Salt Enhanced Property Fund Fact Sheet – September 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 30 September 2022

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$26 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 September 2022

Application	1.5535
Redemption	1.5472

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 2022

Long Exposure	102.33%
Short Exposure	5.69%
Gross Equity Exposure	106.73%
Net Equity Exposure	97.92%

Fund Allocation at 30 September 2022

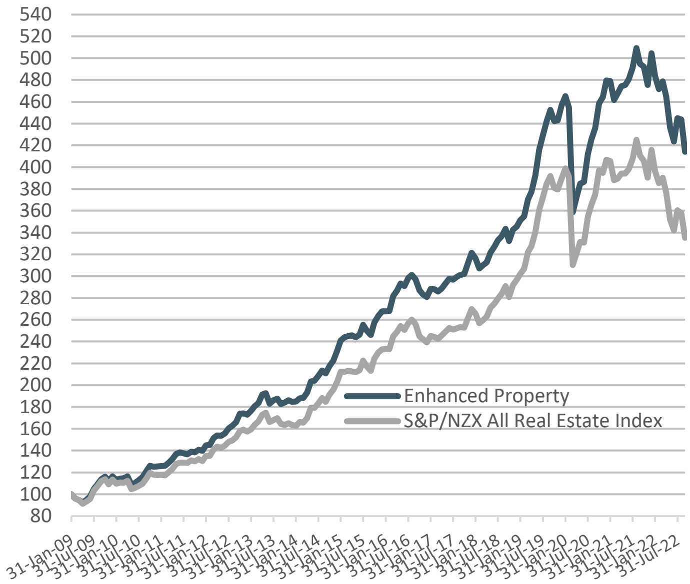
NZ Listed Property Shares	92.01%
AU Listed Property Shares	7.48%
Cash	0.51%

Fund Performance to 30 September 2022

Period	Fund Return	Benchmark Return
1 month	-6.67%	-6.30%
3 months	-2.24%	-1.92%
6 months	-13.52%	-14.07%
1-year p.a.	-16.31%	-17.90%
2 years p.a.	-2.52%	-5.14%
3 years p.a.	-2.92%	-4.88%
5 years p.a.	6.57%	5.89%
7 years p.a.	7.71%	6.77%
Inception p.a.	8.50%	7.44%

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

Cumulative Strategy Performance to 30 September 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	Precinct Properties NZ
Elanor Commercial Property Fund	Vital Healthcare Property Trust
Abacus Property Group	Goodman Property Trust
REP Essential Property	Property For Industry
360 Capital REIT	BWP Trust

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Property Market Commentary

The S&P/NZX All Real Estate Gross Index declined by -1.92% in the September quarter. While this was a weak outcome, it far outperformed the S&P/ASX200 A-REIT Accumulation Index decline of -6.7% and the global FTSE EPRA/NAREIT Index (USD) fell by a sharp -13.1%.

Headwinds were created globally by bond market weakness, with NZ 10-year bond yields rising from 3.89% to 4.24% over the quarter. They did briefly see a 3.33% low during August as markets flirted with a view that central banks may pause but high inflation data soon consigned this view to history. The RBNZ made two 50bp hikes in the OCR target to 3.0% during the period and lifted it by another 50bp to 3.5% as this is written.

News-flow 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 typically lag the cycle and have only just started to move post period-end.

Company-specific news saw Precinct Property (PCT) have to exclude the $200m Defence House asset from their sell-down and partnership with GIC, while Asset Plus (APL) finally manage to get settlement on the sale of Eastgate. 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. Interest rate exposure and the degree of hedging was a key factor across the sector. Kiwi Property (KPG) finally managed to exit an asset, with the sale of Northlands to a syndicator but the price of $160m compared to a valuation of $247m back in 2017. The funds will go towards a sizeable investment in residential build-to-rent at an interesting stage of the cycle.

Performance in the quarter was led by Stride Property (SPG, +2.0%) but this was more a reflection of a slight rebound from very poor returns in the prior three quarters. Laggards were Kiwi Property (KPG, -4.8%) and Vital Healthcare Property (VHP, -4.1%).

Salt Enhanced Property Fund Commentary

The Fund performed largely in line with the benchmark during the September quarter, with a return of -2.24% compared to the -1.92% performance by the S&P/NZX All Real Estate Gross Index. While this was a little behind benchmark, it was entirely accounted for by circa net 8% of the Fund being invested in Australia and that market badly lagging NZ during the period.

Our Australian investments were a drag in the period to the tune of -0.42%. The group of shorts did well, with a return of +0.53% but this was more than offset by the negative contribution of our longs.

Most of our small Australian holdings actually held up relatively well in the context of their broad-based market weakness but the exception was our large, high conviction position in GDI Property (GDI, -11.5%), which slumped to what we view as absurdly low levels. Rising bond yields don't help but Perth is re-opening and we expect leasing news to act as a catalyst to drive the share price. While there are lies, damned lies and property company NTA's, we believe GDI's NTA of $1.27 (58% above share price) is more real than most as they do not have a hungry external manager to feed. A recent major sale by Mirvac in the Perth CBD also lends support. GDI also has a number of syndicates with sizeable, embedded performance fees. Directors have been buying and a buyback has been active.

In a negative period, the largest positive contributions naturally came from our larger NZ underweights. Vital Healthcare Property (VHP, -4.5%) and Precinct Property (PCT, -4.0%) were the standouts in this regard.

At month-end, we estimate that the Fund offers a year-ahead gross dividend yield of 6.6% to a NZ investor.

Matthew Goodson, CFA