

SALT

Salt Enhanced Property Fund Fact Sheet – February 2020

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 29 February 2020

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	\$15.1 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 29 February 2020

Application	1.8599
Redemption	1.8523

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%

¹To NZ and Australian property and property related securities.

Fund Exposures at 29 February 2020

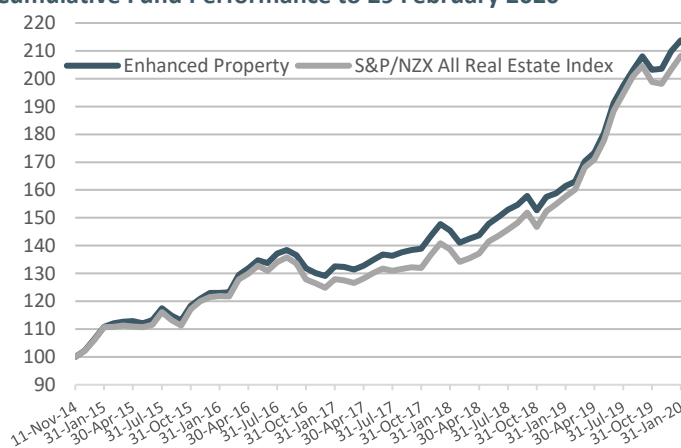
Long Exposure	101.55%
Short Exposure	3.66%
Gross Equity Exposure	105.21%
Net Equity Exposure	97.89%

Fund Performance to 29 February 2020

Period	Fund Return	Benchmark Return
1 month	-2.26%	-1.92%
3 months	2.65%	3.08%
6 months	2.92%	1.73%
1-year p.a.	28.14%	27.47%
2 years p.a.	21.69%	23.37%
3 years p.a.	16.46%	16.99%
5 years p.a.	13.26%	13.01%
Inception p.a.	14.92%	14.42%

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

Cumulative Fund Performance to 29 February 2020



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 29 February 2020

NZ Listed Property Shares	91.04%
AU Listed Property Shares	8.63%
Cash	0.33%

Top Overweights	Top Underweights/Shorts
Centuria Capital Group	Precinct Properties
Investore Property	Property for Industry
Oceania Healthcare	Goodman Property Trust
Garda Diversified Property Fund	Stride Property & Stride Investment Management
Millennium & Copthorne Hotels	BWP Trust

SALT FUNDS MANAGEMENT

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Summary

- **The Fund slightly underperformed in the month of February, returning -2.26% compared to the -1.92% turned in by the benchmark.**
- **Negative contributions were led by Investore (IPL, -4.6%) despite being theoretically well positioned with short debt duration.**
- **Winners were fewer and were led by our underweight in Stride Property (SPG, -6.3%).**

Quarterly Property Market Commentary

In the face of gathering coronavirus fears, the S&P/NZX All Real Estate Gross Index fell by -1.92% in the month of February. This was significantly better than offshore property markets, with the FTSE EPRA/NAREIT Index plunging by -8.7% and the S&P/ASX200 A-REIT Accumulation Index falling by -4.9%. 10-year bond yields fell from 1.30% to 1.07% but this was of little help in the face of a quest for liquidity and fears around top-line rental growth.

Three listed NZ entities reported during with month, with no great surprises out of Property for Industry, Vital Healthcare Property or Precinct Property. PFI announced a sizeable valuation uplift over the last year of +16% although this was largely driven by tighter cap rates rather than rental growth. Argosy announced a slight dividend uplift, Augusta shelved plans for a tourism property fund and Vital released special meeting documentation for a planned restructure and ASX dual listing.

Performance in the month saw reasonable dispersion, with the leaders being Augusta Capital (AUG, +3.0%) and Vital Healthcare Property (+2.5%). Laggards were dominated by those with heavier exposure to retail property such as Stride Property (-6.3%) and Kiwi Property (KPG, -7.3%).

Salt Enhanced Property Fund Commentary

The Fund slightly underperformed in the month of February, returning -2.26% compared to the -1.92% turned in by the benchmark. The net exposure of the portfolio to Australian property securities is approximately 8% at present, so that market's sharp underperformance relative to NZ accounted for almost all the gap.

Detractors

In a sharply negative month for the market, negative contributions were unsurprisingly led by our larger overweight positions. Investore (IPL, -4.6%) was a large headwind despite being theoretically well positioned with short debt duration relative to

very long lease terms and rental income that should prove resilient. Our smaller holding in Asset Plus (APL, -8.0%) also hurt, with its very high gross dividend yield of 8.9% providing no protection. The modest holdings in Oceania Healthcare (OCA, -7.4%) and Millennium & Copthorne Hotels (MCK, -6.5%) also dragged.

Other headwinds came from two Australian positions which we are particularly bullish on. Vitalharvest (VTH, -4.7%) finally saw reasonable rains arrive across their rural holdings and their half year result was a touch better than expected in what was a period of fire, drought and pestilence. They are at a sharp discount to NAV, have major dividend growth potential in more normal production years and have a sizeable rental reset event in five years which the market hasn't yet focused on. The second was Elanor Commercial Office (ECF, -5.8%) which screens by some distance in our multi-factor model as the cheapest property name across the Australia/NZ universe.

Contributors

Winners were fewer and were led by our underweight in Stride Property (SPG, -6.3%). Frustratingly, our underweights in the ultra-expensive Goodman Property (GMT, +0.0%) and Property For Industry (PFI, +0.2%) defied the wider gloom. Other stand-out contributors were our shorts in BWP Trust (BWP, -7.8%) and ALE Property (LEP, -6.9%).

Portfolio Changes

Portfolio changes in the month were very much at the margins. We covered shorts in Aventus and Scentre Group and lessened the short in BWP Trust. We put a new short on SCA Property when bulls ignored negative re-leasing spreads in their result and initiated a small new short in Charter Hall Long WALE REIT. Elsewhere, we exited Centuria Office and Centuria Capital and lessened the degree of underweight in Precinct Property.