SALT

Funds Management

Salt Enhanced Property Fund Fact Sheet – May 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 31 May 2018

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	$5.6 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA
Associate PM/Analyst	Andrew Bolland, CFA

Unit Price at 31 May 2018

Application	1.3898
Redemption	1.3842

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 May 2018

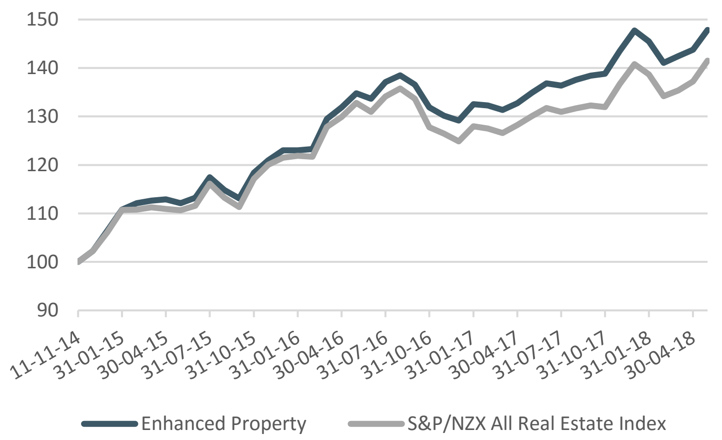
Long Exposure	102.99%
Short Exposure	-8.21%
Gross Equity Exposure	111.21%
Net Equity Exposure	94.78%

Fund Performance to 31 May 2018

Period	Fund Return	Benchmark Return
1 month	2.86%	3.14%
3 months	4.80%	5.48%
6 months	3.03%	3.53%
1 year p.a.	9.60%	8.77%
2 years p.a.	4.73%	3.23%
3 years p.a.	9.67%	8.54%
Inception p.a.	11.64%	10.26%

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

Cumulative Fund Performance to 31 May 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 31 May 2018

NZ Listed Property Shares	91.61%
AU Listed Property Shares	5.09%
Cash	3.31%

Top Overweights	Top Underweights/Shorts
Centuria Metropolitan REIT	Property for Industry
Investore Property	Goodman Property Trust
NPT Ltd	Goodman Group (short)
Augusta Capital	National Storage REIT (short)
Garda Diversified Property Fund	Vital Healthcare Property Trust

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Monthly Property Market Commentary

The S&P/NZX All Real Estate Gross Index recorded a positive return for the fourth month in a row in May ending up +3.14%. The equivalent Australian index returned a positive +3.07%, meanwhile the global FTSE EPRA/NAREIT lagged our local indexes, but still ended positive to the satisfactory degree of 1.57%.

May contained the FY18 financial reporting period for many of New Zealand's listed property vehicles. Two broad themes were present across the bulk of company presentations, being revaluation gains and improving portfolio quality. Argosy Property's (ARG, +5.9%) share price rise reflected a positive result where modest revaluation gains of $47m aided a net tangible asset increase of +5.5% across the portfolio. ARG continues to battle with the earthquake affected NZ Post House which took a fresh valuation hit reflecting a lower rental outlook, and higher vacancy.

Another notable result was Investore Property (IPL, +4.9%), who also booked a solid 6% uplift in NTA thanks to cap rates firming and modest rental growth being achieved. A change in IPL's gearing policy hasn't impacted the ongoing review regarding capital management, and a potential share buyback programme is still on the table. IPL continues to optimise their portfolio, refurbishing sites that have the potential to deliver rental growth opportunities, and divesting those that where a meaningful premium to book value can be realised.

Goodman Property (GMT, +4%) continues to be rewarded for their execution of a portfolio repositioning strategy. During the month GMT sold their sole remaining office asset in Wynyard Quarter for $635m, a material premium over book value and an outstanding outcome. The solitary negative share price performer over the month was Vital Healthcare (VHP, -2.7%), whose foray into the Healthscope situation with parent, North West Properties has raised questions around future capital needs given an already full development pipeline. The market's willingness to pay a large premium for long lease length has also waned a little as bond yields have tentatively begun to increase.

Monthly Fund Commentary

The Fund performed broadly in line with the Index over May returning +2.86% after all fees and expenses versus +3.14% respectively. As was to be expected in an up-month, our shorts collectively detracted 0.23% from performance although Australia still made a positive contribution overall. As a reminder, the Fund uses the extra cash generated by shorting stocks that we see as unduly expensive to invest in names that we see as unduly cheap.

For the second month in a row, Centuria Metropolitan REIT (CMA, +2.2%) was among the top performers in the Fund. CMA continues to screen near the top of our relative valuation model while providing exposure to non-CBD office properties which are yet to fully benefit from extreme rental growth and cap rate tightening seen in Australian CBD office markets.

Millennium & Copthorne Hotels (MCK, +5.6%) continued its recent strong run for the Fund. MCK provided a solid outlook at their AGM which appeared to spark some interest in what is an illiquid stock.

Investore Property (IPL, +4.9%) was the third key positive, returning +4.9% after reporting positive asset revaluations and modest rental growth. We continue to be supportive of IPL's strategy of strategic developments at sites where rental growth can be enhanced, and as the stock trades at a discount to net tangible assets the potential for capital management continues to exist.

The two primary drags on portfolio performance over the month were from underweight positions in the industrial sector; Property for Industry (PFI, +2.7%) and Goodman Property (GMT, +4.0%). During the month GMT announced the sale of their VXV office assets held in a JV with GIC, a Singaporean sovereign wealth fund. GMT along with GIC, received a price of $635m which represented a premium over book value of approximately 15%. The achieved price was particularly favourable given the assets were leasehold. Post settlement, GMT's gearing will reduce meaningfully, with the remaining assets positioned exclusively in the industrial sector.

PFI released a portfolio update highlighting significant leasing activity in the calendar year to date. This included 43,000sqm leased at an average lease term of a little over 8 years. Within this, the retention of Nestle at Carlaw Park Office was a particular positive. We continue to be wary of the industrial sector at this late stage of the economic cycle with very tight cap rates being paid for assets in a historical context both relative to other property types and to the history of industrial valuation multiples.

The Fund slightly lifted its gross exposure from 109% to 111% over the month and used strength to lower the net length from 96.8% to 94.8%. We lifted our weightings in Augusta, Goodman Property and Kiwi Property, while we lowered Millennium & Copthorne into the aforementioned strength. We also lightened Precinct, Stride and Viva Energy REIT. We put a new short in place with National Storage REIT (NSR, +1.9%) which has had a strong run over the last three months despite a mixed interim result and a balance sheet that appears fully geared.