SALT

Funds Management

Salt Enhanced Property Fund Fact Sheet – June 2019

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 June 2019

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$8.5 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA
Associate PM/Analyst	Andrew Bolland, CFA

Unit Price at 30 June 2019

Application	1.7259
Redemption	1.7189

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 June 2019

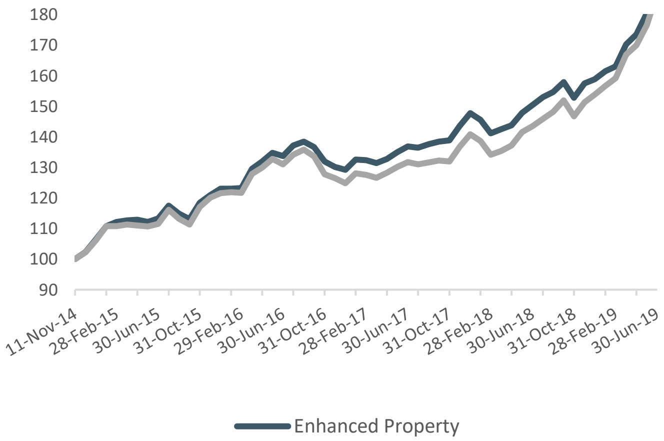
Long Exposure	101.57%
Short Exposure	6.03%
Gross Equity Exposure	107.61%
Net Equity Exposure	95.54%

Fund Performance to 30 June 2019

Period	Fund Return	Benchmark Return
1 month	5.98%	5.95%
3 months	12.31%	12.07%
6 months	20.42%	21.60%
1 year p.a.	27.20%	31.29%
2 years p.a.	18.21%	19.57%
3 years p.a.	12.68%	12.88%
Inception p.a.	15.31%	14.92%

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

Cumulative Fund Performance to 30 June 2019



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 June 2019

NZ Listed Property Shares	89.71%
AU Listed Property Shares	9.34%
Cash	0.95%

Top Overweights	Top Underweights/Shorts
Centuria Metropolitan REIT	Property for Industry
Investore Property	Kiwi Property Group
Asset Plus	Argosy Property Trust
Unibail Rodamco Westfield	Goodman Property Trust
APN Industria REIT	Vital Healthcare Property Trust

SALT FUNDS MANAGEMENT

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Monthly Property Market Commentary

Summary

- In an unprecedented quarter of property share price appreciation, the Fund pleasingly surpassed its benchmark, rising by +12.31% compared to the +12.07% gain by the Index.

The S&P/NZX All Real Estate Gross Index turned in an unprecedented quarter of performance, rising by a quite remarkable 12.1%. The key apparent driver was a thirst for yield at any price following a cut in the OCR target from 1.75% to 1.5%, while 10-year bond yields fell moderately from 1.76% to 1.57%. The NZ index has now risen for five straight quarters and 15 out of the last 16 months. These are bullish days indeed.

NZ comfortably outperformed the Australian benchmark which rose by 4.07%, while the FTSE EPRA/NAREIT index actually declined by -1.27%. On a one year basis, NZ has advanced by an almost unheard of 31.1% whereas the global index is up by a mere 5.2%, a staggering gap when one considers that bond yields have fallen sharply everywhere. It is even more staggering when one thinks that historically such surges by property have tended to be in a high rental and price inflation environment and therefore be less impressive in real terms.

The quarter was particularly notable for a plethora of equity raisings by Australian LPT's which included Growthpoint $165m, Centuria Industrial $70m, Cromwell $375m, National Storage REIT $190m, GPT $850m, Charter Hall Long WALE $180m, Mirvac $825m, Arena REIT $50m, Investec Australia Property $102m, APN Industria $35m and Dexus $950m. This makes perfect sense when the cost of equity converges to the cost of debt and the main surprise has been of paucity of activity in NZ given our unprecedented market strength.

The month of May saw results reported for most of the listed sector and these were largely as expected with the exception of Augusta, who surprised to the upside thanks to very strong fee income. While actual and forecast dividend growth remains tepid, valuation growth continued as cap rates track ever lower thanks to lower discount rates. According to Forsyth Barr, the average NTA uplift across the NZ listed sector in the FY19 year has been 5.4%, with cap rates compressing by 0.25% to 6.33%.

A key piece of news in the quarter was Vital Healthcare Property's (VHP, +14.6%) disappointing decision not to proceed with the Healthscope Property deal. While agitators correctly claimed that it would be EPS dilutive, our analysis pointed to it delivering a much higher quality portfolio and a perfectly acceptable IRR in the 7%'s given the properties had 20 years of 2.5% rental growth locked in. Thanks to the removal of the overhang of a large potential equity raising, VHP surged following this decision and it also saw funds reinvested across the rest of the sector.

Performance in the quarter was led by Augusta (APL, +21.3%) and Investore (IPL, +17.4%), while lesser outperformers included Vital Healthcare Property (VHP.NZ, +14.6%) and Precinct Property (PCT, +14.5%). Notable laggards were Asset Plus (APL, +8.2%) and Argosy (ARG, +9.3%).

Monthly Fund Commentary

In an unprecedented quarter of property share price appreciation, the Fund pleasingly surpassed its benchmark, rising by +12.31% compared to the +12.07% gain by the Index. This was by far the strongest quarter since the GFC and far outpaced the +4.07% turned in by Australian property.

Contributors

A large tailwind was our overweight in Investore (IPL, +17.4%). IPL had been moribund for some time which allowed us to build up the position on a view that it was trading below an understated NTA, with its long lease supermarket and hardware assets being very attractive in a low yield environment. IPL has very long leases combined with a relatively short debt duration, given the strongest theoretical upside in the index to falling interest rates and the market finally began to understand this.

Another notable positive was our long-standing holding in Centuria Metropolitan Office Trust (CMA, +13.7%) which remains cheap relative to peers on our analysis although it did close up a fair degree of this gap given its strong outperformance versus Australian comps. Smaller positives came from overweights in Augusta (AUG, +21.3%), Centuria Capital (CNI, +29.6%), Garda Capital (GCM, +13.0%) and Asset Plus (APL, +8.2%).

Detractors

A notable headwind came from Vital Healthcare Property's (VHP, +14.6%) disappointing decision not to proceed with the Healthscope Property deal. While agitators correctly claimed that it would be EPS dilutive, our analysis pointed to it delivering a much higher quality portfolio and a perfectly acceptable IRR in the 7%'s given the properties had 20 years of 2.5% rental growth locked in. While dilutive in the short term, we viewed it as adding solid medium-term value. We had expected to see an attractive opportunity to cover our mid-sized underweight but this was not to be.

Unsurprisingly in such a strong period for the overall market, other key headwinds came from our NZ underweights, which were led by Property For Industry (PFI, +12.0%) and Goodman Property Trust (GMT, +12.8%).

The short positions in the Fund actually added +0.04% during the quarter, which was particularly pleasing considering the Australian index advanced by +4.1%. Overall, our Australian holdings contributed a powerful +1.31% to Fund performance thanks to a combination of stock selection and benefitting from the plethora of Australian equity raisings.

The Fund's gross positioning fell from 112% to 108% over the quarter as we covered off several names in equity raisings and ahead of dividend season. It was an action-packed quarter in terms of new positions thanks to the veritable flood of equity raisings, with key changes being a sharp lowering of our Centuria Metro overweight into strength to make room for a plethora of small new holdings at favourable discounts in APN Industria, Centuria Industrial, Cromwell and Growthpoint. We also added APN Property, GDI Property and Peet Limited on fleeting sell-offs. We covered shorts in Charter Hall, Charter Hall Retail and Mirvac, while new shorts were established in Abacus, Charter Hall Long WALE, Goodman Group and Shopping Centres Australia.

NZ changes were notable for the Fund re-entering the retirement sector after a lengthy hiatus. Metlifecare's sharp decline of over 32% from its late 2018 highs has created a discount of 40% to book value, which is simply too attractive to ignore even when one allows for our quibbles with the asset value calculations in the sector. We also took part in the Arvida equity raising late in the period. Elsewhere, we lightened Argosy, Kiwi Property and Precinct.