SALT

Funds Management

Salt Enhanced Property Fund Fact Sheet – August 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 31 August 2019

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$10.4 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 August 2019

Application	1.8324
Redemption	1.8250

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 August 2019

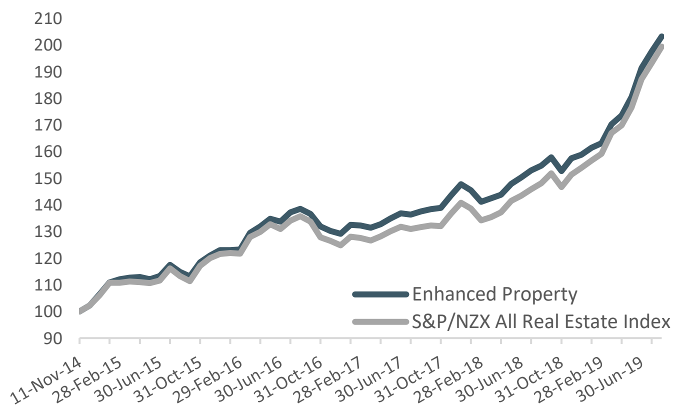
Long Exposure	101.97%
Short Exposure	7.21%
Gross Equity Exposure	109.18%
Net Equity Exposure	94.75%

Fund Performance to 31 August 2019

Period	Fund Return	Benchmark Return
1 month	2.81%	3.18%
3 months	12.52%	12.91%
6 months	24.51%	25.30%
1 year p.a.	31.24%	35.48%
2 years p.a.	21.48%	23.48%
3 years p.a.	13.61%	13.91%
Inception p.a.	15.90%	15.62%

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

Cumulative Fund Performance to 31 August 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 31 August 2019

NZ Listed Property Shares	93.96%
AU Listed Property Shares	3.22%
Cash	2.82%

Top Overweights	Top Underweights/Shorts
Unibail Rodamco Westfield	Property for Industry
Investore Property	Kiwi Property Group
Asset Plus	Argosy Property Trust
Centuria Industrial REIT	Goodman Property Trust
Centuria Metropolitan REIT	Precinct Properties

Summary

- **The Fund returned +2.81% for the month of August compared to +3.18% turned in by the Index**
- **This was the tenth consecutive monthly advance and makes for a scarcely believable annual return of +35.3% for the S&P/NZX All Real Estate Gross Index**
- **The Funds main contributors were Garda Capital (GCM, +13.3%, GDI Property (GDI, +9.1%) and Centuria Industrial (CIP, +5.7%).**

Monthly Property Market Commentary

The inexorable advance of the S&P/NZX All Real Estate Gross Index continued in August, with a further positive return of +3.18%. This was the tenth consecutive monthly advance and makes for a scarcely believable annual return of +35.3%. Plunging bond yields were the key driver, with the NZ 10 year yield declining from 1.47% to 1.07% as the RBNZ surprised with a 50bp cut in the target OCR to 1.0%. These are extremely low levels against a backdrop of 1.7% core inflation and have sparked a surge up the risk curve into equities by a bevy of bond market and term deposit refugees.

As has become customary, NZ again outperformed the Australian benchmark which rose by a trifling +1.18%, while the global FTSE EPRA/NAREIT index scraped out a +0.62% advance. NZ is far from being unique in having ultra-low interest rates but the performance of our listed property sector, which has been mainly driven by multiple expansion, stands out starkly on the global stage. Our market is clearly vulnerable to any change in the global backdrop but for now we are marching merrily onwards.

The month saw Precinct, Property For Industry and Vital Healthcare report results. As has been the case for some time, tighter cap rates drove valuation advances although all three names trade at sizeable premia to NTA. At month-end, the P/NTA premium for the NZ sector (ex Augusta) was 24.2%, with the range being from +39% for Goodman Property to -9% for Asset Plus. Normal behaviour in the late stages of an asset cycle would be to see price/NTA discounts rather than premia. This suggests the cycle may keep running for a while yet or it has simply been overwhelmed by a quest for yield which has over-run the normal risk premium that one would apply to equity investments.

Performance in the month was relatively tightly clustered and led by Goodman Property (GMT, +6.3%). Laggards were Augusta (AUG, +0.0%), Vital Healthcare (VHP, +0.4%) and Kiwi Property (KPG, +0.6%).

Monthly Fund Commentary

The Fund slightly lagged the continued surge in the benchmark, rising by +2.81% compared to the +3.18% turned in by the Index.

Given the market strength, the strongest headwinds unsurprisingly came from our largest NZ underweights and from our largest shorts. The underweights were led by Property For Industry (PFI, +4.1%). Industrial property has undergone an extended boom, with cap rates of sub-5% now being paid for high quality modern logistics sheds. These are renting at prices of $140-150/m2 which is well above Sydney's typical $120-130/m2 and Melbourne's $80-100/m2. Absorption appears to be holding up for now despite concerningly weak business confidence readings and this may constitute the key risk to what has been a remarkable cycle. Smaller underweights in Goodman Property (GMT, +6.3%) and Argosy (ARG, +3.2%) also weighed on relative returns.

Viewed in isolation, our shorts detracted -0.30% from returns which is what one would expect in a strong up month. Charter Hall (CHC, +11.8%), Charter Hall Long Wale Reit (CLW, +14.0%) and Bunnings Warehouse Property (BWP, +3.7%) were the main culprits. However, the point of these shorts is to allow greater investment in the cheapest stocks in our relative value modelling. This worked very well, with the overall contribution from Australia being +0.13%. The way was led by Garda Capital (GCM, +13.3%, GDI Property (GDI, +9.1%) and Centuria Industrial (CIP, +5.7%).

Portfolio changes saw the gross positioning lift from 106% to 109% although the net exposure to property markets was largely unchanged at 95%. The Vital Healthcare Property holding was dramatically lifted on a fleeting opportunity, while underweights were closed up to a moderate degree in Kiwi Property and Goodman Property. A new long was established in Mirvac. The Fund exited APN Industria Reit, Centuria Capital, Cromwell Property and Viva Energy Reit. The Goodman Group short was covered and new shorts were established in Aventus Group and Scentre Group.