SALT
Funds Management

# Salt Enhanced Property Fund Fact Sheet – April 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 April 2018

| | |
|---|---|
| Benchmark | S&P/NZX All Real Estate Gross Index |
| Fund Assets | $5.5 million |
| Inception Date | 11 November 2014 |
| Portfolio Manager | Matthew Goodson, CFA |
| Associate PM/Analyst | Andrew Bolland, CFA |

## Unit Price at 30 April 2018

| | |
|---|---|
| Application | 1.3823 |
| Redemption | 1.3767 |

## 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 April 2018

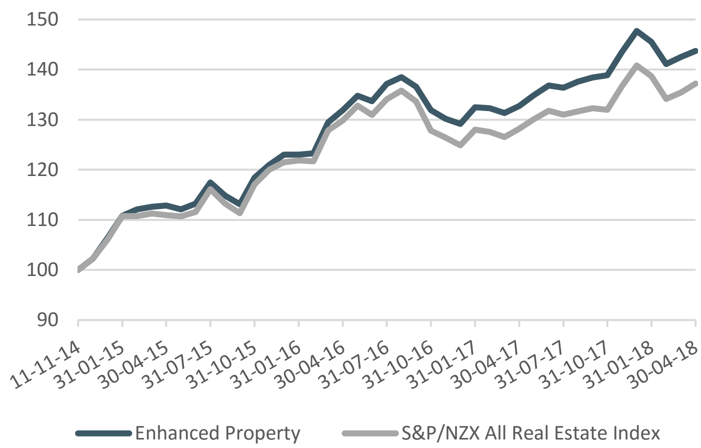
| | |
|---|---|
| Long Exposure | 102.83% |
| Short Exposure | -5.98% |
| Gross Equity Exposure | 108.81% |
| Net Equity Exposure | 96.85% |

## Fund Performance to 30 April 2018

| Period | Fund Return | Benchmark Return |
|---|---|---|
| 1 month | 0.89% | 1.33% |
| 3 months | -1.21% | -1.05% |
| 6 months | 3.52% | 3.97% |
| 1 year p.a. | 8.28% | 7.02% |
| 2 years p.a. | 4.40% | 2.77% |
| 3 years p.a. | 8.39% | 7.33% |
| Inception p.a. | 11.04% | 9.55% |

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

## Cumulative Fund Performance to 30 April 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 April 2018

| | |
|---|---|
| NZ Listed Property Shares | 89.05% |
| AU Listed Property Shares | 8.02% |
| Cash | 2.93% |

| Top Overweights | Top Underweights/Shorts |
|---|---|
| Centuria Metropolitan REIT | Property for Industry |
| Investore Property | Goodman Property Trust |
| Viva Energy REIT | Kiwi Property Group |
| NPT Ltd | Goodman Group (short) |
| Garda Diversified Property Fund | Vital Healthcare Property Trust |

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## Monthly Property Market Commentary

The S&P/NZX All Real Estate Gross Index rebounded from its March quarter weakness and rose by +1.33% in the month of April. This advance came despite 10-year bond yields rising from 2.74% to 2.86% and the same dislocation was seen elsewhere around the world. The Australian index rebounded by a sharp 4.47% despite their yields moving from 2.82% to 2.94%, while the global FTSE EPRA/NAREIT Index rose by 1.48%. After lagging for some time, Australian property was a clear outperformer.

One of the most interesting pieces of news was the sale by Kiwi Property of the North City Shopping Centre for $100m. This compares to the latest book value of $106m and the $114m that it was offered at in the NPT corporate proposal last year. It is possible that further capex may have been spent on it in the meantime. This sale illustrates the great divide between the quality of shopping centres across the spectrum and the rapid decline in the value of those that are not at the premium end of the market.

Other news of note was the announcement by Precinct Properties that they have received strong interest in the sale process for 50% of ANZ Tower at a premium to their June 2017 valuation and have entered exclusive due diligence with one party. With Sydney office cap rates having contracted very sharply, this sale will be keenly watched as potentially setting a new benchmark for Auckland.

Outperformers during a tightly bunched month of returns were Goodman Property (GMT, +2.6%) and Kiwi Property (KPG, +2.2%). Augusta (AUG, -1.9%) was the main laggard but these divergences reflected a degree of randomness in price movements rather than any fundamental changes.

## Monthly Fund Commentary

The Fund moderately lagged the Index during April, returning +0.89% after all fees and expenses compared to the +1.33% turned in by the benchmark. With Australia sharply outperforming NZ during the month, the Fund's shorts were a drag on performance. As a group, they detracted -0.28% from performance, while our Australian longs only added +0.13%.

Key headwinds came from our positions in the Australian retirement sector. Ingenia (INA, -4.0%) had formerly been a strong performer for us but retreated during the month, possibly due to concerns around slower housing turnover in Australia. This manufactured housing community developer earns a one-off development profit when it sells a pre-fabricated house but more importantly, starts the clock ticking on a CPI+ land rental stream on the site that the house is located on. INA is one of the few scale players in what is an immature sector and we see significant potential for valuation upside both from developments and also from what appears an under-valuation of the land rental stream. Typical cap rates in Australia are in the 7.5% region which seems very high for a CPI+ land rental. They are sub-5% in the US market. The other headwind in the sector was a small holding we have begun building in the turnaround situation, Eureka Group (EGH, -13.8%). EGH has plunged from its former overblown highs but is now at a sharp discount to a NTA that is based on conservative valuation parameters.

The other major drag on performance was our underweight in Goodman Property (GMT, +2.6%) which has outperformed of late in line with industrial property generally. While fundamentals in the segment are currently strong, a slowing economic outlook combined with considerable new supply both in Auckland and in competing areas such as Te Rapa, suggests some late-cycle caution could be warranted.

Outperformers were led by our large overweight in Centuria Metropolitan REIT (CMA, +2.2%) although it did lag its Australian peers slightly in the month. We see several years of further upside in both rentals and cap rates from its non-CBD office exposures as tenants relocate out of unaffordable city centres. It remains cheap on an assessment of its dividend provision relative to the cashflow that it generates, its gearing and the quality of its portfolio.

Net positioning crept up slightly from 96.1% to 96.8% and gross lifted from 105% to 109% as volatility began to throw up opportunities from both the long and short sides. Portfolio changes were limited. We neutralised an underweight in Precinct Properties, who will likely sell at least a 50% stake in the ANZ Centre at a very attractive price, the Downtown Centre will likely see sizeable development profits realised albeit there does remain some development and contractual risk, and PCT has other attractive opportunities in Wellington and Auckland. We added a long in Stockland near its lows and we initiated a modest short position in SCA Property into strength.