Salt Enhanced Property Fund Fact Sheet – December 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 December 2019

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$13.0 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 December 2019

Application	1.8685
Redemption	1.8609

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 December 2019

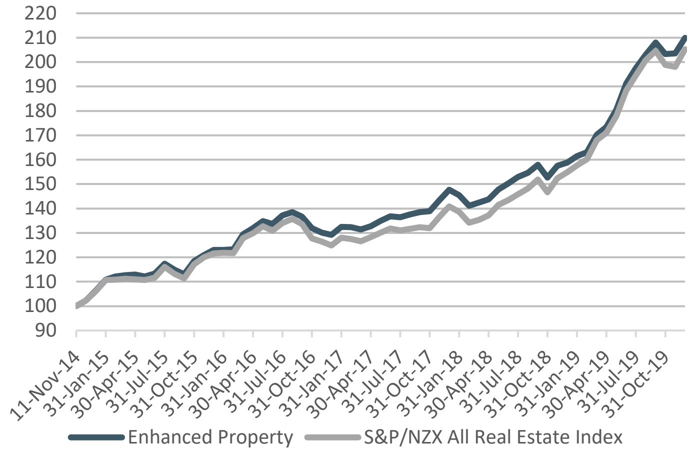
Long Exposure	103.54%
Short Exposure	7.64%
Gross Equity Exposure	111.19%
Net Equity Exposure	95.90%

Fund Performance to 31 December 2019

Period	Fund Return	Benchmark Return
1 month	3.13%	2.63%
3 months	0.91%	-0.62%
6 months	9.78%	7.94%
1-year p.a.	32.20%	31.25%
2 years p.a.	19.21%	20.16%
3 years p.a.	17.57%	17.65%
Inception p.a.	15.53%	14.81%

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

Cumulative Fund Performance to 31 December 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 December 2019

NZ Listed Property Shares	96.67%
AU Listed Property Shares	1.48%
Cash	1.85%

Top Overweights	Top Underweights/Shorts
Investore Property	Property for Industry
Garda Diversified Property Fund	Stride Property Limited
Elanor Commercial Property	Precinct
Kiwi Property Trust	BWP Trust
Millennium & Copthorne Hotels	National Storage REIT

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Quarterly Property Market Commentary

The S&P/NZX All Real Estate Gross Index fell by -0.62% in the December quarter, its first quarterly decline since March 2018. This slight decline included a rebound of +2.63% in the month of December, which had little in the way of fundamental underpinning given that NZ 10-year bond yields rose sharply from 1.28% to 1.65% in the month. At such low levels of yield, the impact of convexity on the price of long duration assets such as property equities would normally be sharply negative. The move was perhaps more to do with a mix of passive demand, an unsophisticated ongoing quest for yield and a snapback from heavy equity issuance earlier in the quarter.

The quarterly performance of -0.62% was not dissimilar to the -0.99% move in Australia and the +1.05% advance by the FTSE EPRA/NAREIT Index – both very solid performances given that bond yields generally rose over the period.

Australia saw a veritable flood of equity raising activity over the course of 2019 but NZ was notable for being aloof from this activity until the December quarter. An $80m equity raising by Investore Property in November to purchase three properties from its parent followed closely on the heels of the sizeable $200m raised by Kiwi Property in October. In late December, Asset Plus Limited announced a sizeable $120m long lease office development deal with the Auckland Council in Albany for which it flagged an equity raising in the first quarter of 2020.

The quarter saw interim results released by many of the listed LPT's. There were no significant surprises, with vacancy, rental movements and cap rate movements all consistent with market strength. As earlier guided, Augusta's (AUG) result was weak due chiefly to deal timing and the significance of transaction fees to their profitability.

Performance in the quarter saw moderate dispersion. The winners were led by Vital Healthcare Property (VHP, +4.5%) despite being the longest duration stock in a period of rising yields. Their intention to restructure and dual list on the ASX could have positive longer-term implications. Other outperformers were Stride Property (SPG, +3.2%) and Property For Industry (PFI, +2.7%). Laggards were led by Argosy Property (ARG, -4.6%) for no discernible reasons. The other two standouts were those that raised equity, Kiwi Property (KPG, -4.0%) and Investore (IPL, -3.2%).

Salt Enhanced Property Fund Commentary

The Fund delivered strong outperformance in the December quarter, advancing by +0.91% compared to the moderate decline of -0.62% turned in by the Index.

The Fund has traditionally had very limited holdings in the retirement village segment, only tending to invest when a stand-out opportunity is available. This presented itself in Metlifecare (MET, +53.1%) several months ago when the share price was under extreme pressure in contrast to a housing market that was showing slight signs of life. As fortune would have it, MET received a $7.00 takeover bid during the period compared to the $4.30-$4.60 price range that the Fund had used to build a modest position. The Fund's modest holding in Oceania (OCA, +29.4%) benefitted from the strength that this bid sparked across the sector.

The second major positive was a very strong performance from the slightly left field holding in Eureka Group (EGH, +26.7%). The Australian aged person rental operator has now moved somewhat past its NTA of circa $0.33 but that is based on cap rates of 10.2% which are extremely high for a government funded income stream. No new news that we are aware of drove the move but EGH has executed well in putting their troubled past behind them.

A third contributor of note was using the opportunity presented by the large Kiwi Property (KPG, -4.0%) equity raising and a period of further weakness following that to close up what had been a relatively large underweight position. Finally, the mid-sized underweight in the weakly performing Argosy Property (ARG, -4.6%) assisted performance.

Headwinds were fewer in number and magnitude, with the largest being Vitalharvest (VTH, -16.7%) which we have been accumulating into recent weakness. VTH is the landlord for Costa Group and owns a series of citrus orchards, berry farms and water rights. VTH receives a mix of base rent and variable profit share. We assess the net asset value of VTH as being comfortably north of $1.00 versus its $0.75 close. VTH has the right in 2026 to significantly lift the value of its assets and thence rents that are payable by Costa but we view it as already being quite attractive on its current base rental and meagre drought-affected profit share. VTH fell due to a Costa profit warning and bush-fire fears.

Other modest headwinds came from a slightly premature short in Aventus Group (AVN, +9.2%) which screens as very expensive and our large underweight in Property For Industry (PFI, +2.7%). We had used weakness to close some of this but the share price of this relatively illiquid retail investor favourite promptly bounced straight back again. It screens as being the most overpriced name in the NZ universe by some distance in our multi-factor relative value modelling.

As a group, our Australian holdings contributed a pleasing +0.68% to performance in the quarter across both the longs and the shorts. Within that, the shorts themselves contributed +0.16%. Our net Australian exposure fluctuated around zero over the period, so this contribution came entirely from stock selection.

Portfolio changes for the quarter saw few changes to the overall gross and net exposure of the portfolio, with the gross fluctuating around 110% and the net around 95%. In Australia, we lifted our Vitalharvest holding and added new positions in Elanor Commercial Property and Elanor Investors, while exiting both a mid-sized Unibail Rodamco Westfield long and an array of smaller names. We covered shorts in Charter Hall Long WALE REIT and GPT Group and put moderate new shorts on Arena REIT and Ale Property Trust. In NZ, we used equity issuance to lift our Investore overweight and cover much of the Kiwi Property underweight. We lifted our Goodman Property and Millennium & Copthorne positions and lowered Precinct into strength.