SALT
Funds Management

Salt Enhanced Property Fund Fact Sheet – May 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 31 May 2019

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$8.0 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA
Associate PM/Analyst	Andrew Bolland, CFA

Unit Price at 31 May 2019

Application	1.6285
Redemption	1.6219

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 May 2019

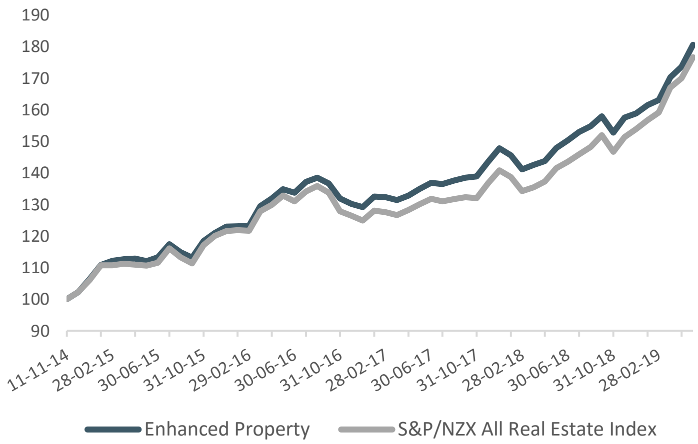
Long Exposure	100.33%
Short Exposure	5.36%
Gross Equity Exposure	105.69%
Net Equity Exposure	94.97%

Fund Performance to 31 May 2019

Period	Fund Return	Benchmark Return
1 month	4.03%	3.95%
3 months	10.65%	10.98%
6 months	14.56%	16.70%
1 year p.a.	22.03%	25.62%
2 years p.a.	15.65%	16.89%
3 years p.a.	10.21%	10.21%
Inception p.a.	13.85%	13.47%

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

Cumulative Fund Performance to 31 May 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 31 May 2019

NZ Listed Property Shares	89.66%
AU Listed Property Shares	8.98%
Cash	1.36%

Top Overweights	Top Underweights/Shorts
Centuria Metropolitan REIT	Property for Industry
Investore Property	Kiwi Property Group
Asset Plus	Argosy Property Trust
Mirvac Group	Goodman Property Trust
Garda Capital Group	Vital Healthcare Property Trust

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Monthly Property Market Commentary

Summary

- The Fund rose +4.03% for May after all fees and expenses for the month
- The S&P/NZX All Real Estate Gross Index rose by a powerful 3.95% in the month
- NZ comfortably outperformed the Australian benchmark which rose by 2.47%, while the FTSE EPRA/NAREIT index actually declined by -0.47%.

The S&P/NZX All Real Estate Gross Index rose by a powerful 3.95% in the month of May. The key driver was a cut in the OCR target from 1.75% to 1.5%, while 10-year bond yields fell from 1.91% to 1.74%. This was its seventh consecutive monthly advance by the NZ index and it has now advanced in 14 of the last 15 months.

NZ comfortably outperformed the Australian benchmark which rose by 2.47%, while the FTSE EPRA/NAREIT index actually declined by -0.47%. On a one-year basis, NZ has advanced by 25.6% whereas the global index is up by a mere 4.3%, a staggering gap when one considers that bond yields have fallen sharply everywhere.

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%.

The key piece of news in May was the surprising decision by Vital Healthcare (VHP.NZ, +9.4%) not to participate in the Healthscope transaction. While we understand this would have involved a relatively low initial yield, solid locked-in rental growth would have delivered a respectable IRR. The CEO, David Carr resigned. Given 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 month displayed greater dispersion than usual, with the outperformers being Vital Healthcare Property (VHP.NZ, +9.4%) and Investore (IPL, +9.1%), whose result was as expected and whose long duration assets have the strongest theoretical exposure to falling bond yields. Laggards were Precinct Property (PCT, +1.3%) and Argosy Property (ARG, +0.4%). ARG's result was as expected but it had risen strongly in prior months, while PCT pointed to further delays in Commercial Bay late in the month.

Monthly Fund Commentary

The Fund pleasingly kept up with the surge in its benchmark in May, rising by +4.03% compared to the +3.95% gain by the Index.

Contributors

The largest tailwind was our overweight in Investore (IPL, +9.1%). 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 its strong theoretical upside to falling interest rates and the market finally began to cotton on to this driver in the month following a result that did not contain any great surprises.

Another notable positive was our long-standing holding in Centuria Metropolitan Office Trust (CMA, +3.5%) which remains cheap relative to peers on our analysis. A modest new holding in the residential land developer Peet Limited (PPC, +14.8%) proved well-timed, following the surprise Australian election result and RBA moves to ease mortgage availability.

The short positions in the Fund detracted only -0.04% during the month, which was pleasing considering the Australian index advanced by +2.5%. Overall, our Australian holdings contributed a pleasing +0.30% to Fund performance.

Detractors

A large headwind came from the mid-sized underweight in Vital Healthcare (VHP.NZ, +9.4%), which surged following their decision not to participate in the Healthscope transaction. This was a significant surprise given that VHP had borne considerable bid costs alongside its parent, North West Healthcare. Although the initial yield was low, the potential IRR looked reasonable in this very low yield world. The CEO, David Carr resigned following the decision and with Singapore's GIC quickly taking VHP's place, we can't help but think that this was one that got away. The whole process played out against a somewhat fraught backdrop regarding Vital Healthcare's fee levels. These were well above current market norms and which were lowered somewhat following pressure from some investors but this may have clouded the decision and been something of an own goal on a medium-term basis.

Unsurprisingly in such a strong month for the market, other headwinds came from our NZ underweights, which were led by Property For Industry (PFI, +4.5%) and Goodman Property Trust (GMT, +7.2%).

Gross exposure fell slightly from 108% to 106% in the month as several short positions briefly moved to attractive covering levels. Net positioning rose from a low 90% to a more normal 95%. Several equity raisings in Australia saw the Fund establish a new position in APN Industria REIT and cover its short in Mirvac. Weakness was also used to cover National Storage REIT, Scentre Group and a degree of the Bunnings Warehouse Property Trust short. New longs were purchased in GDI Property and Peet Limited, while the underweight in Goodman Property Trust was lessened.