

SALT

Salt Enhanced Property Fund Fact Sheet – August 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 31 August 2023

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	\$23 million
Inception Date	11 November 2014
Portfolio Managers	Matthew Goodson, CFA Nicholas Falconer, MBA

Unit Price at 31 August 2023

Application	1.4702
Redemption	1.4642

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 2023

Long Exposure	100.94%
Short Exposure	4.80%
Gross Equity Exposure	105.75%
Net Equity Exposure	96.14%

Fund Allocation at 31 August 2023

NZ Listed Property Shares	88.21%
AU Listed Property Shares	9.42%
Cash & cash equivalents	2.38%

Fund Performance to 31 August 2023

Period	Fund Return	Benchmark Return
1 month	-5.65%	-6.49%
3 months	1.28%	1.13%
6 months	-0.99%	-0.64%
1 year	-6.98%	-7.54%
2 years p.a.	-9.98%	-11.55%
3 years p.a.	-0.99%	-3.06%
5 years p.a.	4.16%	3.24%
7 years p.a.	4.60%	3.58%
Inception p.a.	7.54%	-6.49%

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

Cumulative Strategy Performance to 31 August 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	Precinct Properties NZ
Elanor Commercial Property Fund	Property For Industry
HealthCo Healthcare & Wellness REIT	Investore Property
Argosy	Vital Healthcare Property Trust

SALT FUNDS MANAGEMENT

Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143

Email: info@saltfunds.co.nz | www.saltfunds.co.nz

Property Market Commentary

The S&P/NZX All Real Estate Gross Index had a sharp sell-off in August, falling -6.49% as the market factored in the likely removal of a tax depreciation benefit, on top of an increase in the NZ 10-year bond yield to 4.91% (from 4.63% last month). NZ outperformed the broader NZX50 Gross Index (off -6.4%) and the global FTSE EPRA/NAREIT Index (off -3.3%), but well underperformed the S&P/ASX200 A-REIT Accumulation Index which rose +2.9% almost wholly off the big increase in Goodman Group GMG, +13.71% (by far the largest constituent).

The most notable event in August was the announcement 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 impacts across stocks varies with Investore (IPL, -16.1%) and Kiwi Property (KPG, -6.8%) likely impacted the most and Vital Healthcare (VHP, -5.1%) the least due to its portfolio weighting to Australia.

Results announcements from Precinct (PCT, -8.6%), Winton (WIN +0.8%), VHP and Property For Industry (PFI, -6.3%) offered little new news but confirmed recent themes of strong rental growth being offset by elevated interest expenses. In other news PCT announced a new joint venture and a convertible bond issue. In partnership with PAG they will form a joint venture with Ngati Whatua Orakei to acquire iwi-owned properties near Spark Arena (the re-leasing strategy stated is likely secondary to cementing the relationship given the critical role Ngati Whatua Orakei will play in the Downtown development).

VHP's manager Northwest Properties announced the immediate resignation of their founder, CEO and chair – who also steps down from the VHP board – alongside a strategic review. We will watch VHP closely for any risks or opportunities this creates given Northwest's 29% holding in VHP.

While balance sheets across the sector remain in line with target ranges, the market is watching closely for any further revaluation declines and/or failed asset sales that could push gearing or interest cover levels into ranges unacceptable to Boards or banks.

Salt Enhanced Property Fund Commentary

The Fund outperformed the S&P/NZX All Real Estate Gross Index by +0.84% despite declining -5.49% in the month of August.

Outperformance was driven by our key NZ underweights delivering 116 bps of active return led by Investore (IPL, -16.1%) and Precinct (PCT, -8.6%). We also benefited from a modest short position in Centuria (CNI.ax, -12.7%) which fell heavily over the month.

Two of our Australian holdings were the main detractors for August. Elanor Commercial Property (ECF.ax, -3.8%) and GDI (GDI.ax, -3.8%) both fell moderately (although in line with much of the market). We used this weakness to add modestly to our positions in both stocks.

At month-end, we estimate that the Fund offers a year-ahead gross dividend yield of 6.4% to a NZ investor.



Nicholas Falconer, MBA