SALT

Funds Management

Salt Enhanced Property Fund Fact Sheet – February 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 28 February 2019

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$6.9 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA
Associate PM/Analyst	Andrew Bolland, CFA

Unit Price at 28 February 2019

Application	1.5000
Redemption	1.4939

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 28 February 2019

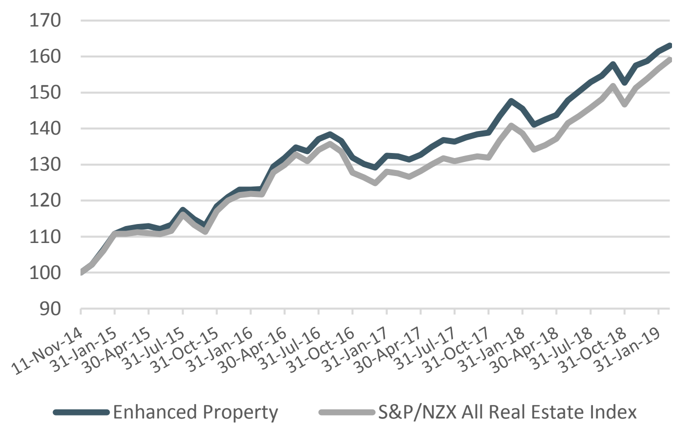
Long Exposure	102.31%
Short Exposure	9.86%
Gross Equity Exposure	112.18%
Net Equity Exposure	92.46%

Fund Performance to 28 February 2019

Period	Fund Return	Benchmark Return
1 month	1.00%	1.59%
3 months	3.53%	5.16%
6 months	5.41%	8.12%
1 year p.a.	15.57%	19.41%
2 years p.a.	11.02%	12.07%
3 years p.a.	9.78%	9.59%
Inception p.a.	12.05%	11.58%

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

Cumulative Fund Performance to 28 February 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 28 February 2019

NZ Listed Property Shares	93.58%
AU Listed Property Shares	1.36%
Cash	5.06%

Top Overweights	Top Underweights/Shorts
Centuria Metropolitan REIT	Property for Industry
Investore Property	Kiwi Property Group
Unibail-Rodamco-Westfield/CDI	Argosy Property Trust
Asset Plus	BWP Trust (Short)
Garda Capital Group	Goodman Property Trust

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Monthly Property Market Commentary

Summary

- The Fund rose +1.0% after all fees and expenses for the month.
- The S&P/NZX All Real Estate Gross Index rose by 1.6% in February, marking the fourth consecutive monthly increase and the eleventh rise in the past twelve months.
- The standout positive was the Fund's large overweight in Centuria Metropolitan REIT (CMA, +2.1%), which continued to grind higher and shake off the overhang of their equity raising back in October.

The S&P/NZX All Real Estate Gross Index rose by 1.6% in February, marking the fourth consecutive monthly increase and the eleventh rise in the past twelve months as the great property bull market continues on unabated. The global FTSE EPRA/NAREIT index rose by only 0.3% but this did follow January's 10.9% advance, while the Australian benchmark rose by 1.8%. A key support was that NZ 10-year bond yields rallied from 2.28% to 2.17% and touched a record low of 2.11% during the month. These are interesting levels in the context of NZ's core CPI inflation rate being 1.9%.

Property sector news was dominated by the sizeable $150m equity raising carried out by Precinct Properties (PCT, +0.3%) at $1.48. This will give PCT sufficient capital to carry out further property development opportunities at Wynyard Quarter in Auckland and Bowen Campus in Wellington. The liquidity demands of this weighed only momentarily on the wider listed property sector.

Results during the month saw Property For Industry (PFI, +4.4%) report sizeable cap rate contraction of 36 basis points to 6.2% although their 2.5% rental reviews and relatively muted guidance were perhaps a touch disappointing given the strong industrial property backdrop. Vital Healthcare Property's (VHP, +0.7%) result was a touch light on higher than expected costs but the focus from here is on their potentially sizeable purchase of Healthscope Properties, any associated equity raising, and a management fee review which would appear a necessary prerequisite for a successful conclusion to Healthscope. Precinct's interim result was largely as expected.

Stock performance was typically clustered during the month. Property For Industry led the way with a 4.4% advance, while Kiwi Property was the only decliner at -0.7%.

Monthly Fund Commentary

The Fund lagged its benchmark in February gaining +1.0% relative to the index at +1.6%.

Contributors

The standout positive was the Fund's large overweight in Centuria Metropolitan REIT (CMA, +2.1%), which continued to grind higher and shake off the overhang of their equity raising back in October. We remain attracted to their late-cycle exposure to non-CBD office property and they continue to stand out strongly in our relative valuation model both in terms of income and asset valuation metrics. Our long-standing position in Garda Property (GDF, +4.7%) again performed well.

Detractors

Two major headwinds stood out, with the largest being the sizeable underweight in Property For Industry (PFI, +4.4%) which bounced sharply despite a result that was largely in line with expectations and guidance that was perhaps a touch tepid. Rental reviews saw a lift of 2.5% which seemed a little light relative to general industrial property strength. Cap rates did decline by a sharp 36 basis points, with the new weighted average of 6.2% appearing tight given PFI's range of properties. At this late stage of the cycle it is also a little surprising that PFI is trading at a premium to its NTA of $1.78 and this perhaps speaks to the pressure that low bond yields are creating throughout the property sector.

The second headwind was what has proven to be a surprisingly volatile position in Unibail Rodamco Westfield (URW, -8.6%). While their result itself was solid, they surprised the market by opting for a future path that encompasses a greater degree of property sales and de-gearing than previously envisaged along with a lower dividend yield. This combination of lower forecast leverage and yield still sees the stock screen in the top couple of relative valuation opportunities in our universe.

The Fund's gross positioning was little changed at 112%, while the net rose only marginally from 92.1% to 92.3%. The Fund participated aggressively in the Precinct Property equity raising at $1.48 to close up much of the former underweight. We lightened Kiwi Property into strength, with the share price being little affected as yet by the chill winds blowing through retail stocks globally despite massive capacity additions in the Auckland market over the next year or two. The Fund lightened the Unibail position into strength prior to its result, opportunistically covered shorts in Goodman Group, Scentre Group and Vicinity, put a new short in place on Mirvac which has surged in recent times, and exited 360 Capital, which announced an intention to move beyond being purely a property investor and fund manager.

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