SALT
Funds Management

Salt Enhanced Property Fund Fact Sheet – September 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 30 September 2019

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$11.80 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 September 2019

Application	1.8775
Redemption	1.8699

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 30 September 2019

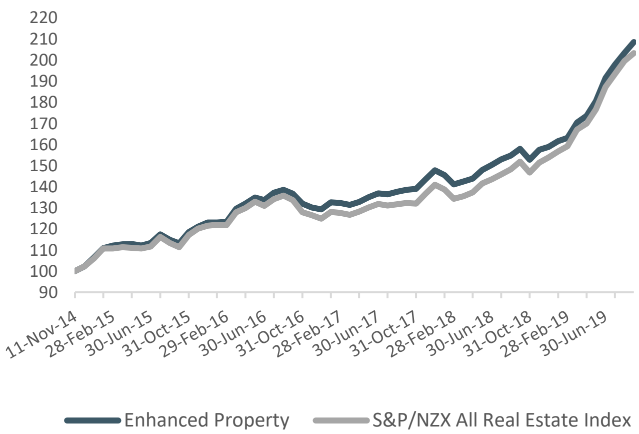
Long Exposure	102.42%
Short Exposure	7.79%
Gross Equity Exposure	110.20%
Net Equity Exposure	94.63%

Fund Performance to 30 September 2019

Period	Fund Return	Benchmark Return
1 month	2.46%	1.91%
3 months	8.78%	8.61%
6 months	22.17%	21.72%
1 year p.a.	31.77%	34.70%
2 years p.a.	22.58%	24.36%
3 years p.a.	15.05%	15.25%
Inception p.a.	16.18%	15.77%

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

Cumulative Fund Performance to 30 September 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 30 September 2019

NZ Listed Property Shares	91.72%
AU Listed Property Shares	5.05%
Cash	3.23%

Top Overweights	Top Underweights/Shorts
Vitalharvest Freehold Trust	Property for Industry
Unibail Rodamco Westfield	Kiwi Property Group
Vital Healthcare Property Trust	Argosy Property Trust
Asset Plus Limited	Stride Property Limited
Investor Property Limited	Precinct Properties

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Summary

- **The Fund outperformed the benchmark over the quarter, rising by +8.78% compared to the +8.61% turned in by the Index.**
- **Since the start of 2014, there have only been 3 negative quarters as NZ property has benefitted disproportionately relative to its global peers in a quest for yield as central banks aggressively cut rates.**
- **Positives were led by the Fund's investment in Garda Capital Management (GCM, +26.4%) which continued its stellar advance.**

Monthly Property Market Commentary

The remarkable run of the S&P/NZX All Real Estate Gross Index continued in the September quarter, with a positive return of +8.61%. This did slow a touch in the last month, with a return of a "mere" +1.91%. We have now had 11 consecutive monthly advances, while we have to go back to March 2018 to find the last negative quarter. Since the start of 2014, there have only been 3 negative quarters as NZ property has benefitted disproportionately relative to its global peers in a quest for yield as central banks aggressively cut rates.

NZ 10 year yields fell from 1.57% to 1.10% over the quarter as the RBNZ surprised with a 50bp cut in the target OCR to 1.0%. These are extremely low levels against a backdrop of 1.7% core inflation and have sparked a surge up the risk curve into listed equities by a bevy of bond market and term deposit refugees.

As has become customary, NZ outperformed the Australian benchmark which rose by a mere +0.95% in the quarter and actually fell by -2.73% in the month of September. The global FTSE EPRA/NAREIT index rose by +4.26% in the quarter and +2.35% in the last month. NZ is far from being unique in having ultra-low interest rates but the performance of our listed property sector, which has been mainly driven by multiple expansion, stands out starkly on the global stage.

The quarter saw Precinct, Property For Industry and Vital Healthcare report results. Tighter cap rates drove valuation advances although all three names trade at sizeable premia to NTA. Even with valuations rising, quarter-end saw the P/NTA premium for the NZ sector (ex Augusta) reach +24%, with the range being from +30-31% for the red-hot industrial plays, Goodman Property and Property For Industry to -8% for Asset Plus. Historically, the late stages of an asset cycle have tended to see price/NTA discounts develop rather than premia. This suggests the cycle may keep running for a while yet or that it has simply been overwhelmed by a quest for yield.

Recent months have seen a veritable deluge of equity raisings by Australian property funds to sensibly take advantage of listed market multiples that are well ahead of private market valuations. NZ finally joined the party in September with Goodman Property conducting a very well supported $165m raising to fund recent acquisitions and development plans. This makes eminent sense as it is currently cheaper to build than buy and the next iteration is that it is cheaper to buy physical property than to buy listed shares. We would expect further NZ listed names to follow.

Performance in the quarter saw a reasonable divergence between names, with Augusta (AUG, +16.3%) and Goodman Property (GMT, +15.3%) leading the way. The latter was particularly noteworthy given the short term headwind from its equity raising. Laggards were Asset Plus (APL, +2.3%), Investore (IPL, +2.6%) and Kiwi Property (KPG, +4.4%).

Monthly Fund Commentary

The Fund outperformed the powerful surge in the benchmark over the quarter, rising by +8.78% compared to the +8.61% turned in by the Index. The Fund's net market exposure was relatively unchanged at around 95% at the quarter's start and end but did briefly dip down below 90% for some of the period. Considering this headwind, the Fund's outperformance was pleasing.

As one would expect in a strong period, our shorts were something of a headwind, detracting 0.21%. However, the cash generated from these shorts allowed greater investment in our most favoured longs. This meant our overall Australian positions contributed an extremely strong +1.18% to overall performance.

Contributors

Positives were led by the Fund's modest but highly successful investment in Garda Capital Management (GCM, +26.4%) which continued its stellar advance. Near period end, a proposal was unveiled to merge with the GCM's key managed vehicle, Garda Property. The metrics appear sensible and the greater size of the combined entity will see it edge closer to entry into the all-powerful indices that dominate the space.

A second key was the unloved Unibail Rodamco Westfield (URW, +6.6%) which staged a tepid rebound from its lows despite major headwinds from being removed from the Eurostoxx50 Index. Our URW thesis is simple in that their portfolio is dominated by the best quality malls across Europe and the USA and that these will be far less affected by pressure on physical retailers than lower quality locations. Indeed, they may even benefit as online-only retailers need physical beachheads for both branding purposes and to deal with returns. URW offers a gross yield to a NZ investor of circa 9.6% and it stands out in our relative valuation model to a degree that we have to go back to the good old days of Propertylink at 70cps to match.

The other stand-out was the modest holding we have built in elderly rental village owner, Eureka Group (EGH, +19.2%). We estimate an NTA of circa 33cps versus a share price that has risen to 30cps. This NTA is based on a cap rate of 10.3% and to our mind, nothing in the current world should cap up at those sorts of levels, especially with guaranteed government funding streams. EGH has worked through a difficult legacy from previous management and are realising sizeable non-earning capital which they will reinvest at these same attractive cap rates.

Other notable contributions came from overweights in a well-timed entry into Vitalharvest (VTH, -2.0%) at its intra-period lows; Augusta (AUG, +16.3%), Garda Property (GDF, +6.6%) and Centuria Industrial (CIP, +7.1%).

Detractors

The biggest headwind came from our largest NZ underweight in the form of Property For Industry (PFI, +12.0%). Industrial property has undergone a remarkable boom, with cap rates of sub-5% now being paid for high quality modern logistics sheds. These are renting at prices of $140-150/m2 which is well above Sydney's typical $120-140/m2 and Melbourne's $80-100/m2. Absorption appears to be holding up for now despite very weak business confidence readings and this may constitute the key risk to the cycle. The PFI share price is asking investors to pay a 30% premium to NTA, with the implied cap rate of circa 5.0% being far too tight in our view for a portfolio which does have some properties of lesser quality.

Smaller underweights in Goodman Property (GMT, +15.3%) and Argosy Property (ARG, +7.3%) and a short in Charter Hall Long Wale REIT (CLW, +16.1%) also weighed on relative returns.

Portfolio Changes

Portfolio changes over the quarter saw the gross positioning rise slightly from 108% to 110%, while the net length was unchanged at around 95%. Corporate opportunities were used to close off a good portion of the underweights in Goodman Property and Vital Healthcare Property at attractive levels. We lowered our holding in Precinct near its highs and exited small holdings in Arvida, APN Industria, Centuria Industrial, Centuria Metropolitan, Cromwell, and Viva Energy REIT. We bought new holdings in Abacus (which had been a short), Arena REIT, Investec Australia Property, Mirvac and Vitalharvest. We covered shorts in Goodman Group and Shopping Centres Australia and put new shorts on Aventus, GPT Group and Scentre Group.