Salt Enhanced Property Fund Fact Sheet – September 2023

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 2023

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

Unit Price at 30 September 2023

Application	1.4206
Redemption	1.4149

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 2023

Long Exposure	100.52%
Short Exposure	3.70%
Gross Equity Exposure	104.22%
Net Equity Exposure	96.81%

Fund Allocation at 30 September 2023

NZ Listed Property Shares	88.71%
AU Listed Property Shares	8.10%
Cash & cash equivalents	3.19%

Fund Performance to 30 September 2023

Period	Fund Return	Benchmark Return
1 month	-3.37%	-3.25%
3 months	-5.19%	-5.65%
6 months	-2.75%	-2.71%
1 year	-3.68%	-4.54%
2 years p.a.	-10.22%	-11.47%
3 years p.a.	-2.91%	-4.94%
5 years p.a.	3.03%	2.05%
7 years p.a.	4.29%	3.33%
Inception p.a.	7.06%	6.02%

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

Cumulative Strategy Performance to 30 September 2023

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	Goodman Property Trust
Asset Plus	Property For Industry
Elanor Commercial Property Fund	Precinct Properties NZ
Servcorp	Investore Property
Millennium & Copthorne Hotels	Mirvac Group

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Property Market Commentary

The S&P/NZX All Real Estate Gross Index fell by -5.4% in the September quarter, driven in large part by the significant move in the NZ 10-year bond from 4.65% to 5.34% at quarter-end (it is ~20bp higher still at time of writing). This weak performance across the period matched that in the broader market with the NZX50 Gross Index down 5.2% for the quarter. Internationally the S&P/ASX200 A-REIT Accumulation Index fared slightly better (down -2.9%, September down -8.6%), but the global FTSE EPRA/NAREIT Index declined -6.6% in the quarter (losing -7.5% in September).

At the stock level, only Argosy (ARG, +2.0%) delivered a positive return in the quarter. With all the other NZX50 REITs falling between -4% and -10% over the period.

The most notable event in the quarter (although secondary in impact to bond yields) was the announcement in August of National's proposed tax policy that included the removal of structure depreciation on commercial property. Given Labour had already proposed this change, we and the market, assume it to now be a near certainty. The impact across stocks varies with Investore (IPL, -8.9%) and Kiwi Property Group (KPG, -5.3%) likely impacted the most, and Vital Healthcare property Trust (VHP, -8.1%) the least due to its portfolio weighting to Australia. The change will likely only hit cashflows in FY25 but we believe it is now fully reflected in share prices.

Unsurprisingly given the movement in bond rates over the last 6-months we saw downward revaluations in portfolios for all of those who updated in the quarter. Six REITs announced revaluations with cap rates expanding between 28 and 70 basis points, with an average widening of 45 basis points. While it is likely there is more to go (and the narrow spread of property yields relative to the 10-year supports this) we are watching the market closely for signs of the bottom in equity prices.

Property valuers are still waiting for more transaction evidence before marking valuations down further. There was limited action on this front during the quarter. Stride (SPG, -7.7%) and VHP were able to sell some smaller assets, however KPG's planned sale of a Wellington office tower fell through.

In other news, August results offered little new news but confirmed recent themes of strong rental growth being offset by elevated interest expenses; Precinct (PCT, -9.6%) issued $200m of convertible bonds – which we chose not to participate in; and VHP's manager (Northwest Properties, a Canadian healthcare REIT) announced a strategic review which could potentially lead to changes in its 28% holding in VHP.

Salt Enhanced Property Fund Commentary

The fund outperformed the market over the quarter by almost 50 basis points, however it was a tough period for overall returns, down -5.19% in the fund, and with the S&P/NZX All Real Estate Gross Index down -5.65%.

Outperformance came from our core underweight positions in PCT, Goodman (GMT, -4.0%), IPL and VHP; our investment in Healthco (HCW, +11.7%); and short positions in Mirvac (MGR, -5.8%) and Centuria (CNI, -17.6%).

The main underperformers over the quarter were the two positions in Australian office REITs – Elanor Commercial (ECF, -10.3%) and GDI (GDI, -17.1%). While both stocks are exposed to the out-of-favour Australian office markets we believe their portfolios are relatively well positioned and (more) realistically valued. GDI in particular has been hit hard by aggressive selling in larger than average volumes, likely reflecting forced selling of a large holding.

We have continued to actively engage with company management and directors as well as industry professionals over the period with respect to both our New Zealand and Australian holdings.

At month-end, we estimate that the Fund offers a year-ahead gross dividend yield of 6.7% to a NZ investor.

Nicholas Falconer, MBA