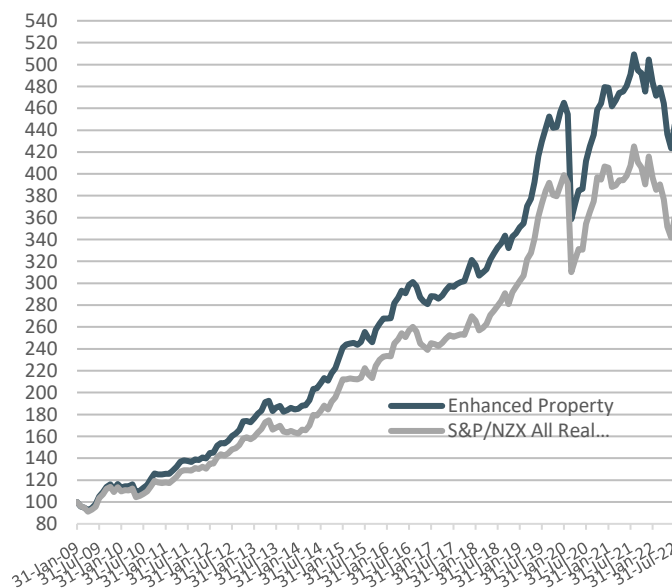
NZ Listed Property Shares	92.88%
AU Listed Property Shares	3.97%
Cash	3.15%

Fund Performance to 31 July 2022

Period	Fund Return	Benchmark Return
1 month	5.04%	5.45%
3 months	-4.23%	-4.26%
6 months	-8.03%	-9.09%
1-year p.a.	-9.42%	-11.05%
2 years p.a.	3.95%	1.17%
3 years p.a.	1.17%	-0.91%
5 years p.a.	8.43%	7.64%
7 years p.a.	8.24%	7.23%
Inception p.a.	9.72%	8.62%

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

Cumulative Strategy Performance to 31 July 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	Vital Healthcare Property Trust
Elanor Commercial Property Fund	Precinct Properties NZ
Abacus Property Group	Goodman Property Trust
REP Essential Property	BWP Trust
360 Capital REIT	Arena REIT

SALT FUNDS MANAGEMENT

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Property Market Commentary

The S&P/NZX All Real Estate Gross Index rebounded from its sharp sell-off in the June quarter, rising by +5.45% in the month of July – a similar performance to the overall NZ equity market. July was a strange month in that global economic news was weak and inflation outcomes were high but markets took a “bad news is good news” stance, hoping that central banks may soon pivot. NZ 10-year bond yields rallied sharply from 3.88% to 3.40% even as the RBNZ hiked the OCR target from 2.0% to 2.5% mid-month. It continues to be near certain that further hikes will occur with an end destination in the 3.5%-4.0% region being the current market pricing.

Global property markets were highly correlated in the period, with the S&P/ASX200 A-REIT Accumulation Index surging by +11.93%, while the global FTSE EPRA/NAREIT Index (USD) bounced by +8.0%. Year-to-date, NZ is now -13.3%, Australia is -14.4% and the global index is -14.0%.

Sector news was very limited as transaction activity has dried up in what may be a turning point for the physical market. There is very little evidence at present for valuers to consider the trade-offs between higher rents, less occupancy and wider cap rates.

The strongest outperformer during the month was the low-yielding Goodman Property Trust (GMT, +9.0%). It had lagged previously and while it has cap rate expansion risk, this is somewhat offset by solid rental growth potential. Underperformers were Precinct Property (PCT, +3.6%) and Investore Property (IPL, +4.4%).

Salt Enhanced Property Fund Commentary

After solid outperformance in the previous periods of weakness, the Fund lagged slightly in the month of July, returning +5.04% compared to the +5.45% performance by the S&P/NZX All Real Estate Gross Index. The headwind from holding moderate levels of net cash offset the tailwind of stronger performance by Australia where a circa net 8% of the Fund is invested.

Our collection of Australian shorts unsurprisingly constituted a stiff headwind during the month, detracting -0.65% from returns. That said, these did allow us to have larger long positions on the other side, with our overall net positive length in Australia seeing it contribute +0.03%. A little disappointing but far from disastrous.

The largest positive contributors were two of our key Australian overweights. GDI Property (GDI, +7.7%) rebounded on no new news. We remain positive on the Perth outlook compared to other major cities around Australia/NZ as solid population growth and positive absorption bump up against years of limited construction. Abacus Property (ABP, +14.0%) similarly bounced sharply. We have modest regard for their office portfolio but their storage assets are by far the best in the market albeit they may tread water as housing markets slow.

Headwinds were led by two of our shorts. Arena REIT (ARF, +12.7%) has been a roller-coaster in recent weeks rather than behaving like a staid property stock. We covered some of our short into a precipitous decline but put this back on a little early as it rose sharply. We are wary that its very long leases are not matched by equally long debt duration, that its childcare tenants are struggling with cost inflation and that childcare property entry barriers are low.

The other short that weighed was Bunnings Warehouse Property (BWP, +10.0%). While their debt levels are low, their dividend is not cash covered and their lease duration is becoming ever shorter. In a strong month, most of our underweights were also negative contributors, with Goodman Property (GMT, +9.0%) and Vital Healthcare Property (VHP, +5.2%) being the two largest. The Fund used market strength to slightly lower its net length over the month, ending July at a low 93% exposure.



Matthew Goodson, CFA