Salt Enhanced Property Fund Fact Sheet – October 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 October 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 31 October 2022

Application	1.5283
Redemption	1.5221

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 October 2022

Long Exposure	101.67%
Short Exposure	8.44%
Gross Equity Exposure	107.26%
Net Equity Exposure	96.08%

Fund Allocation at 31 October 2022

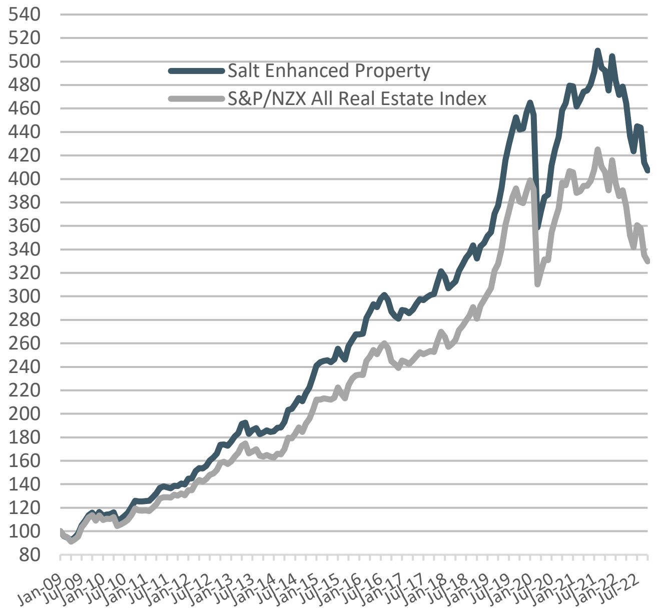
NZ Listed Property Shares	93.14%
AU Listed Property Shares	4.07%
Cash	2.78%

Fund Performance to 31 October 2022

Period	Fund Return	Benchmark Return
1 month	-1.62%	-1.65%
3 months	-8.44%	-8.52%
6 months	-12.31%	-12.41%
1-year p.a.	-17.25%	-18.76%
2 years p.a.	-5.75%	-8.58%
3 years p.a.	-2.70%	-4.50%
5 years p.a.	6.16%	5.59%
7 years p.a.	6.76%	5.75%
Inception p.a.	8.19%	7.13%

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

Cumulative Strategy Performance to 31 October 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	Precinct Properties NZ
360 Capital REIT	Property For Industry
REP Essential Property	National Storage REIT

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

Property Market Commentary

The S&P/NZX All Real Estate Gross Index declined by -1.65% in the month of October. This was well behind the +2.46% advance by the wider NZ market and it sharply lagged the S&P/ASX200 A-REIT Accumulation Index advance of +9.9% and the more modest move by the global FTSE EPRA/NAREIT Index (USD) of +2.5%. The massive divergence between Australia and NZ was the defining aspect of the month and reversed much of the prior quarter.

NZ 10-year bond yields were a relatively neutral influence over the month, rising from 4.24% to 4.26% but they did peak earlier at 4.77%. The RBNZ carried out a hawkishly tilted 50bp hike in the OCR target to 3.5% early in the month.

There was little in way of sector news flow, with the major item being Kiwi Property (KPG) providing a pre-result valuation update, which saw the cap rate expand by 32bp to 5.56%, more than offsetting rent increases thus far. This together with a devaluation of the Northlands Shopping Centre upon its sale took the NTA down by 13cps to $1.32. With the share price being around the 90cps region, this has been well and truly anticipated by the listed market for KPG and most other names. As devaluations mount up across the sector, gearing risk and interest coverage will become increasingly important factors to consider.

Performance in the month was led by the two key industrial names, Goodman Property (GMT, +3.5%) and Property For Industry (PFI, +2.7%), perhaps reflecting their exposure to stronger rent inflation to offset cap rate expansion. Laggards were Asset Plus (APL, -11.8%) and Vital Healthcare Property (VHP, -8.2%).

Salt Enhanced Property Fund Commentary

The Fund performed slightly ahead of its benchmark in the month of October, with a return of -1.53% compared to the -1.65% performance by the S&P/NZX All Real Estate Gross Index. This was perhaps a touch disappointing given how far Australia outperformed NZ in the month and reflects a rare period when our Australian exposures weighed on the Fund.

Our overall Australian investments were a drag to the tune of -0.39%, with two of our largest high beta shorts shooting up ahead of the market, while one of our key longs remained stubbornly moribund.

The largest headwind was the short in National Storage REIT (NSR, +17.0%), which is easily the most overpriced name in our time-tested relative valuation model. We view their storage portfolio as being of slightly mixed quality and it may be affected by any slowdown in housing activity and the normalisation in ecommerce versus physical retail. The share price has almost returned to levels that it reached when bond yields were at their all-time lows, whereas global peers are well off their highs.

Another short that detracted from returns was Bunnings Warehouse Property (BWP, +10.3%) which also models as extremely expensive in our multi-factor relative valuation model. While it has low gearing, we also worry about the future of some of their assets which may be at risk at lease-end. While GDI Property (GDI, +1.9%) performed in line with the NZ benchmark, we were initially flummoxed by how it lagged the Australian benchmark but now believe it was nothing fundamental and it is being pre-sold ahead of leaving the MSCI Small Cap Index.

Key contributors were led by our relatively large underweight in Vital Healthcare Property Trust (VHP, -8.2%). We fear their assets have cap rate expansion risk which won't be offset by rental growth. With committed gearing in the high 30% region, we are a little concerned about their balance sheet in the absence of asset sales. The other stand-out was our continued zero-weight in Winton Property (WIN, -16.0%) which still appears expensive to us given its premium to NTA and the difficult point in the residential land cycle.

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