
# Salt Enhanced Property Fund Fact Sheet – March 2021

## 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 March 2021

| | |
|---|---|
| Benchmark | S&P/NZX All Real Estate Gross Index |
| Fund Assets | $12.3 million |
| Inception Date | 11 November 2014 |
| Portfolio Manager | Matthew Goodson, CFA |

## Unit Price at 31 March 2021

| | |
|---|---|
| Application | 1.8376 |
| Redemption | 1.8302 |

## 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 March 2021

| | |
|---|---|
| Long Exposure | 103.06% |
| Short Exposure | 6.78% |
| Gross Equity Exposure | 111.68% |
| Net Equity Exposure | 98.11% |

## Fund Allocation at 31 March 2021

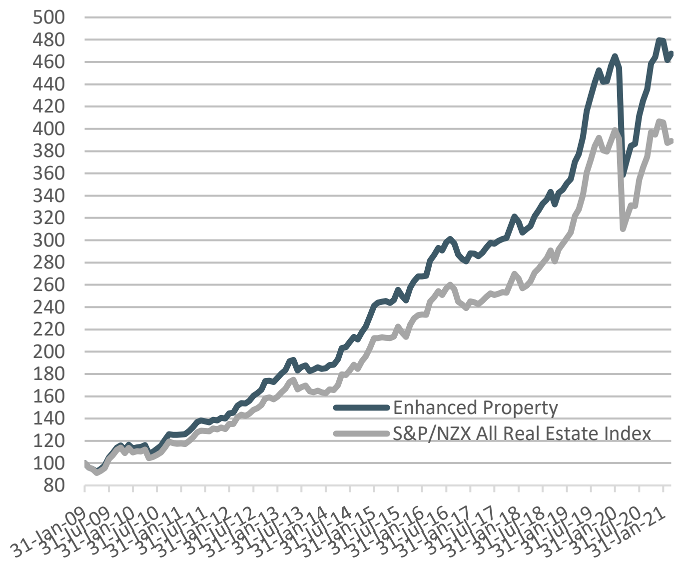
| | |
|---|---|
| NZ Listed Property Shares | 90.37% |
| AU Listed Property Shares | 6.07% |
| Cash | 3.55% |

## Fund Performance to 31 March 2021

| Period | Fund Return | Benchmark Return |
|---|---|---|
| 1 month | 1.23% | 0.39% |
| 3 months | -2.52% | -4.19% |
| 6 months | 7.28% | 3.93% |
| 1-year p.a. | 30.34% | 25.63% |
| 2 years p.a. | 12.33% | 10.00% |
| 3 years p.a. | 14.67% | 14.52% |
| 5 years p.a. | 10.66% | 9.72% |
| Inception p.a. | 12.92% | 11.93% |

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

## Cumulative Fund Performance to 31 March 2021*




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 October 2014, performance is from a fund with the same strategy and the same portfolio manager.

| Top Overweights | Top Underweights/Shorts |
|---|---|
| Elanor Commercial Property Fund | Property for Industry |
| Vitalharvest Freehold Trust | Stride Property Group |
| Waypoint REIT | Precinct Properties NZ |
| Garda Property Group | Goodman Property Trust |
| Millennium & Copthorne Hotels | Vital Healthcare Property Trust |

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## Monthly Property Market Commentary

**After an extremely strong run post-Covid, the S&P/NZX All Real Estate Gross Index declined by -4.2% in the March quarter. This compared to a +4.3% advance by the S&P/ASX200 A-REIT Accumulation Index and +6.1% by the global FTSE EPRA/NAREIT Index. Both of these indices tend to be a little more cyclical than their NZ peer and had sold off harder in 2020. After rising sharply in the December quarter, NZ 10-year bond yields declined from 1.99% to 1.78% in the March quarter.**

News-flow was led by results from Property For Industry (PFI), Precinct Properties (PCT) and Vital Healthcare Property (VHP). They were all reasonably solid although the degree of cap rate contraction was perhaps a touch less than expected for the two latter securities. Kiwi Property reported moderate (+3.1%) valuation gains. Their retail cap rates did come in by 30bp to 7.75% but this was offset by falling rents and seismic capex.

Contrastingly, Goodman Property (GMT) reported an extremely aggressive 12.5% valuation gain, driven chiefly by cap rates. While it is clear that a number of industrial transactions are occurring in the 4.0% cap rate region, we do worry that absent strong rent growth, these will not prove sustainable in a world of 2.0%+ long term bond yields.

Transaction news saw PFI announce the sale of Carlaw Park for $110m which was largely as expected; Argosy sell the Albany Lifestyle Centre for its book value of $87.5m; and Asset Plus sell Eastgate Shopping Centre on delayed settlement for $43.45m at an 8.3% yield. While this was below book value, the market responded positively to the exit from this difficult asset. Precinct Property agreed to internalise their management agreement for a relatively full payment of $215m ($145m post tax). While 6.0% AFFO accretive at face, this does assume costs being saved on strong continued levels of development and is entirely debt funded.

**Performance in the quarter was led by Kiwi Property (KPG, +1.6%), which was the only stock to eke out a positive return. The largest laggards were Vital Healthcare Property (VHP, -10.5%) and Argosy Property (ARG, -8.8%).**

## Salt Enhanced Property Fund Commentary

**The Fund delivered a very strong quarter of relative performance, returning -2.52% compared to the -4.19% decline turned in by the S&P/NZX All Real Estate Gross Index. For some months we had been finding greater relative value in the Australian market and this was of considerable assistance in the period. The approximate 7% net weight devoted to that market contributed approximately 60bp of the 194bp outperformance.**

Our small Australian short book contributed 27bp, a very pleasing performance given the positive performance of that market in the period. The standout was our Bunnings Warehouse Property (BWP, -10.6%) which we covered following its sharp pullback. These shorts allow us to have larger positions in cheap longs. Overall, our mix of Australian positions contributed a powerful 96bp in the quarter.

The stand-out was Vitalharvest (VTH, +14.3%), which has seen a most enjoyable takeover battle develop between two private equity suitors. Of almost equal importance, a smaller holding in Eureka Group (EGH, +38.0%) delivered a result at the top end of expectations and is clearly being priced at tighter cap rates than the out-dated, very high 10%+ in their valuations. Centuria Industrial (CIP, +8.8%) and Irongate Group (IAP, +6.3%) also contributed solidly.

As might be expected in a rare negative quarter for the NZ market, our NZ underweights were generally very helpful in terms of their relative contribution. Vital Healthcare Property (VHP, -6.4%), Property For Industry (PFI, -3.2%) and Precinct Property (PCT, -6.5%) stood out.

**Headwinds were very limited in number, with the only one of any great note being the office and industrial property company, Garda Property (GDF, -9.4%). This had performed very strongly in the December quarter and gave back some of this on no particular news of note.**

Matthew Goodson, CFA