Salt Enhanced Property Fund Fact Sheet – September 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 30 September 2021

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$24.7 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 September 2021

Application	1.9159
Redemption	1.9082

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 September 2021

Long Exposure	100.68%
Short Exposure	4.82%
Gross Equity Exposure	105.50%
Net Equity Exposure	95.87%

Fund Allocation at 30 September 2021

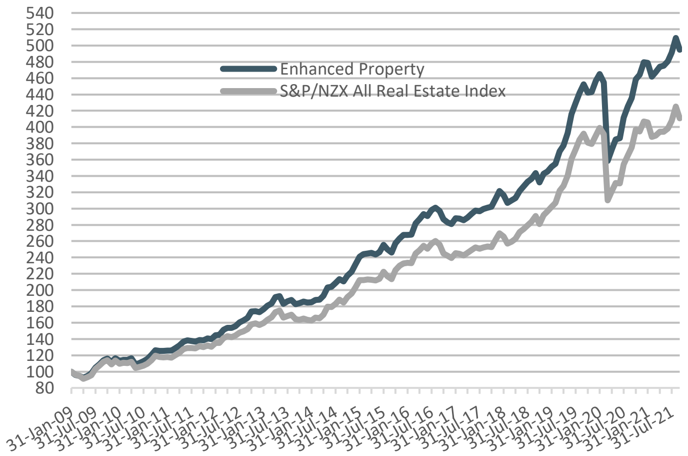
NZ Listed Property Shares	88.80%
AU Listed Property Shares	7.60%
Cash	3.60%

Fund Performance to 30 September 2021

Period	Fund Return	Benchmark Return
1 month	-2.86%	-3.42%
3 months	2.93%	3.18%
6 months	5.84%	5.46%
1-year p.a.	13.55%	9.60%
2 years p.a.	4.55%	2.39%
3 years p.a.	12.93%	12.19%
5 years p.a.	10.73%	9.92%
Inception p.a.	12.67%	11.71%

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

Cumulative Fund Performance to 30 September 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
Elanor Commercial Property Fund	Property For Industry
GDI Property Group	Precinct Properties NZ
Garda Diversified Property Fund	Goodman Property Trust
Millennium & Copthorne Hotels	Stride Property Group
Irongate Group	Vital Healthcare Property Trust

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Monthly Property Market Commentary

The S&P/NZX All Real Estate Gross Index advanced by +3.18% in the September quarter. This slightly lagged the S&P/ASX200 A-REIT Accumulation Index, which rose by +4.24%, while the global FTSE EPRA/NAREIT Index was largely flat.

The move in NZ defied a lift in NZ 10-year bond yields from 1.77% to 1.97% over the quarter, which potentially creates some valuation questions unless future rental growth lifts alongside discount rates. Key funding benchmarks rose even more sharply, with 3-year swap moving from 1.00% to 1.63% and 5-year swap from 1.36% to 1.88%. While this may impact with a lag, this has done nothing to date to dampen voracious demand in physical property markets.

An important driver across Australia and NZ was the inclusion of a number of mid-cap names in the global FTSE EPRA/NAREIT Index for the first time due to a lowered size threshold. In NZ, this drove demand for Argosy Property and Stride Property, with Vital Healthcare Property narrowly missing out although it is likely to be a future entrant. Passive index impacts continue to grow in importance in driving listed share price movements, offering both opportunities and risks to active managers.

News-flow was perhaps highlighted by Stride's failed attempt to spin out and list its office property off-shoot, Fabric Property. This was partly unfortunate timing which coincided with market volatility around the woes of China Evergrande but perhaps also reflected a relatively fully priced portfolio whose dividend yield was not covered by free cashflow.

Other news-flow was relatively limited. Investore purchased a small $36m asset at a seemingly tight cap rate of 4.0%. Kiwi Property announced its intention to begin investing in build-to-rent residential assets, starting with Sylvia Park – these would appear to have strong synergies with their retail asset base and may be attractive if they can be delivered and rented at the planned metrics. Finally, Goodman Property announced a sharp valuation increase which lifted its NTA from $2.12 to $2.48. However, this was driven almost entirely by cap rate contraction, so will perversely be a modest negative for investors in this externally managed vehicle.

Performance in the quarter was led by Precinct Property (PCT, +6.0%). Goodman Property (+5.7%) was boosted early in the period by its parent, Goodman Group paying $2.50 to lift its holding to 24.8%. Argosy advanced +5.0% largely on index inclusion buying, while Stride rose +3.1%, having been up far more strongly prior to withdrawing the Fabric offer. The retail exposed stocks underperformed, with Investore (IPL, -0.8%) and Kiwi Property (KPG, -0.9%) lagging.

Salt Enhanced Property Fund Commentary

The Fund performed largely in line with its benchmark in the September quarter, returning +2.93% compared to the +3.18% advance turned in by the S&P/NZX All Real Estate Gross Index.

Given the positive backdrop, the Fund's small group of shorts were unsurprisingly a moderate -0.20% headwind. However, these allow us to own more of our highest ranked longs, so that our Australian holdings overall contributed +0.19% to returns.

The stand-out positive was the long-held position in Garda Property (GDF, +14.2%). GDF is internally managed by highly aligned management and we are enamoured by their strategy of expanding by developing and owning logistics properties. It is far cheaper to build than buy in what is a red-hot sector and it also avoids the impost of stamp duty when one purchases properties.

The performance of GDF marks an interesting contrast with that of the externally managed Centuria Industrial Property (CIP, +1.4%), which raised at a discount to buy high quality but fully priced industrial properties. This knocked the share price down over 10% off its highs which gave the Fund an entry opportunity.

Other positives came from well-timed investments in Homeco Daily Needs REIT (HDN, +13.9%), Irongate Group (IAP, +3.9%) and GDI Property (GDI, +3.1%).

The strongest headwind came from being underweight the very expensive but high momentum Goodman Property (GMT, +5.7%). We have under-estimated just how hot the NZ industrial property sector would become, with some property cap rates now moving under 4%. At a time of rising discount rates, this requires a very robust view of future rental growth for satisfactory returns to result. Our overweights elsewhere did not quite offset the headwind from this. The other key detractor was our short in the very expensive Arena REIT (ARF, +18.3%), where we underestimated the short term share price impact of index inclusions.

Matthew Goodson, CFA