Salt Enhanced Property Fund Fact Sheet – May 2020

Manager Profile

Salt Funds Management is a boutique investment management firm wholly owned by its employees which specialises in managing NZ/Australian equity and listed property mandates for wholesale and retail clients.

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 May 2020

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$10.9 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 May 2020

Application	1.5351
Redemption	1.5289

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%

1To NZ and Australian property and property related securities.

Fund Exposures at 31 May 2020

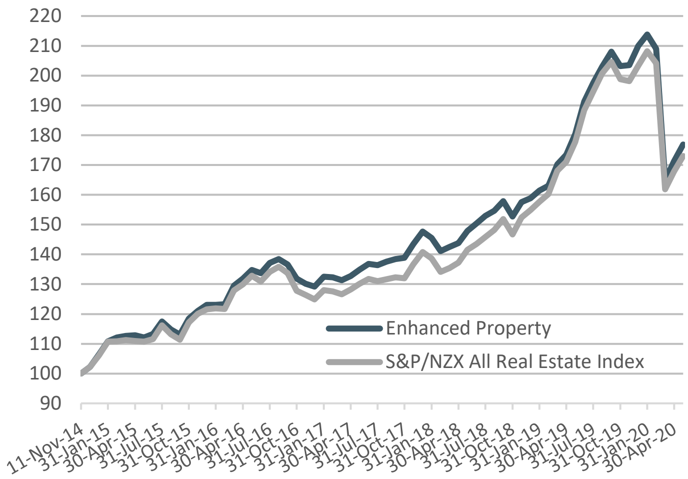
Long Exposure	101.37%
Short Exposure	5.08%
Gross Equity Exposure	106.45%
Net Equity Exposure	96.29%

Fund Performance to 31 May 2020

Period	Fund Return	Benchmark Return
1 month	3.22%	3.07%
3 months	-15.37%	-15.29%
6 months	-13.13%	-12.68%
1-year p.a.	-2.00%	-2.70%
2 years p.a.	9.36%	10.56%
3 years p.a.	9.44%	9.96%
5 years p.a.	9.55%	9.34%
Inception p.a.	10.82%	10.38%

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

Cumulative Fund Performance to 31 May 2020



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.

Fund Allocation at 31 May 2020

NZ Listed Property Shares	93.13%
AU Listed Property Shares	4.74%
Cash	2.13%

Top Overweights	Top Underweights/Shorts
Investore Property	Property for Industry
Elanor Commercial Property Fund	Kiwi Property Group
Vitalharvest Freehold Trust	Vital Healthcare Property Trust
Garda Diversified Property Fund	Precinct Properties NZ
GDI Property Group	BWP Trust

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

Quarterly Property Market Commentary

NZ property stocks advanced solidly in May, with the benchmark rising by +3.07%. This sharply lagged the +8.1% turned in by Australia's S&P/ASX200 A-REIT Accumulation Index global peers but it easily surpassed the global performance of +0.3% by the FTSE EPRA/NAREIT Index. The bond yield environment remained supportive with ten year yields effectively unchanged at just 0.79% but they did reach a stunning low of just 0.49% on 14 May. Relative yields are not even the slightest of question marks for property investors, what matters is the sustainability or otherwise of rental revenues, with this varying by company and sector.

There were no major shocks from any of the listed company reports during the month. Key themes revolved around moderate levels of rental rebates to tenants, no vacancy issues of any note appeared just yet, and cost savings accrued from lower interest rates and the reinstatement of building depreciation.

The Goodman Property result did surprise with a restated dividend policy set at 80-90% of future cash earnings, which equates to a cash dividend yield below 3%. Other news of note saw Mansons TCLM place their 30,000sqm office development at Albert St on hold. This followed Precinct Property putting 1 Queen St on hold last month. Kiwi Property's result was solid in itself but valuers have moved quickly to lift the cap rates on secondary retail assets, with this seeing $290m in devaluations.

Performance in the month again saw the way led by Property For Industry (PFI, +12.6%), driven by light retail investor interest on the back of new real surprise sin their Q1 investor update. Conversely, the other industrial player, Goodman Property (GMT, -2.4%) brought up the rear due to their downwardly revised dividend policy.

Salt Enhanced Property Fund Commentary

The Fund slightly outperformed the Index in May, turning in a return of +3.22% compared to the +3.07% delivered by the benchmark.

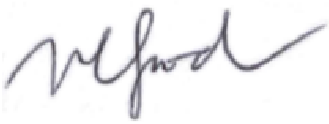
The largest headwind by a considerable distance was again our underweight in Property For Industry (PFI, +12.6%). The retail investor enthusiasm for this stock has continued to surprise us and we see no fundamental reason for it to trade at a 17% premium to NTA. It has some problematic secondary office assets, while its main industrial assets range from high quality down to properties that may prove somewhat difficult in the weak economy that looks set to follow Covid.

As might be expected in a strong month for Australian property stocks, the Fund's small group of shorts detracted -0.18% from returns. However, these allowed us to have larger positions in the longs that we regard as relatively cheap. Even with the headwind from the shorts, Australia collectively delivered +0.68% - a good sign that the Fund's strategy continues to work.

The largest positive was our holding in Vitalharvest Trust (VTH, +10.1%). VTH is Costa Group's landlord for many of its citrus orchards and berry farms. It earns a mix of fixed and variable rentals, with the latter having been hit hard this year due to the drought. This has now ended. There is a major market review uplift in five years that will deliver a dividend yield well into the teens for a NZ investor, while the currently depressed gross yield of almost 7% is perfectly acceptable, especially given the uncorrelated nature of VTH's returns.

The other key tailwind was our position in Elanor Commercial Property (ECF, +7.2%). The Fund added to its holdings when the stock was hard hit in April and it has now begun to gradually recover as it has become increasingly apparent that their tenant mix makes them relatively resilient in the post-Covid environment. It offers a very high gross yield of just over 10% to a NZ investor.

The Fund slightly lifted its gross exposure over May from 104% to 106%, while the net exposure rose from 93.6% to 97.5%. We are close to fully invested from a net point of view. While the economic outlook is cloudy, we believe the determination of central banks to hold interest rates at extraordinarily low levels will see continued demand for property stocks as yield investors are faced with a "TINA" trade (there is no alternative).



Matthew Goodson, CFA