Salt Enhanced Property Fund Fact Sheet – December 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 31 December 2022

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$25 million
Inception Date	11 December 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 December 2022

Application	1.471
Redemption	1.4651

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 December 2022

Long Exposure	104.64%
Short Exposure	5.41%
Gross Equity Exposure	107.95%
Net Equity Exposure	98.26%

Fund Allocation at 31 December 2022

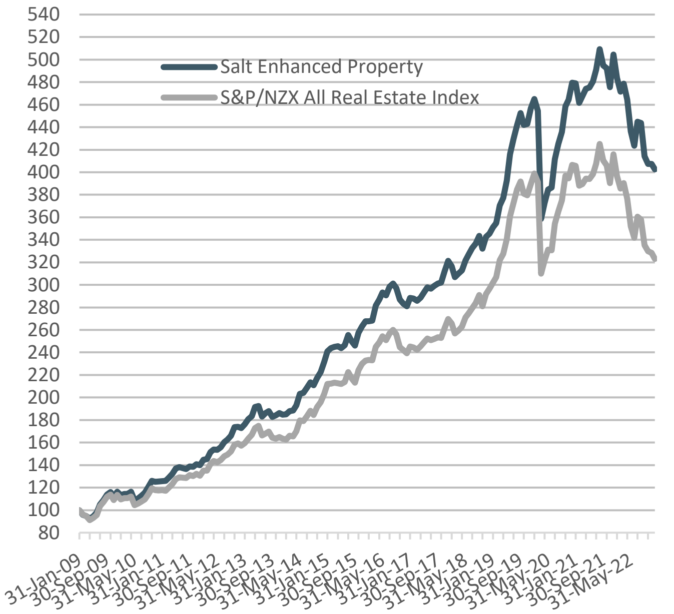
NZ Listed Property Shares	93.05%
AU Listed Property Shares	6.29%
Cash	0.66%

Fund Performance to 31 December 2022

Period	Fund Return	Benchmark Return
1 month	-1.18%	-1.58%
3 months	-2.77%	-3.62%
6 months	-4.95%	-5.47%
1-year p.a.	-20.20%	-22.30%
2 years p.a.	-8.37%	-10.59%
3 years p.a.	-4.12%	-5.84%
5 years p.a.	4.61%	3.80%
7 years p.a.	6.01%	4.89%
Inception p.a.	7.86%	6.71%

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

Cumulative Strategy Performance to 31 December 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 31 December 2014, performance is from a fund with the same strategy and the same portfolio manager.

Top Overweights	Top Underweights/Shorts
GDI Property Group	Precinct Properties NZ
Elanor Commercial Property Fund	Vital Healthcare Property Trust
360 Capital REIT	BWP Trust
DEXUS Property Group	Property For Industry
Abacus Property Group	Waypoint REIT

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Property Market Commentary

The S&P/NZX All Real Estate Gross Index declined by -3.62% in the December quarter, sharply lagging the broader NZ equity market (+3.68%) and also its global peers. The S&P/ASX200 A-REIT Accumulation Index rose by a sharp +11.5% and the global FTSE EPRA/NAREIT Index (USD) turned in a +7.3% performance. The earlier positive divergence between NZ versus Australia and the world has been reversed and likely reflects the implications of tighter relative monetary policy settings in NZ. The global performance was perhaps a touch surprising given that bond yields rose in most markets during the period.

NZ 10-year bond yields rose slightly from 4.31% to 4.47% in the quarter, while the RBNZ lifted its OCR target from 3.0% to 4.25%, with the promise of plenty more to come. Inflation-driven rental growth is helpful for the sector but this has been outweighed by concerns around rising interest costs, potentially problematic debt levels in some cases, falling property values on higher cap rates and rising vacancies in lower quality assets.

News-flow was dominated by result season. Argosy (ARG) and Goodman Property (GMT) saw rent growth largely offset the impact of higher cap rates on valuations. Investore (IPL), Kiwi Property (KPG) and Stride Property (SPG) saw net valuation declines. SPG announced a material cut in their dividend outlook, with this reflecting their relatively levered balance sheet. Precinct Property (PCT) announced several developments accompanied by divestitures of majority stakes in the properties to partnerships that they run with Singapore's GIC and Hong Kong's PAG. PCT also surprisingly announced an entry into multi-storey residential development.

Performance in the quarter saw reasonable divergence, with outperformance by Goodman Property (GMT, +1.9%) and Kiwi Property (KPG, +1.3%). The most highly leveraged names were the key laggards, with Stride Property (SPG, -13.5%), and Vital Healthcare Property (VHP, -10.7%) standing out. The residential land developer, Winton (WIN, -38.3%) performed very poorly as the housing market slowed sharply.

Salt Enhanced Property Fund Commentary

The Fund outperformed its benchmark in the December quarter, with a return of -2.77% compared to the -3.62% performance turned in by the S&P/NZX All Real Estate Gross Index. This performance was satisfactory although it was largely due to Australia sharply outperforming NZ in the quarter and a net 6% of the Fund being in that market.

Despite being slightly net long, our Australian investments had a rare period of detracting modestly from returns. The main culprit was our large holding in in GDI Property (GDI, -4.5%), the Perth-focused office property company, which fell out of the MSCI Small Cap Index. Perth has strong relative appeal versus other capital cities as it is seeing positive absorption due to the WA economy being driven by resources and a return to strong population growth now that Covid-driven border closures are over. The share price of $0.75 is at a 41% discount to the last NTA of $1.27, and unlike many of its property peers, the cap rate of circa 6.6% appears reasonable and potentially even conservative. Post quarter-end, GDI delivered a long-awaited positive leasing update, which the market only noticed to a modest degree amid the holiday slumber.

Other headwinds were shorts in the very expensive Bunnings Warehouse Property (BWP, +8.2%) and the highly levered Charter Hall Long-WALE REIT (CLW, +13.4%).

The largest positive contribution came from not owning Winton Land (WIN, -38.3%), the large-scale residential land developer. It is still the wrong point in the cycle to cover this off. Other key positives were the underweight in the highly geared Vital Healthcare Property (VHP, -10.7%) and the overweight in the very high yielding Elanor Commercial Property (ECF, +7.5%).

At quarter-end, we estimate that the Fund offers a year-ahead gross dividend yield of 6.6% to a NZ investor.

Matthew Goodson, CFA