Salt Enhanced Property Fund Fact Sheet – March 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 March 2020

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$11.8 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 March 2020

Application	1.4672
Redemption	1.4612

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 March 2020

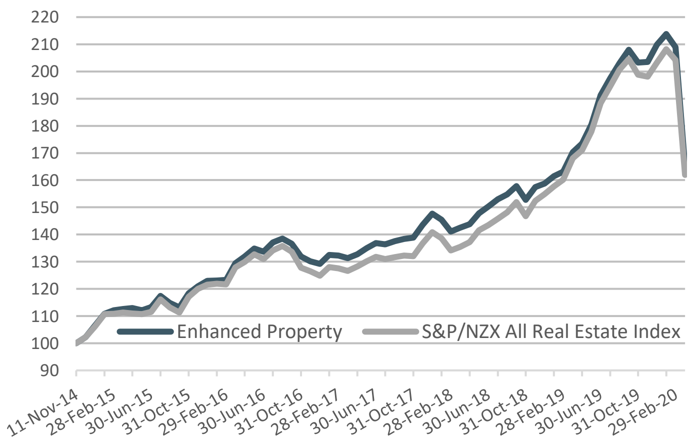
Long Exposure	101.29%
Short Exposure	3.87%
Gross Equity Exposure	105.16%
Net Equity Exposure	97.42%

Fund Performance to 31 March 2020

Period	Fund Return	Benchmark Return
1 month	-21.11%	-20.72%
3 months	-21.48%	-20.38%
6 months	-20.76%	-20.87%
1-year p.a.	-3.19%	-3.68%
2 years p.a.	7.56%	9.34%
3 years p.a.	7.86%	8.55%
5 years p.a.	7.92%	7.78%
Inception p.a.	9.72%	9.35%

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

Cumulative Fund Performance to 31 March 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 March 2020

NZ Listed Property Shares	92.49%
AU Listed Property Shares	6.59%
Cash	0.92%

Top Overweights	Top Underweights/Shorts
Kiwi Property Group	Goodman Property Trust
Elanor Commercial Property Fund	Property for Industry
Garda Diversified Property Fund	Precinct Properties NZ
Vitalharvest Freehold Trust	Vital Healthcare Property Trust
Millennium & Copthorne Hotels	Shopping Centres Australasia Property Group

Quarterly Property Market Commentary

NZ property stocks sharply outperformed their global peers in the March quarter, with the S&P/NZX All Real Estate Gross Index falling by -20.4%. This was significantly better than the global FTSE EPRA/NAREIT Index decline of -30.0% and the plunge of -34.4% by the S&P/ASX200 A-REIT Accumulation Index. These declines due to the spread of Covid-19 and extraordinary policy actions brought an abrupt end to the bull market in property stocks that had been running for some years. NZ 10 year bond yields did fall from 1.65% to 1.06% over the quarter but this was of little help in the face of a quest for liquidity and fears around top-line rental growth as many tenants across all property classes are facing a total, albeit temporary, stop to their businesses.

Three listed NZ entities reported during the quarter, with no great surprises out of Property for Industry, Vital Healthcare Property or Precinct Property. However, these had become ancient history by quarter's end, as a number of entities updated the market regarding the impact of Covid-19. A number are yet to do so. Notably, Kiwi Property abandoned their planned final dividend for the March year to take a "prudent approach" until the full impacts become clearer. Argosy flagged that F21 dividends may decline although this will be at least partially shielded by lower debt costs and the reinstatement of tax depreciation on fixtures and fittings.

It is likely that the dividends of the other listed entities will come into question in terms of their quantum or whether they are paid at all but we would highlight that this will likely be a temporary effect. Balance sheets and liquidity are generally in good shape across the sector although we would highlight that gearing ratios can be expected to rise as cap rates inevitably blow out, with wider corporate risk spreads more than offsetting lower risk-free rates. Equity raisings are certainly possible but we would not expect these to be widespread across the entire sector.

Key company-specific news during the quarter was led by Centuria Capital making a takeover bid at $2.00 per share for Augusta Capital (AUG, -43.3%) but subsequently withdrawing this as the impact of Covid-19 affected the sector. AUG closed the quarter at $0.85. Asset Plus (APL, -36.2%) attempted a $100m equity raising to fund two high quality office developments which would have transformed APL but this too fell victim to the extraordinary impact of Covid-19.

Performance in the month saw massive dispersion, with the leaders being Goodman Property (GMT, -2.4%) and Precinct Property (-6.1%). The somewhat unexpected addition of these two names to the global FTSE-EPRA NAREIT Index greatly assisted their performance. The laggards were the aforementioned Augusta Capital (AUG, -43.3) and Asset Plus (APL, -36.2%), while Stride Property (SPG, -41.0%) also experienced a particularly weak period.

Salt Enhanced Property Fund Commentary

The Fund moderately underperformed over the March quarter, returning -21.48% compared to the -20.38% turned in by the benchmark.

Detractors

Three main factors drove this underperformance. First and most significantly, with a portion of the portfolio being held in Australian securities (net of shorts), that market's sharp underperformance relative to NZ accounted for a degree of the gap. Our shorts collectively made a strong contribution of circa +0.8% despite being unluckily whipsawed by a short position in National Storage REIT (NSR, -11.3%), which soared as competing takeover bids entered the fray and then collapsed as the impact of Covid-19 saw them all withdrawn. By this point, our risk management disciplines meant we had covered the short. The stock had peaked at $2.43 prior to closing at $1.58.

Secondly, the Fund held modest overweight positions in each of Augusta (APL, -43.3%) and Asset Plus (APL,-36.2%), which were both sold off heavily as the sudden impact of Covid-19 wrecked what would have otherwise been very positive catalysts, with the takeover of the former and a major re-set of the latter into high quality Auckland office property.

Thirdly, the Fund made a rare small foray into the retirement property space via Oceania Healthcare (OCA, -46.7%). This added value in the December quarter but was sold off sharply in the last few weeks. That said, we do see significant medium-term value at these levels and it has continued to bounce hard from its lows in April. Other headwinds came from a moderate holding in Garda Property (GDF, -35%) and a very small holding in Elanor Investors (ENN, -60%) which was caught in the short term by the Covid-19 impact on hotel and tourism assets, which comprise a portion of their funds. Similarly, a small holding in Millennium & Copthorne Hotels (MCK, -29.6%) had generated very strong returns until the last year or so but their hotel business has obviously been brought to a short-term halt by the impact of Covid-19. We do see MCK coming out the other end of this, with their NTA sitting at over $5.00 per share versus a $1.80 share price and they have net cash rather than debt. For now, however, it will be a waiting game for the economy to re-open.

Contributors

In a sharply negative month for the market, positive contributions unsurprisingly came from a range of underweight positions. These were led by Stride Property (SPG, -41.0%), Property For Industry (PFI, -16.2%) and Argosy Property (ARG, -33.7%). Shorts in names such as Shopping Centres Australia (SCP, -15.0%), Ale Property Trust (LEP, -29.8%) and Charter Hall Long WALE REIT (CLW, -18.9%) also contributed strongly.

Portfolio Positioning

At quarter-end, the Fund had lowered its gross position to 105% and had 97% net exposure to the market as we covered off a number of our shorts on extreme price weakness. We used panic-selling weakness to add to a number of Australian names, with our larger holdings there including Elanor Commercial Property (ECF), Garda Property (GDF), GDI Property (GDI), 360 Capital Total Return Fund (TOT) and Vitalharvest Freehold Trust (VTH). Each of these has particular attractions such as the preponderance of leases being to rock-solid tenants, little or no gearing (GDI, TOT) or special situations (TOT, VTH) whose returns will have no correlation to what will be a difficult Australian property market in the period ahead. They also have sustainably high yields, so we are getting paid while we wait.

In NZ, our largest overweight is Investore Property (IPL) whose supermarket and big-box hardware tenants should prove resilient. With a -9.3% return, this outperformed solidly in the quarter. Our largest underweights are Property For Industry (PFI), Goodman Property (GMT) and Precinct Property (PCT). Relative valuations are expensive in our view and do not reflect a degree of vacancy and rental risk in the brave new world that the NZ property market is about to enter.