

SALT

Salt Enhanced Property Fund Fact Sheet – October 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 October 2021

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	\$24.9 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 October 2021

Application	1.9064
Redemption	1.8987

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 October 2021

Long Exposure	102.71%
Short Exposure	4.12%
Gross Equity Exposure	106.83%
Net Equity Exposure	98.58%

Fund Allocation at 31 October 2021

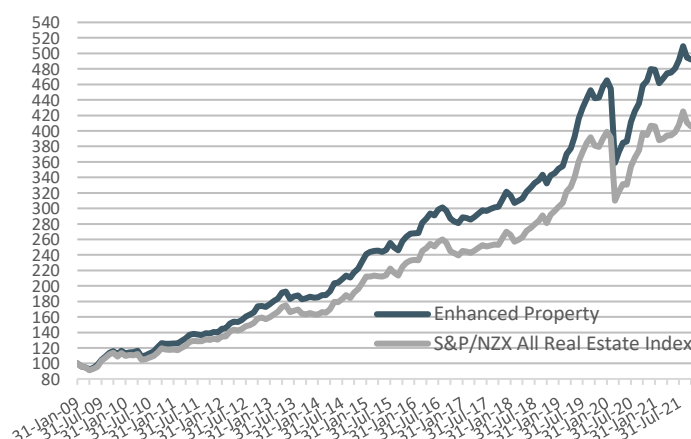
NZ Listed Property Shares	88.93%
AU Listed Property Shares	7.60%
Cash	3.47%

Fund Performance to 31 October 2021

Period	Fund Return	Benchmark Return
1 month	-0.50%	-0.61%
3 months	0.23%	0.15%
6 months	3.81%	3.60%
1-year p.a.	7.35%	2.87%
2 years p.a.	5.51%	3.55%
3 years p.a.	14.00%	13.27%
5 years p.a.	11.40%	10.78%
Inception p.a.	12.44%	11.47%

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

Cumulative Fund Performance to 31 October 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
GDI Property Group	Property For Industry
Elanor Commercial Property Fund	Precinct Properties NZ
Centuria Industrial REIT	Arena REIT No 1
Dexus Industria REIT	Stride Property Group
Garda Diversified Property Fund	Goodman Property Trust

SALT FUNDS MANAGEMENT

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Monthly Property Market Commentary

The S&P/NZX All Real Estate Gross Index declined by -0.61% in the month of October. This slightly lagged the +0.42% advance in the S&P/ASX200 A-REIT Accumulation Index but fell well behind the global FTSE EPRA/NAREIT Index, which soared +5.42%.

The NZ performance was relatively solid considering that NZ 10-year bond yields soared from 1.97% to 2.61% in the month. As long duration assets, property stocks are potentially vulnerable to the current widespread lift in inflationary pressures but we would highlight that the key driver is real interest rates and that these are still at exceptionally low (negative) levels. At an individual level, the exposure of stocks to inflation and bond yields depends on the interaction of their rental agreement structures and their debt duration relative to their lease duration. The era of sharp cap rate compression may be coming to an end and may be replaced by a focus on maintaining occupancy and achieving rent growth.

News-flow was headed by Vital Healthcare Property carrying out a \$140m equity raising to fund an acquisition in Adelaide and finance part of their development pipeline. NZ Land purchased 6 Southland dairy farms for circa NZ\$60m.

Performance in the month was led by the industrial property duo of Goodman Property (GMT, +2.7%) and Property For Industry (PFI, +0.2%). Laggards were the long lease duration pair of Investore (IPL, -5.1%) and Vital Healthcare Property (VHP, -4.2%). This was logical as bond yields rose.

Salt Enhanced Property Fund Commentary

The Fund performed solidly in the month of October, declining by -0.50% compared to the -0.61% decline turned in by the S&P/NZX All Real Estate Gross Index.

Our modest collection of shorts detracted 0.07% as the Australian market rose slightly but our overall Australian positions added 0.04%.

Performance divergence by stock was not particularly varied but the long-held position in Garda Property (GDF, +7.6%) was again a stand-out. They delivered a very strong valuation update, lifting NTA by 17% to \$1.70 per share. Being internally managed, this did not result in management fee leakage and it strongly validated their strategy to build rather than buy in what is a red-hot market.

Other positives were led by the highly successful investment in the retirement rental operator, Eureka Group (EGH, +6.3%). The underweight in Vital Healthcare Property (VHP, -4.3%) did well but we closed much of this up on the weakness following their equity raising. We are wary that it will likely be added to the global FTSE-EPRA NAREIT Index at the next review. Finally, the Stride (SPG, -2.5%) underweight helped to a degree. The failure of the Fabric IPO has left them in a someone difficult position as bond yields rise and office markets become more mixed.

Headwinds were led by the short in Arena REIT (ARF, +6.6%) which against our expectations continued to rally post its inclusion in the global FTSE-EPRA NAREIT Index. While childcare centres are a hot commodity for small-time property investors, we view the entry barriers as being limited and upside ultimately being constrained by the crossover of replacement cost with residential property. One last hurrah of cap rate compression is likely but ARF is at a staggering 76% premium to its last NAV of \$2.56. The large overweight in Elanor Commercial (ECF, -1.8%) lagged slightly despite a solid leasing update. We estimate that the high yielding ECF is on a very attractive gross yield to a NZ investor of 10.1% with some potential for growth from there.



Matthew Goodson, CFA