Salt Enhanced Property Fund Fact Sheet – October 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 October 2019

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$12.4 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 October 2019

Application	1.8343
Redemption	1.8269

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 October 2019

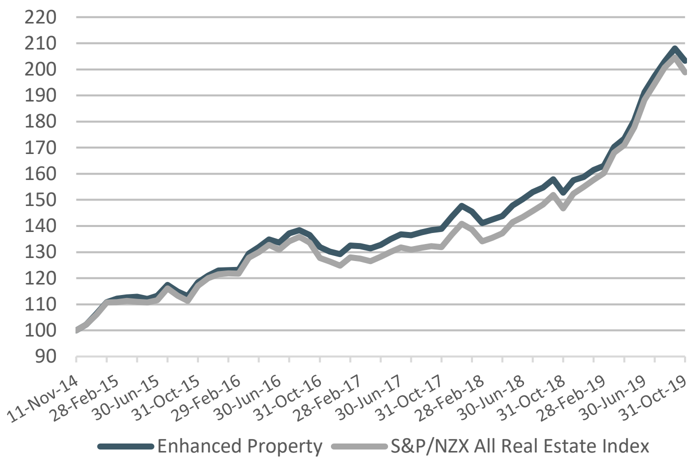
Long Exposure	105.67%
Short Exposure	7.88%
Gross Equity Exposure	113.55%
Net Equity Exposure	97.79%

Fund Performance to 31 October 2019

Period	Fund Return	Benchmark Return
1 month	-2.30%	-2.81%
3 months	2.91%	2.19%
6 months	17.18%	16.24%
1 year p.a.	33.08%	35.53%
2 years p.a.	20.98%	22.74%
3 years p.a.	15.50%	15.87%
Inception p.a.	15.63%	15.10%

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

Cumulative Fund Performance to 31 October 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 October 2019

NZ Listed Property Shares	94.81%
AU Listed Property Shares	3.00%
Cash	2.19%

Top Overweights	Top Underweights/Shorts
Unibail Rodamco Westfield	Property for Industry
The GPT Group	Kiwi Property Group
Vital Healthcare Property Trust	Argosy Property Trust
Asset Plus Limited	Stride Property Limited
Mirvac Group	BWP Trust

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

SALT

Summary

- **The Fund comfortably outperformed the benchmark in October, declining by -2.30% compared to the sharp -2.81% fall by the Index.**

- **The stand-out positive contributor was our large underweight in Kiwi Property (KPG, -4.8%) which announced a $200m equity raising.**

- **The main headwind was Vitalharvest (VTH, -12.2%). VTH is the landlord for Costa Group and owns a series of citrus orchards, berry farms and water rights.**

Monthly Property Market Commentary

The long bull market run of the S&P/NZX All Real Estate Gross Index finally came to an end in the month of October, with the index declining by -2.81%. This followed a remarkable 11 consecutive positive months. NZ bond yields rose from 1.10% to 1.29% in the period and the market came under a degree of funding pressure at month's end as Kiwi Property announced a sizeable $200m equity raising. NZ lagged both the 1.2% advance by the Australian benchmark and the +2.51% turned in by the global FTSE EPRA/NAREIT index.

News flow during the month was dominated by the $200m raising by Kiwi Property at the end of the period. Augusta (AUG) warned that its interim result will be well below that of last year due chiefly to timing factors around capital raisings, with much of Augusta's income being transaction fee related. Changes that effectively lower Vital Healthcare Property's management fees were strongly supported by shareholders at their AGM at end-month.

Performance in the quarter saw a reasonable divergence between names, with the highly illiquid CDL Investments (CDI, +5.0%) and Investore (IPL, +1.6%) being the only positives. Laggards were Kiwi Property (KPG, -4.8%), Goodman Property (GMT, -3.8%) and Argosy (ARG, -3.8%).

Monthly Fund Commentary

The Fund comfortably outperformed the benchmark in October, declining by -2.30% compared to the sharp -2.81% fall by the Index.

Contributors

The stand-out positive contributor was our large underweight in Kiwi Property (KPG, -4.8%) which announced a $200m equity raising at $1.58 per share compared to a $1.67 prior close. For some time, we had viewed KPG as a potential raising candidate, with the main surprise perhaps being that they didn't go earlier. No immediate use was announced for the proceeds but a pipeline exists of both internal developments and possibly external acquisitions, with several large properties currently being on the market. The size of this raising weighed on the entire property market and occurred against a backdrop where yield-stock peers in the gentailer segment were under heavy pressure from the threatened closure of the Bluff aluminium smelter. In our view, it may take several weeks for the post-deal weakness in KPG to work through but it will gradually be upweighted in a plethora of domestic and global indices over the period ahead.

Unsurprisingly in a negative month, other underweights also contributed, with Argosy (ARG, -3.8%) and Goodman Property (GMT, -3.8%) leading the way. Several overweights provided pleasing tailwinds, with these being led by a rare foray into the retirement property sector in Metlifecare (MET, +8.1%) which bounced following its announced plans to conduct a modest buyback. Unibail Rodamco Westfield (URW, +4.2%) and Mirvac (MGR, +4.9%) also did well.

Detractors

Headwinds were fewer, with the main one being a small holding that we are building in Vitalharvest (VTH, -12.2%). 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, with losses from one segment not being offsetting against profits from another. We assess the net asset value of VTH as being comfortably north of $1.00 versus its $0.79 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 rent and meagre drought-affected profit share. VTH fell because Costa delivered a profit warning but alongside this conducted an equity raising that sharply improves the solvency of VTH's sole tenant.

The Fund's shorts contributed a net 0.0% outcome in the month, which was pleasing given the lift in the Australian index. As always, these funded larger positions in our higher conviction longs in that market, with the overall Australian contribution being +0.06%. Our short in GPT Group (GPT, -3.4%) was a stand-out tailwind, while our large short in BWP Trust (BWP, +5.1%) was a hindrance as it rose for reasons that elude us and ranks as very expensive in our relative valuation model.

Portfolio Changes

Portfolio changes over the month saw the Fund's gross position rise from 110% to 114% and its net rise from 94.6% to 97.8% as the Fund took advantage of the discounted Kiwi Property raising and also a couple of IPO's in Australia which will list in November (viz Elanor Office Property and Primewest Group). New holdings were purchased in Dexus, Growthpoint and Hotel Property Investments, while we exited small but successful positions in Arena REIT, Investec Australia Property and Mirvac. We lifted our short in BWP Trust and began to establish a new short in National Storage REIT.