

SALT

Salt Enhanced Property Fund Fact Sheet – October 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 October 2020

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	\$11.5 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 October 2020

Application	1.8297
Redemption	1.8223

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 2020

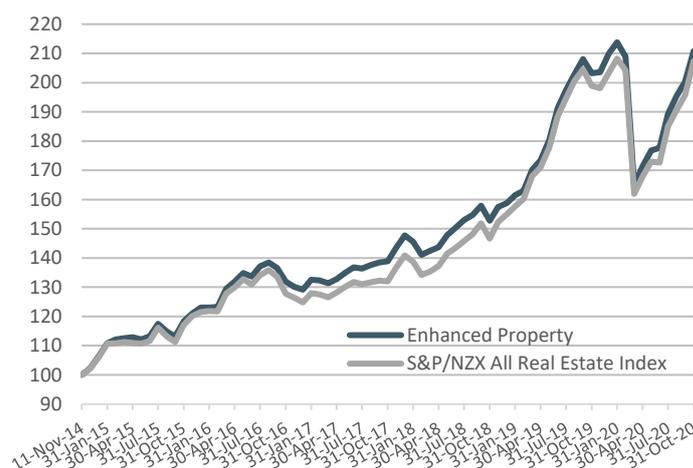
Long Exposure	101.33%
Short Exposure	3.56%
Gross Equity Exposure	104.90%
Net Equity Exposure	97.77%

Fund Performance to 31 October 2020

Period	Fund Return	Benchmark Return
1 month	5.24%	5.89%
3 months	11.39%	12.04%
6 months	23.03%	23.46%
1-year p.a.	3.70%	4.23%
2 years p.a.	17.48%	18.85%
3 years p.a.	14.93%	16.23%
5 years p.a.	12.22%	12.09%
Inception p.a.	13.31%	12.98%

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

Cumulative Fund Performance to 31 October 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 October 2020

NZ Listed Property Shares	91.35%
AU Listed Property Shares	8.15%
Cash	0.50%

Top Overweights	Top Underweights/Shorts
Vitalharvest Freehold Trust	Property for Industry
GDI Property Group	Goodman Group
Investore Property	Precinct Properties NZ
Elanor Commercial Property Fund	Kiwi Property Group
Garda Diversified Property Fund	Abacus Property Group

SALT FUNDS MANAGEMENT

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Monthly Property Market Commentary

October saw NZ property stocks turn in yet another remarkably strong month of performance, with the benchmark soaring by +5.89%. Remarkably low interest rates are forcing a “tina trade” (there is no alternative), from which the property stocks are a prime beneficiary. NZ 10 year bond yields rose a touch from 0.46% to 0.51% during the month but obviously remain at historically low levels.

For reasons that are not entirely clear, the “tina trade” has been far more prevalent so far in NZ than in Australia, with their S&P/ASX200 A-REIT Accumulation Index actually declining by -0.37% in the month, while the global FTSE EPRA/NAREIT Index fell by a sharp -4.2%. Year-to-date, NZ has been a remarkably strong outperformer, rising by +1.9% compared to a -16.1% decline in Australia and a -24.4% decline globally. One possible explanation is a lesser impact on the rental line from Covid-19, while the NZ sector has benefitted from the same collapse in interest rates everywhere.

Newsflow in the month was headlined by Vital Healthcare Property (VHP) raising \$150m to pay for a mix of future developments and fund rearranged terms with their key tenant Healthcare. In times past, a raising of this magnitude may have pressured the market for at least a few days but it had no discernible impact on this occasion.

Elsewhere, Investore (IPL) announced a \$85m (10%) valuation gain on a 55bp fall in cap rates to 5.53%, while Goodman Property reported 20bp of cap rate compression. This is clearly indicative of investors being willing to aggressively chase direct property assets in the low rate environment. We would be a little more bullish if the valuation upside was instead driven by rental growth. November will see a number of results reported.

Performance in the month was led by Kiwi Property (KPG, +16.0%) as fears of a major US/Europe style hit to their retail shopping centres dissipated. KPG still faces structural headwinds but does not have the same degree of short-term pain from Covid-19 nor the longer term risk of far greater square meterage per head of population. Property For Industry (PFI, +8.2%) and Goodman Property (GMT, +5.5%) also did well. Laggards were Vital Healthcare Property (VHP, -2.0%) and Asset Plus Limited (APL, -1.6%) following recent equity issuance on the part of both.

Salt Enhanced Property Fund Commentary

The Fund moderately underperformed in the month as the continued surge in NZ property stocks saw the Fund advance by +5.24% compared to the +5.89% turned in by the S&P/NZX All Real Estate Gross Index.

A strong headwind came from the NZ market yet again far outperforming Australia in the month, meaning our holdings in that market were left behind a little. With a net 8% of the Fund invested in that market, the differential between the markets accounted for almost the entirety of the performance gap. Our Australian stock selection was strong, with it contributing +0.13% to performance despite the market being down.

Our Australian holdings are not exposed to the problematic shopping centre sector and have only very slight exposure to Sydney and Melbourne office property, where the outlook is cloudy at best. For Australian names which have not been subject to downgrades emanating from the top-line, the relative valuation metrics versus most NZ securities are as compelling as we can remember seeing. We therefore view our somewhat diversified set of holdings as having significant potential upside, with an example of this being seen after month end, with a takeover bid coming in for our sizeable holding in Vitalharvest (VTH, +0.7%) following months of moribund share price performance.

Unsurprisingly in such a strong month, the largest positive contributions came from our overweights. These were led by Garda Property (GDF, +9.1%), which owns a mix of industrial and office assets and continues to rate reasonably well in our relative valuation model. The other standout was Vital Healthcare Property (VHP, -2.0%) where we closed off our previous underweight at the \$2.80 issue price compared to the \$2.91 share price at month-end.

Headwinds were comprised of a familiar set of culprits in our NZ underweights. Standouts were the industrial property names Property For Industry (PFI, +8.2%) and Goodman Property (GMT, +5.5%), while our more modest underweight in Kiwi Property (KPG, +16.0%) also weighed thanks to its strong outperformance.

At month-end, the Fund was continuing to run relatively low levels of risk, with gross exposure at an unusually low 105%, while net length was at a high 98%.



Matthew Goodson, CFA