SALT
Funds Management

Salt Enhanced Property Fund Fact Sheet – December 2018

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 December 2018

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$6.8 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA
Associate PM/Analyst	Andrew Bolland, CFA

Unit Price at 31 December 2018

Application	1.4608
Redemption	1.4548

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 December 2018

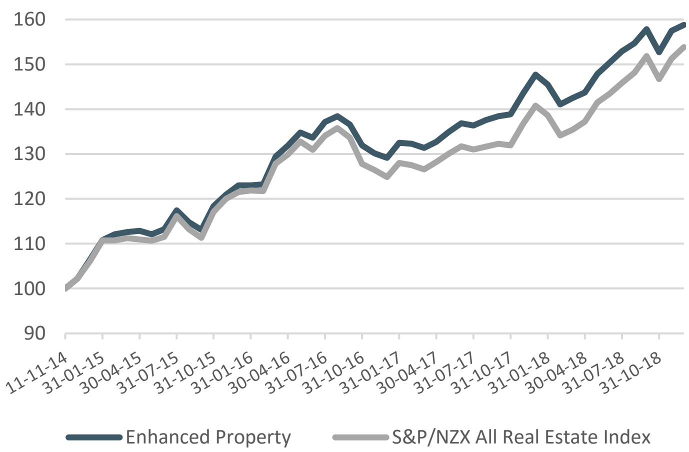
Long Exposure	100.59%
Short Exposure	8.37%
Gross Equity Exposure	108.97%
Net Equity Exposure	92.22%

Fund Performance to 31 December 2018

Period	Fund Return	Benchmark Return
1 month	0.82%	1.68%
3 months	0.59%	2.00%
6 months	5.63%	7.98%
1 year p.a.	7.50%	10.00%
2 years p.a.	10.88%	11.39%
3 years p.a.	8.88%	8.43%
Inception p.a.	11.83%	11.15%

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

Cumulative Fund Performance to 31 December 2018



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 December 2018

NZ Listed Property Shares	90.02%
AU Listed Property Shares	4.95%
Cash	5.03%

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

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Quarterly Property Market Commentary

Summary

- The Fund rose +0.59% after all fees and expenses for the quarter.
- The S&P/NZX All Real Estate Gross Index retraced its October declines of -3.4% to end up rising by +2.00% in the December quarter.

The S&P/NZX All Real Estate Gross Index retraced its October declines of -3.4% to end up rising by +2.00% in the December quarter as investors stampeded into defensive assets against a backdrop of a suddenly volatile world.

NZ 10-year bond yields fell from 2.65% to 2.38%, a level that is barely above NZ's current inflation rate. They had hit an intra-month high of 2.78% during November. Corporate debt margins expanded globally as investors ran from risk and Kiwi Property may have picked the bottom when they completed a $100m seven-year bond issue at an attractive spread of 145bp.

NZ massively outperformed the global FTSE EPRA/NAREIT index, which fell by a sharp -6.22% in the quarter, with higher beta property segments such as retail and residential being under particular pressure. The Australian benchmark declined by -1.91%.

Seven of the NZ listed vehicles reported during the quarter. Overall impressions were that occupancy remains extremely strong in the 99% region, rental growth is a little mixed with industrial outpacing flat office and retail, interest costs remain very low with some companies breaking expensive swaps, and cap rates continue to contract under offshore investor pressure. Whether this felicitous mix is repeated in 2019 to drive further NZ outperformance is perhaps debatable.

Argosy Property (ARG, +9.1%) was the stellar outperformer during the quarter following its result which while solid was not unambiguously positive. Precinct Properties (PCT, +4.1%) was the other stand-out. Laggards were Augusta (AUG, -1.4%) and Vital Healthcare Property (VHP, -0.1%).

Quarterly Fund Commentary

The Fund lagged its benchmark in the December quarter, rising by +0.59% after all fees and expenses compared to the +2.00% recorded by the NZ Index.

Contributors

Positive offsets were relatively few in number and were led by a small position in Garda Capital (GCM, +26%). Its main management vehicle Garda Property (GDF, +10%) also performed strongly. These vehicles have always traded at cheap valuations but the market is beginning to re-rate them on the continued sound execution of their develop-to-own strategy. A moderately material litigation win also assisted. Other notable positives were shorts in Mirvac (MGR, -4.9%) and Ale Property Trust (LEP, -5.8%).

Detractors

A key headwind was the Fund's typical average net position of circa 7% in Australia. With that market trailing NZ by an unusually large 4%, a headwind of nearly 0.30% accounted for a portion of the Fund's lag. The Fund's average net long position of around 93% (rather than 100%) in an up-period accounted for a portion of the balance, with the remainder being due to stock selection.

At a single stock level, the key problem-child was the large holding that we have been buying in the premium global shopping mall operator, Unibail-Rodamco-Westfield (URW, -24.2%). We were surprised by the extent of the decline, which appeared to be driven by a mix of general cyclical retail fear, ASX index down-weighting and a degree of concern about their gearing levels. URW owns a set of extremely high-quality malls across Europe, the UK and the US which are destinational in nature and highly defensive in the context of the obvious industry headwinds. URW is selling property above NTA to address the temporary balance sheet expansion post the Westfield takeover and it offers a gross yield to a NZ investor of over 10% - remarkable for assets of this nature. URW stands out by some distance in our relative property valuation model versus other opportunities.

Other detractors of note included a moderate underweight in the strongly outperforming Argosy Property (ARG, +8.4%) and a large overweight in Centuria Metropolitan REIT (CMA, -3.5%) which suffered from the overhang of a relatively large equity raising in October. CMA has been a strong performer for the fund over time, its suburban office assets are well placed given unusually large rental disparities versus surging CBD office rents, and it continues to stand out on our relative valuation modelling.

Our shorts did poorly as a group in the period, detracting a collective 0.22% despite a decline in the Australian benchmark. The problem was that sharp underperformance came from residential and shopping centre exposures where we were only modestly positioned, while very expensive defensive stocks such as Bunnings Warehouse Property and Goodman Group performed strongly as general equity investors flocked into them on a "fear trade".

The Fund's net positioning only moved slightly from 93% to 92% over the quarter but did wax and wane as the sector rose and fell. The gross exposure was similarly steady at 109%. Position changes over the period saw us add a small new holding in Millennium & Copthorne (MCK) ordinary shares which trade at a very large discount to the NTA of their hotel and land assets. We lowered our Augusta overweight and lessened our Goodman Property underweight. We lightened Garda Property and Centuria Metropolitan REIT into strength and continued to buy Unibail-Rodamco-Westfield on the back-foot. We lifted our short in Dexus, put a new short on Vicinty Centres and covered shorts in Mirvac, Shopping Centres Australia and Ale Property. We exited positions in Hotel Property Investments, Ingenia, Propertylink and Stockland.