

# SALT

## Salt Enhanced Property Fund Fact Sheet – November 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 November 2019

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	\$12.5 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

### Unit Price at 30 November 2019

Application	1.8119
Redemption	1.8045

### Investment Limits

The limits for the Enhanced Property Fund are shown below:

Gross Equity Exposure <sup>1</sup>	70% – 200%
Net Equity Exposure <sup>1</sup>	70% – 100%
Unlisted securities <sup>1</sup>	0% – 5%
Cash or cash equivalents	0% – 30%

<sup>1</sup>To NZ and Australian property and property related securities.

### Fund Exposures at 30 November 2019

Long Exposure	106.99%
Short Exposure	10.97%
Gross Equity Exposure	117.96%
Net Equity Exposure	96.03%

### Fund Performance to 30 November 2019

Period	Fund Return	Benchmark Return
1 month	0.16%	-0.36%
3 months	0.26%	-1.32%
6 months	12.82%	11.43%
1 year p.a.	29.25%	30.03%
2 years p.a.	19.10%	20.38%
3 years p.a.	16.07%	16.14%
Inception p.a.	15.12%	14.49%

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

### Cumulative Fund Performance to 30 November 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 November 2019

NZ Listed Property Shares	98.70%
AU Listed Property Shares	-2.83%
Cash	4.14%

Top Overweights	Top Underweights/Shorts
Investore Property	Property for Industry
Garda Diversified Property Fund	Argosy Property Trust
Kiwi Property trust	Stride Property Limited
Asset Plus Limited	BWP Trust
Vital Healthcare Property Trust	Precinct

SALT FUNDS MANAGEMENT

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## Summary

- **The Fund followed up a solid relative performance in October, with another month of outperformance in November, advancing by +0.16% compared to the moderate decline of -0.36% turned in by the Index**
- **The strongest contributor was a moderate overweight Metlifecare (MET, +21.2%) which bounced hard in November upon the receipt of an indicative takeover bid**
- **Headwinds were led by our short position in National Storage REIT (NSR, +3.8%).**

## Monthly Property Market Commentary

The S&P/NZX All Real Estate Gross Index fell for the second month in succession in November, with the index declining by -0.36%. This followed a remarkable run prior to October of 11 consecutive positive months. NZ bond yields were essentially unchanged at 1.28% during the month but did briefly peak at 1.41% during the period.

Rather than any obvious fundamental red-flags, the market's decline was driven by funding pressure for the \$80m Investore Property equity raising, which followed quite closely on the heels of the sizeable \$200m raised by Kiwi Property in October. NZ lagged the +2.3% advance by the Australian benchmark but did outperform the -1.5% turned in by the global FTSE EPRA/NAREIT index.

The month 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. The other key event was the \$80m equity raising by Investore (IPL) to buy three retail property assets from their parent Stride (SPG) at an acceptable price.

Performance in the month saw few positives, with only Precinct (PCT, +0.6%) and Vital Healthcare Property (VHP, +0.6%) being in the black. Investore (IPL, -5.5%) and its parent, Stride (SPG, -3.5%) were the main laggards under the pressure of IPL's equity raising.

## Monthly Fund Commentary

The Fund followed up a solid relative performance in October, with another month of outperformance in November, advancing by +0.16% compared to the moderate decline of -0.36% turned in by the Index.

Our Australian holdings added +0.25% to performance during the month. This was pleasing considering that our net position in that strongly performing market started at +0.0% and ended slightly net short at -1.5%. Despite the Australian index advancing by +2.3%, our shorts only detracted very slightly and allowed us to garner strong returns from their offsetting longs.

## Contributors

The strongest contributor was a moderate overweight in a somewhat non-traditional name. The Fund has generally 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, +21.2%) several months ago when the share price was under extreme pressure in contrast to a housing market that was showing modest signs of life. MET bounced hard in November upon the receipt of an indicative takeover bid at an undisclosed level.

Other major positives came from the highly successful IPO of Primewest Group (PWG, +15%) and a return attendee in the form of Eureka Group (EGH, +19.0%). The Australian aged rental operator has only now moved past its NTA of circa \$0.33, with that in turn being 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. A final contributor of note was our short position in Charter Hall Long WALE Reit (CLW, -1%) which closed the month only slightly down but traded in a wide 8% range.

## Detractors

Headwinds were fewer in number and magnitude, being led by our short position in National Storage REIT (NSR, +3.8%). This screens as very expensive on our relative valuation modelling and their somewhat mixed quality storage assets have had difficulty in meeting forecasts for some time. Other relatively expensive shorts also weighed on the Fund, with Bunnings Warehouse Property (BWP, +2.7%) and Aventus (AVN, +3.3%) also weighing. One long which detracted was our small Millenium & Copthorne Hotels (MCK, -5.0%) position. A large overhang cleared after month end. MCK has its complexities but we are hugely attracted to their share price being at less than half a debt-free NTA, when one strips out a deferred tax liability that won't crystallise.

## Portfolio Changes

The Fund's gross positioning lift from 114% to 118%, while the net fell slightly from 97.8% to a still high 96.1%. Portfolio changes were dominated by the funding requirements for equity raisings. Recent equity raisings and weakness thereafter were used to lift the holdings in Investore and Kiwi Property. Vital Healthcare Property was also lifted on a fleeting pullback. Strength was used to exit a number of small Australian holdings, with these including Abacus, Hotel Property Investments, Peet & Co, Primewest and Unibail Rodamco Westfield. A small raising was used to purchase Elanor Investors at a discount. New shorts were put on Centuria Metropolitan and Ale Property, while Charter Hall Long WALE Reit was covered.

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