Salt Enhanced Property Fund Fact Sheet – November 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 30 November 2020

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$11.7 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 November 2020

Application	1.8257
Redemption	1.8183

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 November 2020

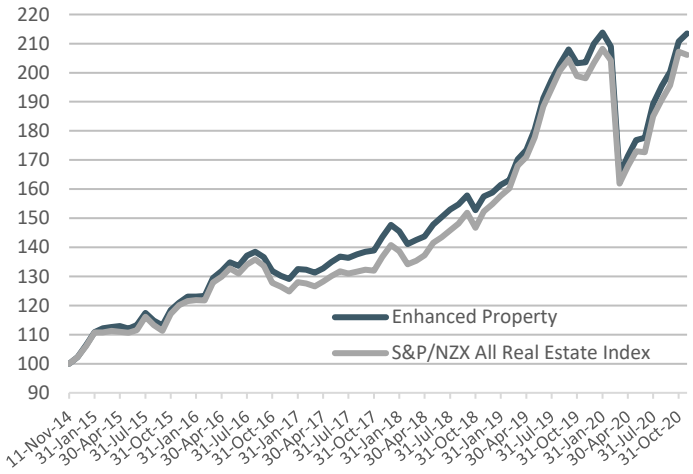
Long Exposure	100.23%
Short Exposure	3.36%
Gross Equity Exposure	103.59%
Net Equity Exposure	96.87%

Fund Performance to 30 November 2020

Period	Fund Return	Benchmark Return
1 month	1.27%	-0.56%
3 months	9.21%	8.05%
6 months	20.71%	19.12%
1-year p.a.	4.86%	4.02%
2 years p.a.	16.42%	16.30%
3 years p.a.	14.15%	14.66%
5 years p.a.	12.03%	11.41%
Inception p.a.	13.34%	12.68%

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

Cumulative Fund Performance to 30 November 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 30 November 2020

NZ Listed Property Shares	91.15%
AU Listed Property Shares	7.95%
Cash	0.90%

Top Overweights	Top Underweights/Shorts
Vitalharvest Freehold Trust	Property for Industry
Elanor Commercial Property Fund	Goodman Group
Garda Diversified Property Fund	Precinct Properties NZ
Millennium & Copthorne Hotels	Argosy Property
Asset Plus	Kiwi Property Group

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Quarterly Property Market Commentary

The month of November saw the effervescent NZ property sector take a break from its near vertical ascent in recent months, with the benchmark declining by a modest -0.6%. This was accompanied by NZ 10-year bond yields rising quite sharply from 0.51% to 0.87% although they still obviously remain at very low levels.

After months of massive outperformance relative to its offshore peers, the NZ index lagged far behind in November, with the S&P/ASX200 A-REIT Accumulation Index charging ahead by +13.2%, while the global FTSE EPRA/NAREIT Index rose by an even sharper +13.4%. A major shift in factor performances can explain much of this move, with the month seeing bond yields rising and cyclical stocks sharply outperforming. This benefitted retail property stocks which carry a heavier weight in overseas indices.

The main news item in the month was Stride Property's $220m equity raising following two acquisitions in Wellington. SPG purchased the modern, long-leased 20 Customhouse Quay for $228m on a 4.5% cap rate and the older Grant Thornton House (old ANZ building) on Lambton Quay for $84.5m. SPG doubtless plans to spin these and other office assets into a new vehicle at some point.

Other news saw Precinct Property commit to developing a second building at the Bowen Campus in Wellington at a cost of $85m. Vital Healthcare Property bought the Grace Hospital in Tauranga for $95m at an initial yield of 5.0% but with structured growth and spare development land.

Results during the month were largely in line with expectations although a dividend uplift and strong valuation update from Argosy Property saw it perform well.

Performance in the month was led by the small cap Asset Plus (APL, +8.2%) following a better than expected result and by Argosy Property (ARG, +7.2%) on similar drivers. Laggards were Kiwi Property (KPG, -3.3%). Goodman Property (GMT, -3.2%) and Precinct Property (PCT, -1.9%).

Salt Enhanced Property Fund Commentary

The Fund enjoyed an extremely strong month of relative performance in November, with a return of +1.27% compared to the -0.56% decline turned in by the S&P/NZX All Real Estate Gross Index.

After being a strong headwind in previous months, the Fund's 8% net weighting in the cheaper Australian market came up trumps in November. Mechanically calculated, the 13.7% performance gap between the Australian and NZ markets accounted for 1.09% of the 1.83% outperformance. Unsurprisingly, in such a strong month in Australia, our shorts detracted from performance, with a negative contribution of -0.33%. That said, our overall Australian exposure contributed a strongly positive +1.02%.

The largest contribution came from a takeover bid for our sizeable holding in Vitalharvest Trust (VTH, +24.4%) from a real estate subsidiary of Macquarie Group. In our view, the $1.00 price is a touch on the light side as VTH will have an exceptional year of variable rentals in 2021 in contradistinction to last year's drought; the market would re-rate VTH sharply if they could renegotiate their variable rentals into a higher fixed rental stream; and the likelihood of moving to a far higher fixed rental stream in 5 years has a lot of value. We hold some minor hopes of a bump but the cause was not helped by the manager, Primewest agreeing to sell its management contract and to sell its shares at $1.00 in the absence of a better bid.

VTH accounted for about 39% of the Fund's outperformance, so it was important but there were many other moving parts. Asset Plus (APL, +8.2%) performed well following a strong than expected result and optimism regarding their future property development plans. After being a drag in earlier months, investors woke up to just how cheap the hotel company Millennium & Copthorne Hotels (MCK, +28.1%) is in a post-Covid environment. Critically, they have no gearing, so will make it to the other side of the abyss.

There were a plethora of other winners, including overweights in GDI Property (GDI, +8.5%) as investors become more bullish on Perth property; Garda Property (GDF, +10.5%) and Eureka Group (EGH, +16.0%). Our underweight in Goodman Property (GMT, -3.2%) also assisted.

In what was an outstanding month for the Fund, headwinds were very few in number and limited in magnitude, with the modest underweight in Argosy Property (ARG, +7.2%) being the only one of any great note from the long side. The small shorts that dragged were Abacus Property (ABP, +13.0%) and GPT Group (GPT, +17.1%).

Matthew Goodson, CFA