Salt Enhanced Property Fund Fact Sheet – December 2021

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 December 2021

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$30.9 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 December 2021

Application	1.9295
Redemption	1.9217

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 December 2021

Long Exposure	99.41%
Short Exposure	3.84%
Gross Equity Exposure	103.25%
Net Equity Exposure	95.57%

Fund Allocation at 31 December 2021

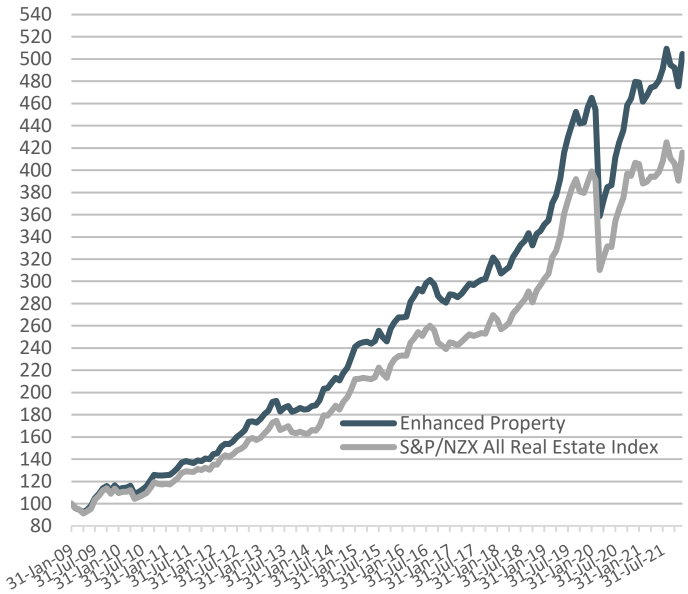
NZ Listed Property Shares	92.10%
AU Listed Property Shares	6.03%
Cash	1.88%

Fund Performance to 31 December 2021

Period	Fund Return	Benchmark Return
1 month	6.11%	6.55%
3 months	1.97%	1.84%
6 months	4.96%	5.07%
1-year p.a.	5.21%	2.90%
2 years p.a.	5.10%	3.65%
3 years p.a.	13.45%	12.14%
5 years p.a.	12.42%	11.84%
7 years p.a.	11.77%	10.86%
Inception p.a.	12.48%	11.54%

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

Cumulative Fund Performance to 31 December 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 November 2014, performance is from a fund with the same strategy and the same portfolio manager.

Top Overweights	Top Underweights/Shorts
Elanor Commercial Property Fund	Goodman Property Trust
GDI Property Group	Property For Industry
Stride Property Group	Arena REIT No 1
REP Essential Property	Precinct Properties NZ
360 Capital REIT	Argosy Property

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Quarterly Property Market Commentary

The S&P/NZX All Real Estate Gross Index advanced by +1.84% in the December quarter thanks to a +6.55% surge in the month of December, after two weak months to start the period. This reflected a mixture of catch-up with global property markets and a liquidity driven advance as the long-heralded changes to KiwiSaver default settings were implemented.

Property did well to turn in a positive performance as NZ 10-year bond yields surged from 1.97% to 2.48% due to the RBNZ beginning to tighten monetary settings and yields rising globally. This advance did however lag a sharp +10.1% rise in the S&P/ASX200 A-REIT Accumulation Index and a +9.4% increase in the FTSE EPRA/NAREIT Index.

Reporting season did not deliver any great surprises. Industrial properties continue to benefit from buoyant logistics demand and this is driving cap rates into unusually tight levels at a time of rising bond yields. Implicitly, this suggests that investors expect rental growth to be very strong. Covid-19 impacts on the office and retail sectors have been relatively muted thus far but the jury remains out on any longer term structural changes.

News-flow was dominated by two equity raisings which the market did well to digest. Vital Healthcare Property raised $140m to fund an acquisition in Adelaide and finance part of their development pipeline. Stride Property (SPG) raised $130m in new equity to de-gear their balance sheet given their earlier failure to spin-off and list their office assets in a new vehicle, Fabric. We expect this to potentially be revisited in 2022 depending on market conditions. Elsewhere, NZ Land (NZL) purchased 6 Southland dairy firms for circa NZ$60m.

Performance in the quarter was led by a disparate pair of Goodman Property (GMT, +7.3%) and Kiwi Property (KPG, +6.6%). Vital Healthcare Property (VHP, +3.7%) easily shook off its equity raising, perhaps reflecting expectations of future global index inclusions. Contrastingly, Stride Property (SPG, -12.3%) was the weakest performer by some distance following its equity raising.

Salt Enhanced Property Fund Commentary

The Fund delivered a solid quarter of outperformance, advancing by +1.97% compared to the +1.84% turned in by the S&P/NZX All Real Estate Gross Index.

There were two key drivers. The first was the relative strength of Australia although this Fund tends not to hold the very expensive higher beta plays that dominated that market in the period. Nevertheless, it still provided a tailwind with our typical holding there being a modest net exposure of 6-8%.

The standout there was our long-held position in the industrial and office property vehicle, Garda Property (GDF, +17.8%). It has more than doubled such our initial entry and the market has begun to warm to their strategy of developing and owning industrial assets.

A mild headwind came from a holding we have built up in GDI Property (GDI, -1.0%). This fell for reasons that were unclear but we are attracted to its strong position in the improving Perth office market, which looks far better placed than other metropolitan centres. GDI is at a healthy discount to NTA and on top of this has a profitable syndications business, with some assets appearing to be carried at conservative historical valuations. They do not have the same incentive as some externally managed vehicles to seek aggressive revaluations.

Overall, our Australian holdings contributed a positive +0.12% although some of the shorts did weigh on performance, led by the egregiously overpriced Arena REIT (ARF, +17.8%). ARF has benefitted from rapidly contracting cap rates as private investors have found buying a childcare asset yielding 4.5% is preferable to having money in the bank. Never mind running costs and the fact that lower replacement values are seeing plenty of supply come on in a sector with few entry barriers. Despite all this, ARF has risen to a 70% premium to its much-upgraded asset value. Yes, there may be one more turn of cap rate driven upgrades to come but index inclusions have driven the share price to ludicrous levels.

The second key positive driver was a large underweight at the beginning of the period in Stride Property (SPG, -12.3%). We were able to cover much of this at an attractive discount in their equity raising at $2.00 and added more on weakness.

Aside from the ARF short, the main headwind came from our large underweight in Goodman Property (GMT, +7.3%), which continued to grind higher on investor optimism regarding industrial property. With a forward dividend yield of just 2.1% at a time when 10-year bond yields are circa 2.5%, we regard the optimism as being priced in and then some.

Matthew Goodson, CFA