SALT
Funds Management

Salt Enhanced Property Fund Fact Sheet – August 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 August 2018

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$6.0 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA
Associate PM/Analyst	Andrew Bolland, CFA

Unit Price at 31 August 2018

Application	1.4541
Redemption	1.4482

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 2018

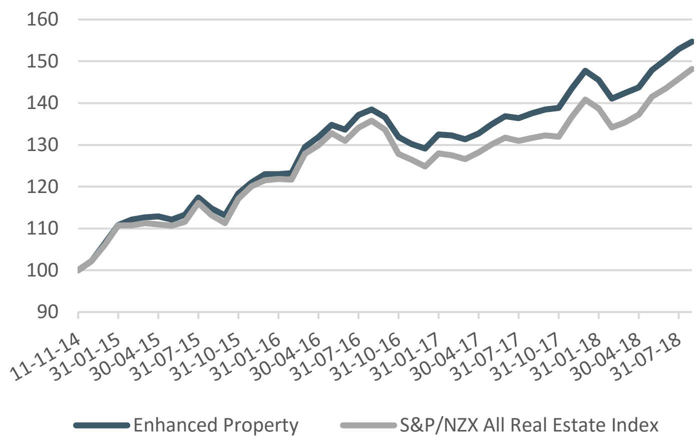
Long Exposure	104.54%
Short Exposure	9.39%
Gross Equity Exposure	113.93%
Net Equity Exposure	95.16%

Fund Performance to 31 August 2018

Period	Fund Return	Benchmark Return
1 month	1.15%	1.61%
3 months	4.62%	4.70%
6 months	9.64%	10.44%
1 year p.a.	12.44%	12.54%
2 years p.a.	5.70%	4.45%
3 years p.a.	10.44%	9.37%
Inception p.a.	12.16%	10.88%

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

Cumulative Fund Performance to 31 August 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 August 2018

NZ Listed Property Shares	89.08%
AU Listed Property Shares	6.60%
Cash	4.32%

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

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Monthly Property Market Commentary

Summary

- The Fund lagged its benchmark in August, advancing by +1.15% after all fees and expenses compared to the +1.61% returned by the Index.
- August results season saw generally solid outcomes.
- Tailwinds were relatively modest in nature. The long-held overweight in Asset Plus Limited finally delivered but we are still awaiting value-adding moves by the external manager, Augusta.

The S&P/NZX All Real Estate Gross Index had yet another solid month in August rising by 1.61%, marking its sixth consecutive monthly advance. This was supported by NZ 10-year bond yields rallying from 2.76% to 2.54%, with surprisingly dovish commentary by new RBNZ Governor, Adrian Orr seeing the NZ$ weaken and interest rates fall right across the yield curve. The quest to find yield remains very supportive of the sector. The global FTSE EPRA/NAREIT index rose by 1.96% while the Australian REIT Index advanced by 2.71%.

August results season saw generally solid outcomes. Property For Industry (PFI) had a slightly better than expected H1 result but full year guidance was unchanged as they grapple with vacancy at their non-CBD Carlaw Park asset. Revaluations ex-Carlaw Park were +8.3% as investors are paying extremely tight cap rates for assets in the space.

Precinct (PCT) reported a further six-month delay at Commercial Bay but did make leasing progress taking the office occupancy up from 66% to 78% and the retail from 46% to 76%. Their decision to devote a couple of floors of such a prime asset to office suites was interesting given their generally bullish commentary about the market. Market rents implied from PCT's valuation cap rates also appeared relatively flat. PCT also committed to a NZ$298m redevelopment of the HSBC Tower into a smaller amount of office and a large Intercontinental Hotel.

Vital Healthcare's (VHP) solid result showed no impact from the currently weak conditions in the Australian hospital sector. VHP provided details of how it will share the costs of the 10% stake held in Healthscope (HSO) together with its manager, North-West. This could prove problematic given that HSO announced that they will seek a co-investor into a new unlisted trust that they will retain majority ownership of. Investore (IPL) announced a buyback of up to 5% of its issued equity and highlighted the discount at which it trades to its $1.64 NTA.

Vital Healthcare Property (VHP, -1.9%) was the stand-out NZ underperformer, perhaps on investor reaction to the costs of the Healthscope stake. Outperformers were Precinct Properties (PCT, +4.3%), Asset Plus (APL, +3.6%) and Stride Property (SPG, +3.2%).

Monthly Fund Commentary

The Fund lagged its benchmark in August, advancing by +1.15% after all fees and expenses compared to the +1.61% returned by the Index.

Contributors

Tailwinds were relatively modest in nature. The long-held overweight in Asset Plus Limited (APL, +3.6%, formerly NPT) finally delivered but we are still awaiting value-adding moves by the external manager, Augusta. We are hopeful that APL's under-geared balance sheet can be invested wisely and that initiatives at some of the existing properties might add considerable value. The position in Garda Capital Management (GCM, +4%) did well as their listed property fund, Garda Property (GDF, +0.0%) reported a solid result. Our short in Ale Property Trust (LEP, -3.9%) finally began to return to earth and news post month-end saw their key tenant dispute what many had assumed to be slam-dunk rental increases.

The Fund's gross exposure was virtually unchanged over the month at 114%, while the net exposure declined from 97.7% to 95.2% as six consecutive up-months for property indices took their toll on long opportunities. Portfolio changes saw a modest new long in Elanor Retail Property (ERF) and new shorts in Dexus (DXS) and Mirvac (MGR) into strength. We lowered our short in National Storage REIT (NSR) in their equity raising and also covered half of SCA Property (SCP) in a pullback. We lifted the Charter Hall (CHC) short into sharp strength. On the long side, we exited Aventus (AVN) and an opportunistic holding in Folkestone Education Trust (FET) for solid gains. We lessened our degree of underweight in Precinct Properties (PCT) and Goodman Property Trust (GMT) in a rare price lull, while we lightened our Argosy Property (ARG) holding.

Detractors

A key culprit was the large underweight in Property For Industry (PFI, +3.0%). Despite a strong first half, their result only saw guidance reiterated due to vacancy at their Carlaw Park Office asset. The stock rallied despite modest downgrades to outer year expectations. There is little doubt that the industrial property segment is red-hot at present, with cap rates having contracted sharply on rampant investor demand. The historic cyclicality of industrial property coupled with each property's lack of unique characteristics appear to have been forgotten.

The second main headwind came from the Fund's short position in Goodman Group (GMG, +11.1%), which rallied hard following its result. We viewed GMG as having delivered a somewhat mixed set of numbers in terms of quality. GMG appears to be viewed by many investors as being a dependable "machine" which reliably churns out 7% EPS growth and it is owned on this basis. While we are attracted to GMG's low gearing, they continue to make their numbers via utilising sizeable debt restructuring savings (with the costs taken below the line) and the highly material employee share costs of $126m were also not expensed. GMG retains a strong future pipeline of performance fees and its FuM has grown strongly thanks to contracting cap rates but paying a 21x PE multiple for top-of-cycle metrics strikes us as being well over-extended.

Other headwinds were limited and confined largely to moderate underweights in Stride Property (SPG, +3.2%) and Precinct Properties (PCT, +4.3%) and a short in Charter Hall (CHC, +6.4%).

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