Salt Enhanced Property Fund Fact Sheet – August 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 31 August 2020

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$10.9 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 August 2020

Application	1.6967
Redemption	1.6898

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 August 2020

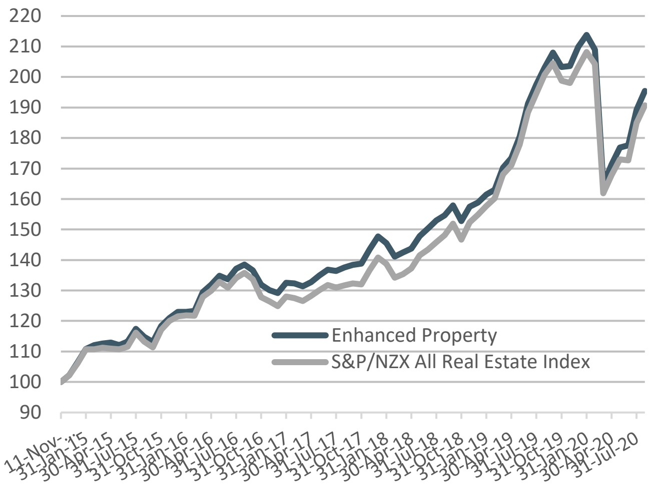
Long Exposure	102.31%
Short Exposure	5.08%
Gross Equity Exposure	107.39%
Net Equity Exposure	97.23%

Fund Performance to 31 August 2020

Period	Fund Return	Benchmark Return
1 month	3.29%	3.11%
3 months	10.52%	10.24%
6 months	-6.47%	-6.61%
1-year p.a.	-3.74%	-5.00%
2 years p.a.	12.40%	13.45%
3 years p.a.	12.41%	13.15%
5 years p.a.	11.22%	10.99%
Inception p.a.	12.24%	11.76%

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

Cumulative Fund Performance to 31 August 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 31 August 2020

NZ Listed Property Shares	91.56%
AU Listed Property Shares	7.16%
Cash	1.28%

Top Overweights	Top Underweights/Shorts
Investore Property	Property for Industry
Vitalharvest Freehold Trust	Stride Property Group
Garda Diversified Property Fund	Vital Healthcare Property Trust
Elanor Commercial Property Fund	Precinct Properties NZ
Centuria Capital Group	Goodman Group

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Quarterly Property Market Commentary

NZ property stocks followed up their +7.1% surge in the month of July with a further lift of +3.11% in the month of August. Rather than a buoyant outlook for property rentals and occupancy, this appears to have been sparked by an extremely dovish RBNZ sparking a chase for yield at any price. The so-called TINA trade (there is no alternative) is in full swing, especially for those property entities that are perceived to have highly certain earnings and dividend outlooks. 10-year bond yields declined from 0.77% to a remarkably low 0.61% - well below current and future inflation, creating a real quandary for savers and balanced portfolios.

NZ's sharp prior outperformance of Australia's S&P/ASX200 A-REIT Accumulation Index reversed in the month, with that market rising by +7.9%, while the global FTSE EPRA/NAREIT Index rose by +2.8%.

News flow in the month saw Stride buy an office property at 34 Shortland Street for $67.5m and is possibly a precursor to Stride launching an office property fund in the future as they look to develop their fund management strategy. Argosy made some minor industrial divestments at strong prices to reduce gearing, while Precinct's result was notable for a $70m negative valuation decrement at Commercial Bay and their decision to place the 50% they still own of the ANZ Centre on the market.

Performance in the month was rationally led by those entities with ultra-long lease terms, namely Vital Healthcare Property (VHP, +10.3%) and Investore Property (IPL, +10.6%). Notable laggards were Kiwi Property (KPG, -2.8%), Precinct Property (PCT, -2.9%) and Stride Property (SPG, -1.0%). This divergence reflects well known concerns regarding shopping centre property assets and emerging worries about the outlook for Auckland office property.

Matthew Goodson, CFA

Salt Enhanced Property Fund Commentary

The Fund slightly outperformed its benchmark in the month of August, rising by +3.29% compared to the +3.11% recorded by the S&P/NZX All Real Estate Gross Index.

The largest single positive was the holding in Centuria Capital (CNI, +16.5%) following their partially scrip-based takeover of Augusta in NZ. While it remains cheap in relative terms versus its major peer, Charter Hall, we did take a degree of profits give the magnitude of the rise.

The other stand-out was the long held overweight in Investore Property (IPL, + 10.6%) which is benefitting from the strong perceived certainty regarding future rental levels from their predominantly supermarket assets and from their lease duration being far in excess of their debt duration. These same factors drove the strongest detractor which was our underweight in Vital Healthcare Property (VHP, +10.3%), whose strength surprised us somewhat given its relatively high gearing and their tenants not being entirely immune to Covid-19 shutdowns.

A third tailwind was the moderate holding in the elderly rental accommodation owner, Eureka Group (EGH, +21.5%). EGH has now largely cleaned out the detritus left behind by former management and is poised for solid growth as it redeploys capital at extraordinary cap rates of circa 10%. While their assets are largely provincial, a shortage of rental accommodation is seeing high occupancy and the income streams are government funded. Their result was rock-solid and showed them to be very much on track.

The Fund has progressively lifted its weighting to Australia in recent months as we are finding greater relative value in that market. At end-month, our net positive exposure to that market stood at 7.2% although we are taking care to avoid retail shopping centres and Sydney/Melbourne office property, where the outlooks have become very difficult indeed. Unsurprisingly in a strong month, our shorts detracted -0.23% but they funded longs and overall Australia contributed a healthy +0.64%.

Headwinds came from underweights in the increasingly expensive NZ market which were used to fund our Australian foray. They were led by the aforementioned Vital Healthcare Property and Property For Industry (PFI, +5.7%) which continues to surge on the "there is no alternative" trade to a greater than 30% premium to NTA, despite this NTA retracing slightly as industrial rental levels are showing the first signs of topping out, with incentives starting to lift.

At month-end, the Fund was in a relatively normal position, with gross exposure of 108% and net length of 97%.