SALT
Funds Management

Salt Enhanced Property Fund Fact Sheet – July 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 July 2019

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$8.96 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 July 2019

Application	1.7824
Redemption	1.7752

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 July 2019

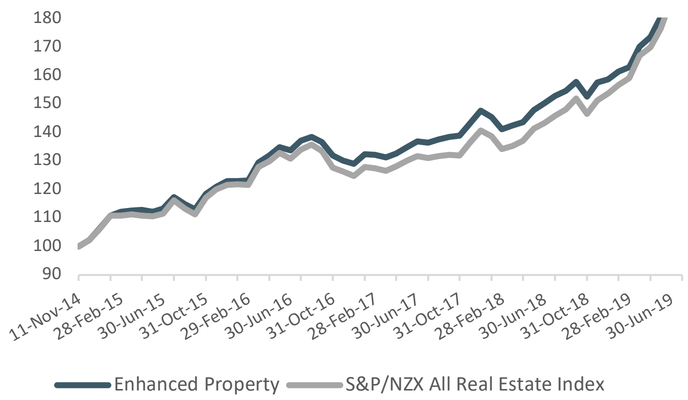
Long Exposure	100.05%
Short Exposure	5.90%
Gross Equity Exposure	105.95%
Net Equity Exposure	94.15%

Fund Performance to 31 July 2019

Period	Fund Return	Benchmark Return
1 month	3.28%	3.29 %
3 months	13.86%	13.75%
6 months	22.32%	23.38%
1 year p.a.	29.13%	33.42%
2 years p.a.	20.33%	21.88%
3 years p.a.	12.98%	13.20%
Inception p.a.	16.13%	15.74%

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

Cumulative Fund Performance to 31 July 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 July 2019

NZ Listed Property Shares	88.36%
AU Listed Property Shares	8.56%
Cash	3.08%

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

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Monthly Property Market Commentary

Summary

- The Fund returned +3.40% for the month of July compared to +3.29% turned in by the Index
- This was the ninth consecutive monthly advance for the S&P/NZX All Real Estate Gross Index for a staggering annual return of +33.2%
- The Funds main contributor was our position in Garda Capital Management (GCM, +8.9%) which manages the strongly performing and long-held Garda Property (GDF, +6.8%).

The S&P/NZX All Real Estate Gross Index delivered yet another strong month of returns in July, rising by +3.29%. This was the ninth consecutive monthly advance and makes for a quite staggering annual return of +33.2%. These are remarkable returns in an environment of low inflation. Falling bond yields continued to be a key driver, with the NZ 10 year yield declining from 1.57% to just 1.47%.

NZ yet again outperformed the Australian benchmark which rose by 2.57%, while the FTSE EPRA/NAREIT index rose by a far more pedestrian 1.25%. The barrage of Australian listed property companies taking advantage of their elevated share prices slowed in the month, with only Abacus Property conducting an equity raising. Surprisingly, despite trading at large premia to their net asset backings, no NZ property names have gone down this path in recent months.

With interest rates falling, it is unsurprising that cap rate contraction is driving a lift in reported NTA's. The month saw Precinct announce a 6.2% (12cps) valuation uplift due to rents, occupancy and cap rates, while Vital's revaluation added 13cps. Other news saw Asset Plus sell its Heinz Wattie distribution centre at book value to a syndicator.

Performance in the month was led by Augusta (AUG, +11.3%), Vital Healthcare Property (VHP, +6.3%) and Goodman Property (GMT, +5.9%). Laggards were Asset Plus (APL, +0.8%), Precinct (PCT, +0.8%) and Investore (IPL, +1.1%).

Monthly Fund Commentary

The Fund slightly outpaced the powerful advance in the benchmark, rising by +3.40% compared to the +3.29% turned in by the Index.

Contributors

Positives were led by our position in Garda Capital Management (GCM, +8.9%) which manages the strongly performing and long-held Garda Property (GDF, +6.8%). Other positives were Centuria Capital (CNI, +10.2%) and a holding we have built in Eureka Group (EGH, +11.5%). We estimate an NTA of circa 32cps versus a share price that has risen from 26cps to 29cps. They have worked through a difficult legacy from previous management and are realising sizeable non-earning capital which they will reinvest into their elderly rental accommodation villages at cap rates in the 10% region. Nothing in this current world should cap up at 10% especially when the revenue stream is government funded via the accommodation supplement.

Our modest group of shorts did particularly well in delivering a positive return of 0.06% when normally one would expect them to detract in a strong month for the market. In total, our Australian holdings added a pleasing 0.64%.

Detractors

As is typically the case in a strong period for the market, the largest headwinds came from our largest underweights in NZ. These were Property For Industry (PFI, +5.6%) and Vital Healthcare Property Trust (VHP, +6.3%). The latter continued to re-rate following its decision not to pursue the Healthscope proposal, while there was no new news driving the former other than an apparent quest for yield at any price.

NZ changes were notable for the Fund re-entering the retirement sector after a lengthy hiatus. Metlifecare's sharp decline of over 32% from its late 2018 highs has created a discount of 40% to book value, which is simply too attractive to ignore even when one allows for our quibbles with the asset value calculations in the sector. We also took part in the Arvida equity raising late in the period. Elsewhere, we lightened Argosy, Kiwi Property and Precinct.