Salt Enhanced Property Fund Fact Sheet – March 2024

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 March 2024

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$22 million
Inception Date	11 December 2014
Portfolio Managers	Matthew Goodson, CFA Nicholas Falconer, MBA

Unit Price at 31 March 2024

Application	1.4662
Redemption	1.4602

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 March 2024

Long Exposure	105.32%
Short Exposure	9.17%
Gross Equity Exposure	114.49%
Net Equity Exposure	96.15%

Fund Allocation at 31 March 2024

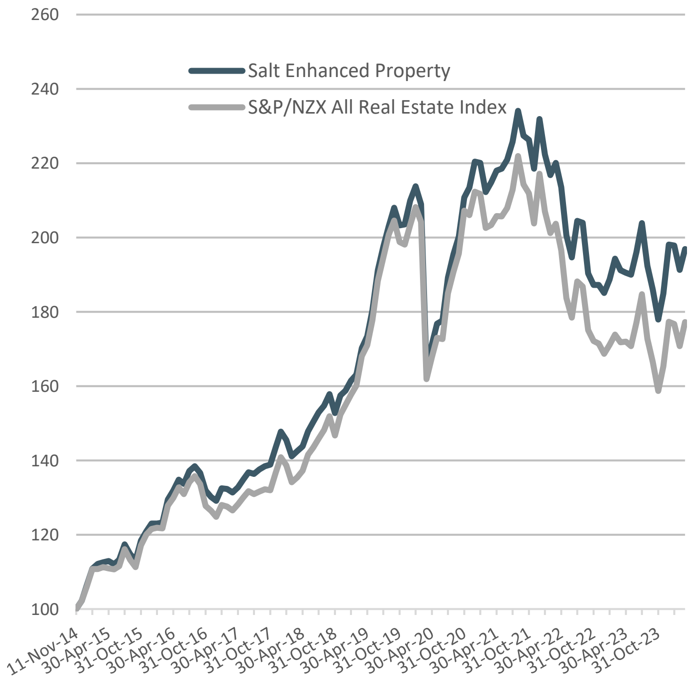
NZ Listed Property Shares	91.90%
AU Listed Property Shares	4.52%
Cash & Cash Equivalents	3.58%

Fund Performance to 31 March 2024

Period	Fund Return	Benchmark Return
1 month	2.89%	3.77%
3 months	-0.65%	-0.04%
6 months	5.89%	6.44%
1 year	2.98%	3.55%
2 years p.a.	-6.08%	-6.56%
3 years p.a.	-3.33%	-4.18%
5 years p.a.	2.65%	1.26%
7 years p.a.	5.73%	5.07%
Inception p.a.	7.33%	6.40%

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

Cumulative Strategy Performance to 31 March 2024



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.

Top Overweights	Top Underweights/Shorts
GDI Property Group	Precinct Properties NZ
Asset Plus	Property For Industry
Elanor Commercial Property Fund	Goodman Property Trust
Servcorp	Stockland Corporation
RAM Essential Services Property Fund	Kiwi Property Group

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Property Market Commentary

The S&P/NZX All Real Estate Gross Index was effectively neutral at -0.04% over the March quarter, where a strong March (up +3.8%) offset declines at the start of the year. The NZX50 Gross Index rose +2.8% and as generally expected, the Reserve Bank held rates at 5.5% with yields on a NZ 10-year bond at 4.59% at the end of the period.

In global property markets, the FTSE EPRA/NAREIT Index similarly declined -2.5% but the Australian S&P/ASX200 A-REIT Accumulation Index had another strong month gaining +9.7% in March to bring the performance for the quarter to +16.8%. Australian outperformance continues to be led by its largest constituent at 37% of the index Goodman Group (GMG, +33.6%).

Amongst the major NZX50 REITs returns were well spread with Property For Industry (PFI, +5.6%) the best performer and Stride (SPG, -4.6%) the worst. All the other names were plus-or-minus 2.5%.

Most of the news in the quarter came in February and we covered it in last month's note. The most notable was the surprise announcement by Goodman (GMT, +0.7%) that they plan to internalise the management contract currently held by GMG. The cost for doing this is almost $300m (contract buyout, brand license, transitional services, fees) and is proposed to deliver approx. $22m of fee savings per annum. In principle we prefer internalised vehicles, however, experience has shown that an external manager can provide good discipline. In this case, with GMG investing their payment in shares and factoring in tax benefits and likely cost growth we view the internalisation as broadly neutral. GMT also proposes to set up a fund to take external capital for off-balance sheet investments. We view this as positive if at least half of the targeted $2b size can be achieved.

Kiwi Property (KPG, -2.0%) confirmed a market rumour that they are in "advanced negotiations for the conditional sale" of Vero Centre at a "small discount" to its $467m valuation – but no update at the time of writing and there is speculation that OIO approvals could be complex and have been under review for some time.

Also in February, there was a block trade of a 15% of the shares in Precinct (PCT, -2.5%) due to ADIA exiting their strategic holding. We were active participants in this trade securing a large allocation at the well-discounted sale price.

Back in January, NZ Rural Land (NZL, +14.3%) announced an equity injection via a 25% sale of its portfolio and restructuring so that the new investor Roc Partners will hold a 25% share. Proceeds will be used to pay down debt and the news was well received by the market.

At the asset level, we saw Argosy (ARG, +1.9%) sell two assets for a combined $20m in order to reduce debt levels slightly, and SPG announced that its Industre industrial property fund (a JV with JP Morgan) will commence a new $31m development that is fully leased.

Finally, during the period PFI reported its full-year result and PCT and Vital Healthcare (VHP, +2.5%) gave their interim updates. The main takeaway of note was that while interest expenses went up as expected there were some slight signs of slower growth in rents (but still growing).

Salt Enhanced Property Fund Commentary

The fund underperformed our NZ benchmark for the quarter by 61 basis points, with most of the underperformance attributable to the month of March. The return to investors for the quarter was -0.65%.

Fund underperformance was largely attributable to our short positions in 4-6 Australian stocks which as expected dragged on returns with the strong Australian market this quarter.

We saw good outperformance come from our underweight in PCT, in particular, due to our participation in the block trade. However, the best positive performer was the Australian-based global share office provider Servcorp (SRV, +15.7%) which has continued to do well into the start of April.

We have previously written about our positions in GDI Property (GDI, -1.5%) and Asset Plus (APL, -2.5%) both relatively niche investments where we believe there is very attractive valuation upside. Nonetheless, they drifted lower this quarter so contributed to the fund's underperformance. GDI has reported good leasing progress and we believe there are multiple options for APL to be wound-up so we remain hopeful.

At the time of writing, we estimate that the Fund offers a year-ahead gross dividend yield of 6.9% to a NZ investor.

Nicholas Falconer, MBA