Salt Enhanced Property Fund Fact Sheet – August 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 August 2022

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$27 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 August 2022

Application	1.6646
Redemption	1.6578

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 August 2022

Long Exposure	102.12%
Short Exposure	5.22%
Gross Equity Exposure	106.05%
Net Equity Exposure	98.18%

Fund Allocation at 31 August 2022

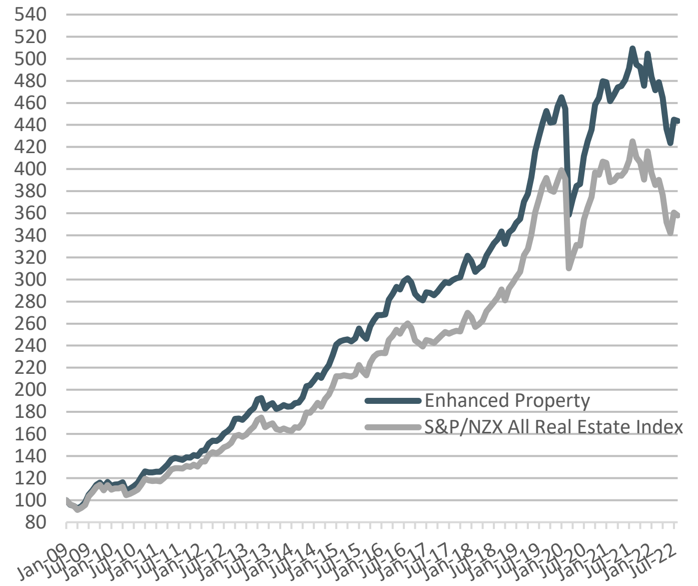
NZ Listed Property Shares	92.24%
AU Listed Property Shares	7.56%
Cash	0.20%

Fund Performance to 31 August 2022

Period	Fund Return	Benchmark Return
1 month	-0.28%	-0.74%
3 months	1.65%	1.70%
6 months	-5.93%	-7.15%
1-year p.a.	-12.89%	-15.38%
2 years p.a.	2.14%	-0.73%
3 years p.a.	0.15%	-2.17%
5 years p.a.	8.19%	7.38%
7 years p.a.	8.55%	7.50%
Inception p.a.	9.56%	8.42%

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

Cumulative Strategy Performance to 31 August 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 30 November 2014, performance is from a fund with the same strategy and the same portfolio manager.

Top Overweights	Top Underweights/Shorts
GDI Property Group	Vital Healthcare Property Trust
Elanor Commercial Property Fund	BWP Trust
Abacus Property Group	Goodman Property Trust
REP Essential Property	Property For Industry
360 Capital REIT	Winton

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Property Market Commentary

The S&P/NZX All Real Estate Gross Index declined by -0.74% in the month of August. While superficially a mediocre outcome, this was a strong performance when one considers that NZ 10-year bond yields rose from 3.40% to 3.97% during the month. The RBNZ made a further 50bp hike in the OCR target during the month from 2.5% to 3.0%. Further it slightly lifted its view of the future track, now seeing the OCR peaking at 4.1% and remaining at 4.0% through 2024.

Bond yields rose globally during the month as markets veered away from the idea that central banks might pivot. This meant the performance of NZ property was a real outlier, with the S&P/ASX200 A-REIT Accumulation Index declining by -3.5%, while the global FTSE EPRA/NAREIT Index (USD) fell by a sharp -6.0%. Year-to-date, NZ is now -14.0%, Australia is -16.6% and the global index is -19.2%.

News-flow in the month was dominated by result season, with key themes being varying exposure to rising interest rates and no broad-based upwards move yet in cap rates. From here, cap rates are likely to rise but valuers tend to await market evidence and lag the cycle. Company-specific news saw Precinct Property (PCT) have to exclude the $200m Defence House asset from their partnership with GIC and Asset Plus (APL) finally manage to get settlement on the sale of Eastgate at month's end. NZ Rural Land (NZL) saw a sharp decline in cap rates on its farms drive a large lift in NTA to $1.63 (+16.7%). However, a lack of hedging saw higher interest rates erode earnings guidance. This interest rate impact was a factor across the sector.

The strongest performer during the month was NZ Rural Land (NZL, +10.8%) following its sharp lift in NTA. Asset Plus (APL, +3.8%) and Property For Industry (PFI, +2.6%) also did well. Stand-out laggards were Precinct Property (PCT, -5.6%) and Vital Healthcare Property (VHP, -4.1%).

Salt Enhanced Property Fund Commentary

The Fund performed solidly in the month of August, declining by -0.28% compared to the -0.74% performance by the S&P/NZX All Real Estate Gross Index. This was particularly pleasing given that a net 9% of the Fund is invested in Australia. That market fell by -3.5%, creating a stiff-wind.

As one would expect in a negative month, our modest array of Australian shorts performed very well, adding +0.58% to returns. This was partially offset by our long positions on the other side, but even with our overall net length in Australia being positive, that market still contributed +0.28%. A pleasing outcome.

The largest positive contributors came from our two of our Australian shorts and one of our longs in that market. Our short in Arena REIT (ARF, -12.7%) continued its roller-coaster performance which has been nothing like what one might expect from a staid long-WALT property trust. We covered on the pull-back. Our-long standing short in Bunnings Warehouse Property (BWP, -7.0%) retreated with the market and remains expensive on our relative value modelling. Our long in the high-yielding Elanor Commercial Property (ECF, +4.1%) defied the weakness in Australia thanks to a solid result featuring strong leasing activity.

The main headwind came from our largest and highest conviction Australian overweight, GDI Property (GDI, -7.7%), which reversed its prior month bounce. Their result disappointed as they failed to confirm any material new leasing commitments but this was perhaps understandable given Covid disruptions in the period. We understand that enquiry levels are strong. We remain positive on the Perth outlook compared to other major cities around Australia/NZ as solid population growth and positive absorption bump up against years of limited construction. The only other negative of any note was our holding in Abacus Property (ABP, -7.2%). Their result was as expected and we remain attracted to their best-in-market self-storage portfolio,

At month-end, we estimate that the Fund offers a year-ahead gross dividend yield of 6.2% to a NZ investor.

Matthew Goodson, CFA