
# Salt Enhanced Property Fund Fact Sheet – September 2024

## 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 30 September 2024

| | |
|---|---|
| Benchmark | S&P/NZX All Real Estate Gross Index |
| Fund Assets | $21 million |
| Inception Date | 11 November 2014 |
| Portfolio Managers | Matthew Goodson, CFA<br>Nicholas Falconer, MBA |

## Unit Price at 30 September 2024

| | |
|---|---|
| Application | 1.4202 |
| Redemption | 1.4144 |

## 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 September 2024

| | |
|---|---|
| Long Exposure | 105.42% |
| Short Exposure | 6.55% |
| Gross Equity Exposure | 111.97% |
| Net Equity Exposure | 98.87% |

## Fund Allocation at 30 September 2024

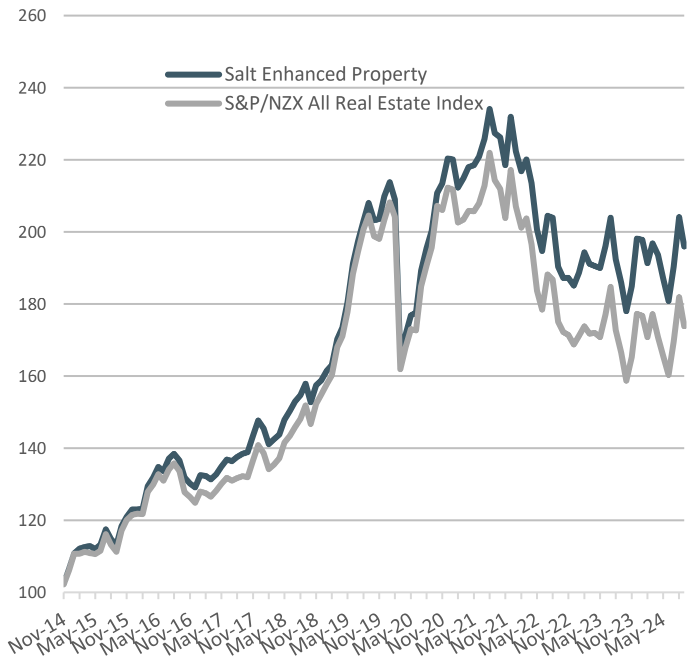
| | |
|---|---|
| NZ Listed Property Shares | 91.41% |
| AU Listed Property Shares | 7.35% |
| Cash & Cash Equivalents | 1.25% |

## Fund Performance to 30 September 2024

| Period | Fund Return | Benchmark Return |
|---|---|---|
| 1 month | -4.00% | -4.42% |
| 3 months | 8.35% | 8.45% |
| 6 months | -0.46% | -0.95% |
| 1 year | 5.40% | 5.43% |
| 2 years p.a. | 0.76% | 0.32% |
| 3 years p.a. | -5.29% | -6.16% |
| 5 years p.a. | -1.47% | -2.83% |
| 7 years p.a. | 4.88% | 4.27% |
| Inception p.a. | 6.89% | 5.96% |

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

## Cumulative Strategy Performance to 30 September 2024




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.

| Top Overweights | Top Underweights/Shorts |
|---|---|
| GDI Property Group | Kiwi Property Trust |
| Servcorp | Precinct Properties NZ |
| Asset Plus | Property for Industry |
| Elanor Commercial Property Fund | Goodman Property Trust |
| Millennium & Copthorne Hotels | Scentre Corp |

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## Property Market Commentary

The S&P/NZX All Real Estate Gross Index ended the September quarter up +8.3%. The NZX50 Gross Index and Australian S&P/ASX200 A-REIT Accumulation Index both also closed the quarter up, with the broader local index up +6.0% and A-REITs posting a strong +14.5% for the quarter. The global FTSE EPRA/NAREIT Index posted a similarly strong +16.3%.

August saw the first cut to the official cash rate with the Reserve Bank lowering it 25 basis points to 5.25%, earlier than perhaps expected. Interest is now turning to the October and November meetings as expectations rise of an acceleration in the cycle. The 10-year bond has stayed around 4.2% for most of September, having fallen around 40 basis points from June.

The best performing local REIT for the quarter was Stride (SPG, +19.8%) despite losing around 4% in September. Other strong performers were Investore (IPL, +14.6%), Precinct (PCT, +14.5%) and Kiwi Property (KPG, +13.4%). The industrial-exposed stocks again lagged the index with Goodman (GMT, +3.0%) and Property For Industry (PFI, +1.9%) underperforming the leaders by over 10 percentage points.

With the beginning of the rate-cutting cycle underway, industry discussions are highlighting increased interest in transactions. An early example of these deals was IPL selling two regional supermarkets and buying a West Auckland Bunnings store – effectively exchanging two higher-yielding but low growth assets for a lower-yield but higher long-term growth one. Nonetheless, in August Kiwi Property (KPG, +7.2%) announced the cancellation of the sale contract for Vero with their prospective buyer – the purchaser had not undertaken the contract requirements including deposit payment or applying for OIO approval.

Of note amongst companies reporting during the quarter was PCT further outlining their progress in funds management, operating businesses, and residential development. While growth from funds management is generally a good thing, PCT is introducing a lot of complexity into their business and the benefits of these shifts will take time to prove out. Property For Industry's result (PFI, +3.2%) was an end of year but only for six months as they change their year-end – the result showed stronger than expected rent growth, a good sign that under-renting in the industrial market continues to support income growth.

Australian results in early August led to some volatile share price reactions e.g. Mirvac and Dexus both fell -9% on their result days. A theme that has come out of the period is that REITs that can demonstrate income growth at this stage in the cycle are the favoured names.

Index changes late in the quarter saw significant volumes of Vital Healthcare (VHP, +4.9%) and KPG traded with both stocks being removed from the global FTSE EPRA/NAREIT Index. On the day of removal over 45 million shares in each were exchanged and volumes for the month were around 10x and 5x normal levels respectively.

## Salt Enhanced Property Fund Commentary

The Fund just underperformed our NZ benchmark for the quarter by -0.10%, with gains in September being offset by negatives earlier in the period. The return to investors over the quarter was a strong +8.35%.

The main contributors to our performance were our positions in GDI Property (GDI, +21.4%) and Servcorp (SRV, +29.1%) adding 150 bps. The strength in GDI was particularly pleasing given it dropped out of the ASX300 in September and so saw about 10-15x its normal volume trade that month. GDI has favourable exposure to Perth office and value in a number of syndicates and a mining accommodation JV – we are looking for it to continue to outperform. SRV had an exceptional period – consistently growing each month – and potentially has further catalysts ahead as they look to spin off their Middle East operations.

Nonetheless, these strong positives were offset by the short book (subtracting 60 bps) and the collective underweights of large cap NZ REITs (-100bps). Naturally both these exposures will underperform in such a strong quarter but offer protection in weaker periods as we saw this quarter when the fund outperformed in September as the NZ market fell over 4%.

At time of writing, we estimate that the Fund offers a year-ahead gross dividend yield of 6.9% to a NZ investor.

Nicholas Falconer, MBA