



Funds Management

Salt Enhanced Property Fund Fact Sheet – January 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 January 2019

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	\$6.8 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA
Associate PM/Analyst	Andrew Bolland, CFA

Unit Price at 31 January 2019

Application	1.4851
Redemption	1.4791

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 31 January 2019

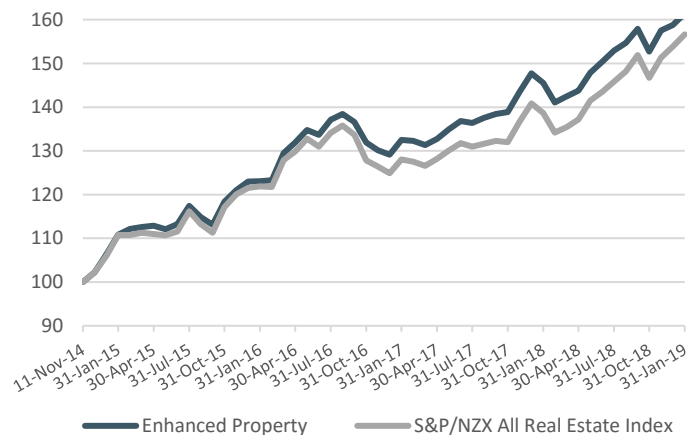
Long Exposure	102.52%
Short Exposure	10.48%
Gross Equity Exposure	113.01%
Net Equity Exposure	92.04%

Fund Performance to 31 January 2019

Period	Fund Return	Benchmark Return
1 month	1.67%	1.80%
3 months	5.72%	7.50%
6 months	5.57%	8.14%
1 year p.a.	10.96%	13.72%
2 years p.a.	10.38%	10.99%
3 years p.a.	9.48%	8.97%
Inception p.a.	12.02%	11.38%

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

Cumulative Fund Performance to 31 January 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 January 2019

NZ Listed Property Shares	92.37%
AU Listed Property Shares	2.29%
Cash	5.33%

Top Overweights	Top Underweights/Shorts
Centuria Metropolitan REIT	Property for Industry
Unibail-Rodamco-Westfield/CDI	Argosy Property Trust
Investore Property	BWP Trust (Short)
Asset Plus	Goodman Property Trust
Garda Capital Group	Precinct Properties

SALT FUNDS MANAGEMENT

Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143

P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

Monthly Property Market Commentary**Summary**

- The Fund rose +1.67% after all fees and expenses for the quarter.
- The S&P/NZX All Real Estate Gross Index was off the pace relative to global peers' indices but returned a positive +1.8% for the month.

The global FTSE EPRA/NAREIT index rebounded strongly after December's sharp selloff, advancing a staggering 10.9%. Throughout continental Europe and the USA, the REIT sector performed strongly relative to equity markets. A key driver of this was dovish commentary from the US Federal Reserve who stated that they will be patient when determining future rate adjustments.

The Australian benchmark was modestly behind its global peers finishing up a respectable +6.2% led by strong performance in the industrial sector, while the retail sector lagged somewhat. Unibail-Rodamco-Westfield (URW, +15.1%) was a standout performer among the A-REITs sector following two months of heavy selling in the wake of the takeover of Westfield and unfavourable sentiment to the retail sector.

In New Zealand, the S&P/NZX All Real Estate Gross Index was off the pace relative to global peers' indices but returned a positive +1.8% for the month.

In what was generally a low news-flow month, Stride Property Group (SPG, -2.1%) announced a decision to develop a small recently acquired property from Goodman Property. The development has attracted a long-term tenant signing a 25-year lease which includes steady annual rent increases. Elsewhere, Investore Property Limited (IPL, +0.65%) recommenced its buyback programme announced last year.

Within the New Zealand REIT sector Goodman Property Trust (GMT, +4.3%) was the standout performer. While Kiwi Property Group (KPG, +4%) was also strong over the month, going against the grain of negative sentiment towards retail exposure.

Monthly Fund Commentary

The Fund marginally lagged its benchmark in January gaining +1.67% after all fees and expenses relative to the S&P/NZX All Real Estate Gross Index at +1.80%.

Contributors

The standout performer was the large overweight in Unibail-Rodamco-Westfield (URW, +15.1%). While there was no company specific news released during the month, URW had come under intense pressure since the transformational transaction with Westfield, having fallen out of favour with investors concerned with cyclical retail exposure. URW continues to offer exposure to a very high-quality portfolio of flagship malls and value accretive development pipeline. There have been some concerns in the market about URW's balance sheet leverage. URW has a strategy in place to mitigate this via the sale of assets and realisation of material synergies post the takeover.

Detractors

The major problem area for the Fund was that our group of shorts collectively detracted -0.44%. A number of very expensive large cap defensive stocks in Australia ran very hard on a combination of "flight to safety" type buying and expectations (since franked) that the RBA would move to a more neutral policy stance. Offsetting this our Australian longs are typically cheaper and lower beta and these collectively contributed only +0.19% (excluding URW).

The Fund's underweight position in Goodman Property Trust (GMT, +4.3%) detracted from relative performance. The industrial sector boom has run far longer and far harder than we had expected given the backdrop of relatively moderate economic growth. Ultimately however, most industrial and logistics properties have few special qualities that cannot be replicated by new developments that can be brought to market in relatively short order. Cap rates in the low 5% region are a historic low by some distance and are surely close to signalling the top of the cycle at a time when the economy is slowing. That said, we did use fleeting weakness to cover off some of the underweight.

Volatility was used to lift our gross positioning from 109% to 113% while the net length remained a relatively low 92%. Aside from covering off some of the Goodman Property Trust underweight, a large block sell down in Goodman Group was used to cover a portion of the short. New shorts were established in Charter Hall Education, Charter Hall Retail and Scentre Group. Small longs in Elanor Retail and Villa World were exited given the increasing headwinds that they face.