SALT
Funds Management

Salt Enhanced Property Fund Fact Sheet – October 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 October 2018

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$6.2 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA
Associate PM/Analyst	Andrew Bolland, CFA

Unit Price at 31 October 2018

Application	1.4355
Redemption	1.4297

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 October 2018

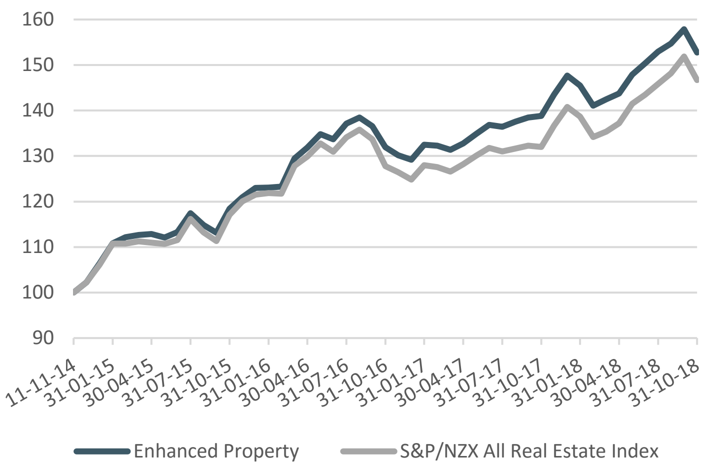
Long Exposure	105.21%
Short Exposure	9.06%
Gross Equity Exposure	114.27%
Net Equity Exposure	96.15%

Fund Performance to 31 October 2018

Period	Fund Return	Benchmark Return
1 month	-3.26%	-3.41%
3 months	-0.14%	0.60%
6 months	6.24%	6.91%
1 year p.a.	9.99%	11.16%
2 years p.a.	7.60%	7.14%
3 years p.a.	8.85%	7.79%
Inception p.a.	11.26%	10.12%

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

Cumulative Fund Performance to 31 October 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 October 2018

NZ Listed Property Shares	87.30%
AU Listed Property Shares	9.08%
Cash	3.62%

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

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Monthly Property Market Commentary

Summary

- The Fund declined -3.26%% after all fees and expenses for the quarter compared to the -3.41% returned by the index.
- Listed equity markets globally came under heavy pressure and no stocks in the index rose during the month.
- The largest positive was our sizeable underweight in Property For Industry (PFI, -4.4%) which finally saw the forces of valuation gravity begin to reassert themselves.

After seven consecutive monthly advances, the S&P/NZX All Real Estate Gross Index fell by -3.41% in October as listed equity markets globally came under heavy pressure. NZ 10-year bond yields rallied from 2.65% to 2.54% despite the US benchmark rising from 3.06% to 3.14% and domestic business confidence surveys showing some signs of price pressure. The dovish stance of the RBNZ is dominating for now. The global FTSE EPRA/NAREIT index fell by -2.81% and the Australian benchmark declined -3.11%.

Property news was relatively sparse during the month, with Property For Industry making a modest Manukau industrial purchase at a seemingly tight 5.35% yield. Centre Port confirmed that it will demolish the earthquake damaged BNZ Building in Wellington and the Spark Central office building sold for $197.5m and at a yield of 7.34%.

No stocks in the index rose during the month but the least bad was Vital Healthcare Property Trust (VHP, -1.9%), closely followed by Argosy (ARG, -2.7%) and Goodman Property (GMT, -2.9%). The laggard was Kiwi Property (KPG, -5.3%) as retail property exposures continue to be under heavy pressure globally.

Monthly Fund Commentary

The Fund slightly outperformed the benchmark in the month, declining by -3.26% after all fees and expenses compared to the -3.41% returned by the Index.

Contributors

The largest positive was our sizeable underweight in Property For Industry (PFI, -4.4%) which finally saw the forces of valuation gravity begin to reassert themselves. Other positives were our moderate holding in the very illiquid Garda Capital (GCM, +16%) and underweights in Goodman Property (GMT, -2.9%) and Kiwi Property (KPG -5.4%).

The Fund's short positions performed only moderately well in what could have been a banner month for them. They added +0.10% to performance but were held back by surprising advances in Bunnings Warehouse Property (BWP, +3.6%), ALE Property Group (LEP, +2.3%) and National Storage REIT (NSR, +2.1%). All three of these are at the very expensive end of our relative value modelling

Detractors

This outperformance came with no thanks to our largest relative position, being Centuria Metropolitan REIT (CMA, -4.2%). We had gradually lightened CMA into earlier strength but their acquisition of a large office portfolio and associated discounted equity raising saw us subscribe for our proportionate holding. There are two key attractions and one main issue with CMA in our view. Dealing with the latter first, their external management by Centuria does lead to the suspicion that growth of the vehicle may at times be prioritised over value and this latest deal had shades of that.

That said, previous deals have worked out well after initial pressure. The first key attraction is that CMA is perfectly placed to benefit from the tail-end of the Australian office property boom, with a strong rental and valuation growth outlook remaining. This gives us confidence in the forecast numbers and leads to the second attraction, which is that CMA models as very cheap relative to other Australian property names when one considers its dividend yield versus drivers such as gearing, portfolio quality and free cashflow generation. On our calculations, the gross yield for a NZ investor is 8.6%.

The second key laggard for the Fund was a position that we are building in the global premium shopping centre giant, Unibail-Rodamco-Westfield (URW, -9.6%). URW models out extremely well on our relative valuation modelling, which includes factors such as their retail exposure, portfolio quality and gearing. They trade at a discount to NTA of over 30% but are selling properties at a 6-8% premium. They are well placed to weather retail headwinds given their absolute premium mall positioning on a global basis. We estimate they provide a gross dividend yield of 8.6% to a NZ investor, with reasonable growth as large developments come through over the next year or two.

The Fund's gross exposure rose from 110.6% to 114.3% over the month and weakness was used to lift the net length from 93.2% to 96.2%. We used a pullback to cover a modest degree of our very large underweight in Property For Industry and we participated proportionately in the Centuria Metropolitan REIT raising. We sold a small opportunistic Oceania Healthcare position, we exited Propertylink which rose thanks to ESR's takeover bid and we lifted Unibail- Rodamco-Westfield as it pulled back sharply. We covered our short in Shopping Centres Australia.