Salt Funds Management

Salt Enhanced Property Fund Fact Sheet – June 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 30 June 2018

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$5.8 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA
Associate PM/Analyst	Andrew Bolland, CFA

Unit Price at 30 June 2018

Application	1.4130
Redemption	1.4073

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 2018

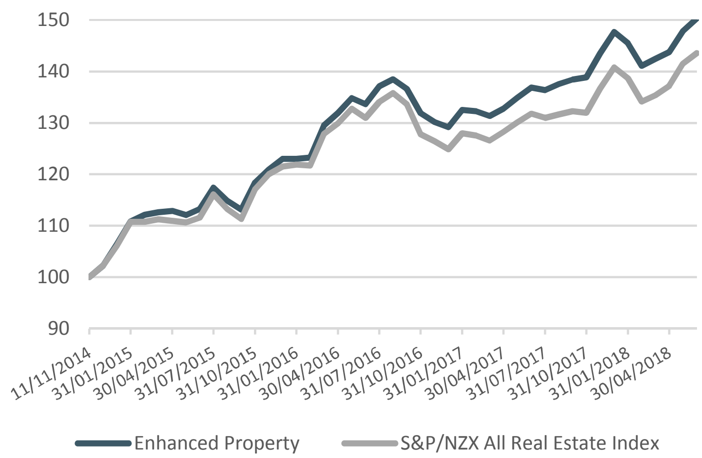
Long Exposure	103.92%
Short Exposure	-8.41%
Gross Equity Exposure	112.32%
Net Equity Exposure	95.50%

Fund Performance to 30 June 2018

Period	Fund Return	Benchmark Return
1 month	1.67%	1.46%
3 months	5.51%	5.95%
6 months	1.77%	1.88%
1 year p.a.	9.85%	8.88%
2 years p.a.	6.05%	4.67%
3 years p.a.	9.90%	8.74%
Inception p.a.	11.88%	10.44%

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

Cumulative Fund Performance to 30 June 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 30 June 2018

NZ Listed Property Shares	88.42%
AU Listed Property Shares	7.32%
Cash	4.26%

Top Overweights	Top Underweights/Shorts
Centuria Metropolitan REIT	Property for Industry
Investore Property	Goodman Property Trust
Asset Plus	Goodman Group (short)
Garda Diversified Prop Fund	National Storage REIT (short)
Garda Capital Group	Vital Healthcare Property Trust

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Monthly Property Market Commentary

Listed property as an asset class performed strongly over the June 2018 quarter, in many cases outperforming equity indices. Interestingly, this was against the backdrop of the widely followed US 10 year bond yield marginally tracking upwards to a yield of 2.86% from 2.76%. The S&P/NZX All Real Estate Gross Index rose by +5.95%, ahead of the corresponding global index (FTSE EPRA/NAREIT) +3.14%, but behind the very strong performance of Australian REITs which returned +8.17%.

Locally, the quarter was notable for a handful of meaningful asset sales. Such sales were perhaps logical at this point in the cycle, with strong prices being achieved and some sale prices now moving above replacement cost. In these circumstances realising value through asset recycling can prove a valuable exercise. The most notable transaction was Goodman Property Trust (GMT) announcing the conditional sale of its VXV office portfolio, held in a JV with Singapore's GIC, for $635m. At a passing yield of 6.6% on leasehold land, this was well received news by unitholders. Elsewhere Precinct Properties (PCT) entered into a binding agreement to sell 50% of the ANZ Centre to Invesco for NZ$181m. The sale had been well anticipated and at an estimated cap rate of 5.4%, has likely set a new benchmark for Auckland CBD office valuations. Less positively in the retail segment, Kiwi Property Group (KPG) sold the North City Shopping Centre for $100 compared to a book value of $106m and an earlier offer price to NPT Limited of $114m.

In Australia, the Unibail-Rodamco takeover of Westfield (WFD) saw Westfield ceasing to trade on the ASX on the 30th of May. Given the size of the transaction, the REIT space was left somewhat awash with cash from investors who received a combination of both Unibail shares and cash. The reinvestment of this cash and the ex-dividend season in June created a liquidity tailwind for other listed REITs. To date, there has been limited new issuance to take advantage of this. Elsewhere, Investa Office Fund (IOF) received a bid from Blackstone at a 13% premium to its then share price. With assets right across Australia, Investa owns or part owns 21 NSW office buildings including much sought after "trophy" assets in Sydney's CBD which globally have been in hot demand.

Back to NZ, there was a relatively wide dispersion of returns across the quarter ranging from the top performers of Goodman Property Trust (GMT, +9%) and Stride Property Group (SPG, +7.65%) to Vital Healthcare Property (VHP, -3.6%). For some local market participants, VHP's foray into the Healthscope situation with parent, North West Properties, has raised questions around future capital needs given an already full development pipeline.

Monthly Fund Commentary

The Fund modestly lagged the exceptional benchmark return over the quarter advancing by +5.51% after all expenses compared to the +5.95% by the Index. The sharp outperformance by Australia naturally meant that our shorts in that market were a drag, subtracting a collective -0.85% from returns. That said, our Australian longs contributed an overall +1.19%.

The largest individual contributor to performance came from the large overweight position in Centuria Metropolitan REIT (CMA, +8.8%). CMA screens at the top of our proprietary relative valuation model and provides exposure to non-CBD office properties which are yet to fully benefit from the strong rental growth and cap rate tightening seen in Australian CBD office markets. The second stand-out contributor from Australia was Garda Capital Group (GCM, +15.6%), the management entity of the strongly performing Garda Property (GDF, +4.2%) which had a relatively quiet quarter but has been a strong investment for the Fund. Other Australian positives included Viva Energy REIT (VVR, +12.5%) and Ingenia Group (INA, +10.8%), which benefitted from corporate activity in its sector. We continue to view the value of INA's land rental stream as being worth far more than the circa 8% valuation cap rate that is applied to it.

In NZ, the Fund's largest overweight Investore Properties (IPL, +6.4%), was a solid contributor to performance. In May, IPL reported positive asset revaluations, modest rental growth and reminded investors that 33 of their 40 assets have hard ratchet clauses allowing for downside income protection through the cycle. We continue to support IPL's strategy of brown-field developments at sites where rental growth can be enhanced. IPL trades at a sharp discount to NTA and its AGM pointed to the likelihood of a capital management programme in the near future. Millennium & Copthorne Hotels ordinaries (MCK, +13,3%) and preferreds (MCKPA, +10.5%) were yet again strong contributors to the Fund. Strength was used to exit the former instrument in favour of the slightly lower priced latter.

Aside from the group of shorts, the two key detractors from the Fund's relative performance both came from the globally red-hot industrial sector. The Fund through the quarter had underweight positions in Goodman Property Trust (GMT, +9%), and Property for Industry (PFI, +5.8%). Investor demand for industrial assets has seemed near insatiable. While globally there is some merit to arguments around the scarcity of suitable land for large scale distribution centres required to support online shopping growth, the argument is less clear in NZ in our view. PFI's assets are largely of a lower grade than GMT's and are dispersed across both Auckland and regional NZ. Investors paying cap rates of 5% in the current market have perhaps forgotten the cyclicality of demand in the sector and the relatively homogeneous nature of the assets.

The strength and volatility in the quarter saw the Fund lift its gross exposure from 105.4% to 112.3%, while the net exposure was largely unchanged at 95.5%. We lifted our holdings in Goodman Property, Investore Property and Kiwi Property, while we lowered Viva Energy REIT following its strong run. We purchased new longs in Stockland and Villa World, while we added new shorts in Shopping Centres Australasia and National Storage REIT, which both screen as very expensive on our relative valuation modelling.