Salt Enhanced Property Fund Fact Sheet – June 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 June 2021

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$16 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 June 2021

Application	1.8613
Redemption	1.8538

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 2021

Long Exposure	100.32%
Short Exposure	7.27%
Gross Equity Exposure	107.59%
Net Equity Exposure	93.06%

Fund Allocation at 30 June 2021

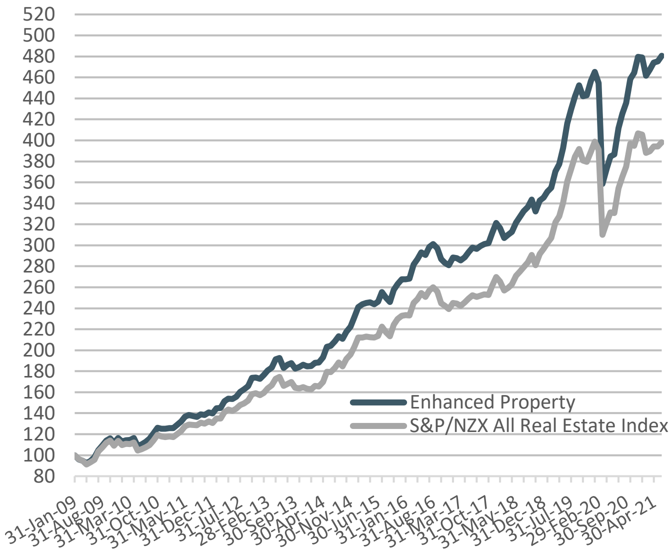
NZ Listed Property Shares	90.14%
AU Listed Property Shares	4.74%
Cash	5.11%

Fund Performance to 30 June 2021

Period	Fund Return	Benchmark Return
1 month	1.11%	1.05%
3 months	2.82%	2.21%
6 months	0.23%	-2.07%
1-year p.a.	24.37%	20.38%
2 years p.a.	7.48%	5.05%
3 years p.a.	13.69%	13.16%
5 years p.a.	10.57%	9.68%
Inception p.a.	12.86%	11.81%

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

Cumulative Fund Performance to 30 June 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	Goodman Property Trust
GDI Property Group	Stride Property Group
Garda Diversified Property Fund	Vital Healthcare Property Trust
Irongate Group	Arena REIT No 1
Vitalharvest Freehold Trust	Argosy

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Monthly Property Market Commentary

The S&P/NZX All Real Estate Gross Index advanced by 2.21% in the June quarter, sharply lagging the +10.64% rise by the S&P/ASX200 A-REIT Accumulation Index and the +9.54% by the global FTSE EPRA/NAREIT Index. Although numerous signs of inflation began to gather in the period, the fact that central banks appear to be happy to wait for now, saw 10-year bond yields barely move from 1.78% to 1.77%. Interestingly, the critical 3-year swap rate, to which many property loans are benchmarked, rose sharply from 0.66% to 1.01%. This had little impact on a rampantly bullish sector.

News was highlighted by result season, which was largely in line with expectations. Kiwi Property's result featured slightly weaker than expected dividend guidance and an affirmation of seeking to exit The Plaza and Northlands in favour of investing in build-to rent residential and some office developments. Goodman Property's result was highlighted by NTA rising from 172.7c to 212.5c. However, this was largely driven by cap rate contraction rather than rents, meaning there is value leakage to the external manager.

Sharp cap rate contraction has continued to be a key theme across every property segment except for shopping centres as investors have been forced to move up the risk curve to bank a yield of some meagre description.

Asset news saw Kiwi Property (KPG) announce a $63m, 7,450sqm office tower at Sylvia Park on an uncommitted basis. KPG also announced a joint venture with Tainui to redevelop the difficult but small Centre Place North asset in Hamilton. Vital Healthcare (VHP) bought a private hospital in Melbourne and three development assets, with the former being on a very tight yield on just over 4% after stamp duty.

Precinct (PCT) conducted a $250m equity raising to buy Bowen House and the Freyberg Building in Wellington. Both are well located assets that require significant redevelopment expenditure.

Performance in the quarter was led by Argosy Property (ARG, +9.8%), with Vital Healthcare Property (VHP, +7.3%) and Stride Property (SPG, +6.3%) following. Aside from the tiny NZ Rural Landco (NZL, -4.3%), the largest laggards were Kiwi Property (KPG, -3.3%) and Asset Plus (APL, -2.8%).

Salt Enhanced Property Fund Commentary

The Fund delivered a quarter of solid outperformance, returning +2.82% compared to the +2.21% advance turned in by the S&P/NZX All Real Estate Gross Index. Performance was assisted by an average weight of approximately 6% in the Australian market, which outperformed NZ by 8.4% in the period.

Unsurprisingly, our small collection of shorts struggled in such a strong quarter for Australian property, with a collective return of -0.53%. However, these allow us to own an extended list of Australian longs, with these performing so well that the return from our overall Australian holdings was +0.96%.

Positives were led by our large overweight in Vitalharvest Property Trust (VTH, +20.5%) which benefitted from a takeover battle to acquire its freehold ownership of many of the berry farms and orange groves operated by Costa Group. This has concluded and will close shortly after quarter end.

Other large positives were led by our overweight in Elanor Commercial Property (ECF, +12.0%). ECF pays a cash-covered dividend that grosses to over 9% for a NZ investor. This is far too high in our view relative to their moderate gearing and workhorse office properties that are maintaining solid occupancy levels.

A third winner was our long-held position in Garda Property (GDF, +16.9%). They announced a sizeable 21% increase in their NTA to $1.45, with both their industrial and office property holdings contributing. They also acquired three parcels of land for future industrial developments. We view their strategy of building as opposed to buying as being very sensible in the current market conditions. Their NTA is still 14% above the year-end share price and we see further upside for this internally managed entity.

As might be expected in a positive quarter for the index, headwinds were led by two of our Australian shorts. APN Industria REIT (ADI, +14.0%) rose sharply despite real re-leasing risks at some of its office park assets. Arena REIT (ARF, +15.5%) ran hard despite being materially above NTA and registering as very expensive on our relative valuation models. A chase for long-lease assets won the day for now. Other headwinds came from NZ underweights that we necessarily need to have so that we can invest in Australian opportunities. Vital Healthcare Property (VHP, +7.3%) and Argosy Property (ARG, +9.8%) stood out here

Matthew Goodson, CFA