SALT

Funds Management

Salt Enhanced Property Fund Fact Sheet – February 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 28 February 2018

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$5.2 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA
Associate PM/Analyst	Andrew Bolland, CFA

Unit Price at 28 February 2018

Application	1.3568
Redemption	1.3513

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 28 February 2018

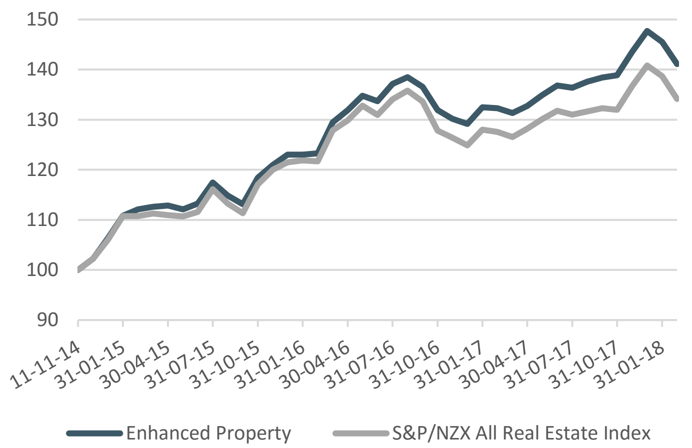
Long Exposure	102.23%
Short Exposure	-4.21%
Gross Equity Exposure	106.45%
Net Equity Exposure	98.03%

Fund Performance to 28 February 2018

Period	Fund Return	Benchmark Return
1 month	-3.03%	-3.24%
3 months	-1.68%	-1.85%
6 months	2.55%	1.91%
1 year p.a.	6.65%	5.19%
2 years p.a.	6.99%	4.99%
3 years p.a.	7.96%	6.58%
Inception p.a.	11.00%	9.31%

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

Cumulative Fund Performance to 28 February 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 28 February 2018

NZ Listed Property Shares	89.14%
AU Listed Property Shares	9.04%
Cash	1.82%

Top Overweights	Top Underweights/Shorts
Centuria Metropolitan REIT	Property for Industry
Investore Property	Goodman Property Trust
Viva Energy REIT	Argosy Property Trust
NPT Ltd	Vital Healthcare Property Trust
Garda Diversified Property Fund	Kiwi Property Group

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Monthly Property Market Commentary

The S&P/NZX All Real Estate Gross Index declined by -3.24% as rising bond yields continued to place defensive sectors under pressure around the world. Interestingly, NZ 10-year bond yields only rose from 2.93% to 2.94% but the sector was impacted nonetheless. The Australian index fell by 3.29% while the global FTSE EPRA/NAREIT Index plunged by 5.84%.

Specific NZ property company news was dominated by reporting season for Precinct (PCT), Property For Industry (PFI) and Vital Healthcare Property (VHP). PCT showed solid evidence of rental growth but made no further leasing progress on the office tower component of their pivotal Downtown development. Fletcher Building's issues point to this potentially being delivered somewhat late but PCT would appear to have reasonable contractual protections. Higher tax payments across all three companies was another notable aspect and this seems likely to continue across the whole sector.

Whilst shopping centre assets have somewhat fallen out of favour globally, NZ has less square meterage per head, which coupled with population growth, means the sector is still in expansion mode. The month saw a massive expansion committed to at Westfield Newmarket along with expansions at Botany Town Centre and The Galleria (Sylvia Park). The initial yield at the latter is projected to be a somewhat meagre 5.7% as building costs have continued to rise.

With property share prices having mostly fallen while NTA's have continued to rise, we are seeing the return of share buybacks as a theme. This was most pronounced in Australia, with Mirvac and Dexus both committing to them, while a number of other property companies have them under consideration. In NZ, Investore would appear the most likely to pull the trigger given recent property sales at well above NTA, while their share price languishes well below it. If the gap between listed company share prices and private asset prices persists, it will be interesting to see if more companies divest some of their weaker assets.

Outperformers during the month were Augusta (AUG, -0.5%) and Property For Industry (PFI, -1.1%), while Stride (SPG, -5.1%) and Investore (IPL, -4.2%) were the laggards.

Monthly Fund Commentary

The Fund outperformed the Index in February, declining by -3.03% after all fees and expenses compared to the -3.24% of the benchmark. With almost every listed index name falling, underweights and shorts tended to provide outperformance, while overweights dragged on relative returns. The Fund did, however, manage to have mid-sized holdings in five companies which posted rare share price rises.

The largest was Ingenia Communities (INA, +2.2%), the Australian retirement developer whose model is to develop a village and make a one-off development profit when a low value pre-fab house is sold outright to an incoming resident. More importantly, they charge a CPI-indexed land rental, with this generally being paid out of a resident's means-tested pension and accommodation supplement. It is a model aimed at working class residents and allows them to free up what is typically their only source of capital, their home. Current cap rates on the land are circa 8%, which seems very high to us when you have a CPI-indexed land rental stream for many decades into the future.

The second positive was Millennium & Copthorne preferreds (MCKPA, +2.5%) which rose following a strong result, that saw NTA rise from $3.49 to $4.19 per security. Both the listed MCK instruments trade in the mid-$2.80 region – a most attractive discount indeed. The outlook will likely see lower land development earnings but strong growth from the dominant hotels business.

Other positives were headed by 360 Total Return Fund (TOT, +0.4%). TOT reported a solid interim result and at this late stage of the real estate cycle, we are attracted to the returns available from their focus on well-secured real estate debt. Garda Capital Management (GCM, +5.5%) bounced on no news and we also purchased Propertylink (PLG, -0.5%) at its $0.93 low point during the month; a level which struck us as a useful discount to the $1.00 paid by the last corporate suitor.

Headwinds came from our larger overweights, with these being highlighted by Investore (IPL, -4.2%), which post month-end announced an updated NTA of $1.66 versus their share price of $1.38. The other stand-out was our large Centuria Metropolitan REIT (CMA, -1.7%) holding, which our relative valuation modelling highlights as having the most attractive dividend yield in the sector relative to its gearing, cap rates and other key driving factors. We are also attracted to the late-cycle demand for CMA's non-CBD office properties at a time when rampant CBD rents are driving major absorption elsewhere.

Portfolio changes were few and far between in the month, with back-foot sales of Property For Industry and modest purchases of Propertylink (PLG) and Viva REIT (VVR) on weakness perhaps being the highlights. We covered a short in Dexus near its lows. Our month-end net position rose from 94.5% to 98.0% as share price weakness opened up opportunities. The gross remained at a low 106.5% as share prices within the sector moved with a high degree of correlation in response to external drivers such as bond yields. We will look to lift this gross aggressively if/when greater volatility gives us better short selling opportunities.