Salt Enhanced Property Fund Fact Sheet – June 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 30 June 2022

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$27 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 June 2022

Application	1.5891
Redemption	1.5827

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 30 June 2022

Long Exposure	104.14%
Short Exposure	6.79%
Gross Equity Exposure	110.93%
Net Equity Exposure	97.35%

Fund Allocation at 30 June 2022

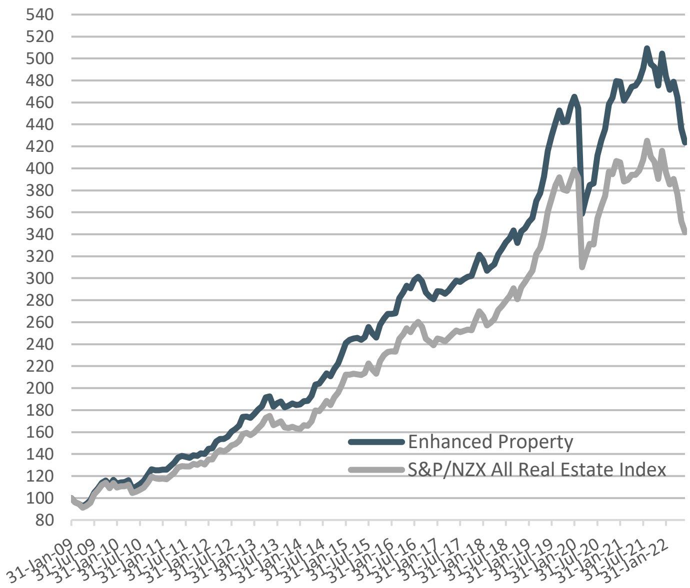
NZ Listed Property Shares	93.41%
AU Listed Property Shares	5.37%
Cash	1.23%

Fund Performance to 30 June 2022

Period	Fund Return	Benchmark Return
1 month	-2.96%	-2.84%
3 months	-11.53%	-12.39%
6 months	-16.04%	-17.81%
1-year p.a.	-11.88%	-13.64%
2 years p.a.	4.69%	1.96%
3 years p.a.	0.60%	-1.59%
5 years p.a.	7.30%	6.38%
7 years p.a.	8.04%	7.03%
Inception p.a.	9.12%	7.96%

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

Cumulative Fund Performance to 30 June 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	Winton Land
360 Capital REIT	Charter Hall Long WALE REIT

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

SALT

Salt Enhanced Property Fund Fact Sheet
June 2022

Property Market Commentary

The S&P/NZX All Real Estate Gross Index was sold off sharply in the June quarter, declining by -12.39%. This was even weaker than the -10.25% descent by the broader NZ equity market. While 10-year bond yields did decline off a peak of over 4.0% during June, they still rose from 3.22% to 3.88%, as the quarter saw markets around the world price in the return of widespread inflationary pressure. The RBNZ made two 50bp rate hikes in the period, taking the OCR target from 1.0% to 2.0%. Further hikes are clearly in store, with the market currently pricing a destination in the 3.5%-4.0% region.

Similar pressures drove weakness in offshore property markets, with the S&P/ASX200 A-REIT Accumulation Index declining by -17.68% and the global FTSE EPRA/NAREIT Index (USD) falling by -16.1%. Fears of the impact of potential recessions on vacancy levels combined with likely future increases in cap rates due to rising bond yields were the main drivers.

Sector news saw a reporting season that held few terrors and featured what will likely be the last round of valuation uplifts from falling cap rates. Valuers tend to await market evidence and move with a lag. Slight disappointments came from Investore (IPL) with higher maintenance capex and Kiwi Property (KPG), with seismic issues becoming apparent at Lynn Mall and Palmerston North. Their residential build to rent plans are synergistic with Sylvia Park but carry considerable cyclical risk. Property For Industry (PFI) announced an on-market buyback due to their NTA being well above market at $3.03 although this clearly carries some downside risks as cap rates expand. Investore (IPL) similarly announced a buyback for up to 5% of its shares, although with committed gearing at 32% and a tough outlook for cap rates, this was perhaps slightly surprising.

Not a single stock in the index rose during the quarter, with the 0.0% return from Asset Plus (APL) being the best. Other outperformers included the retail exposures Investore (IPL, -6.4%) and Kiwi Property (KPG, -8.9%). The three key laggards were Vital Healthcare Property (VHP, -15.9%), Stride Property (SPG, -15.4%) and Goodman Property (GMT, -14.7%).

Salt Enhanced Property Fund Commentary

The Fund outperformed solidly in the June quarter, declining by -11.53% compared to the brutal -12.39% turned in by the S&P/NZX All Real Estate Gross Index. Our performance was particularly pleasing given the headwind from a net 8% of the Fund being invested in Australia and that market fell by over 5% more than NZ.

As one might expect, our collection of Australian shorts contributed a very strong 1.24% to returns during the quarter. However, with the market there falling extremely hard, our overall net positive length meant that Australia detracted -0.55% from returns – an acceptable outcome in such a difficult period.

Unsurprisingly in a major down quarter, the largest contributors came from our key underweights and shorts. These were led by not owning the recently listed Winton Property (WIN, -17.0%), the land developer whose major premium to NTA continues to puzzle us. Our largest NZ underweights were Goodman Property (GMT, -14.6%) and Vital Healthcare Property (VHP, -15.8%), with these contributing strongly in relative terms.

Our shorts did extremely well, with the highlight being the aggressive property fund manager, Homeco (HMC, -34.6%), where a likely future environment of expanding cap rates will be more difficult for them to expand in than the last several years. Other strongly contributing shorts included Arena REIT (ARF, -12.2%) and Charter Hall Long WALE REIT (CLW, -18.3%), whose 39% gearing could become a little large if valuations begin to decline. We did use market weakness to reduce our overall short exposure.

Conversely, headwinds came from our overweights. REP Essential Property (REP, -14.0%), Abacus Property (ABP, -19.6%) and GDI Property (GDI, -12.9%) were among the lowlights. We retain strong conviction on GDI due to its large discount to a conservative NTA, a solid outlook for long moribund Perth property and potential upside from its managed syndicates. Our large holding in the high-yielding Elanor Commercial Property (ECF, -6.0%) detracted from returns but outperformed the market.

Matthew Goodson, CFA