

Salt Enhanced Property Fund Fact Sheet – July 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 July 2018

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	\$5.8 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA
Associate PM/Analyst	Andrew Bolland, CFA

Unit Price at 31 July 2018

Application	1.4376
Redemption	1.4317

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 July 2018

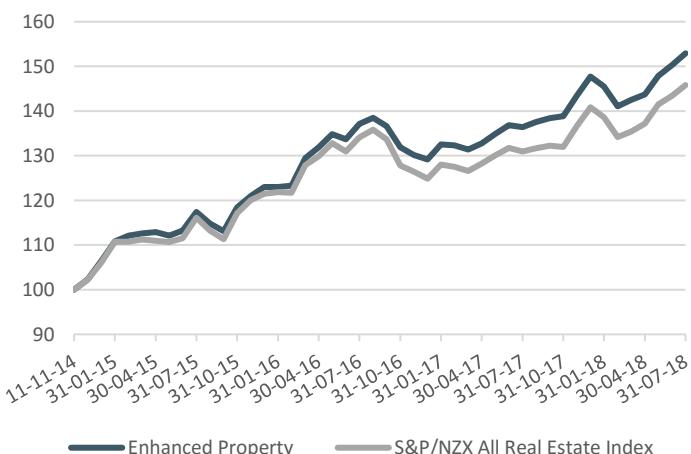
Long Exposure	105.87%
Short Exposure	-8.18%
Gross Equity Exposure	114.05%
Net Equity Exposure	97.69%

Fund Performance to 31 July 2018

Period	Fund Return	Benchmark Return
1 month	1.73%	1.64%
3 months	6.39%	6.28%
6 months	5.11%	5.16%
1 year p.a.	12.12%	11.33%
2 years p.a.	5.61%	4.27%
3 years p.a.	9.20%	7.88%
Inception p.a.	12.10%	10.67%

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

Cumulative Fund Performance to 31 July 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 July 2018

NZ Listed Property Shares	87.51%
AU Listed Property Shares	10.43%
Cash	2.06%

Top Overweights	Top Underweights/Shorts
Centuria Metropolitan REIT	Property for Industry
Investore Property	Goodman Property Trust
Asset Plus	Goodman Group (short)
Stockland	National Storage REIT (short)
Garda Diversified Prop Fund	Vital Healthcare Property Trust

SALT FUNDS MANAGEMENT

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Monthly Property Market Commentary

Summary

- The Fund experienced a solid month in July, advancing by +1.73% after all fees and expenses compared to the +1.64% return of the Index.
- Vital Healthcare Property (VHP, +5.2%) was the stand-out NZ outperformer, reversing several months of earlier weakness.
- Two moderate overweights stood out positively – Garda Property Trust (GDF, +9.0%) & Millennium & Copthorne preference shares (MCKPA, +8.4%).

The S&P/NZX All Real Estate Gross Index rose by a solid 1.64% in the month of July, marking its fifth consecutive monthly advance. The global FTSE EPRA/NAREIT index rose by 0.65% while the Australian REIT Index advanced by 0.96%. The local advance was supported by NZ 10-year bond yields rallying from 2.85% to 2.76%, which contrasted with the US benchmark rising from 2.86% to 2.96%.

Property sector news was rather sparse over the month as we await August result season but a June quarter update from CBRE provided an interesting window on the direct property market. Cap rate compression continues to be a key element as valuers mark to market seemingly insatiable offshore investor demand in the office and industrial segments in particular, with the largest compression occurring in secondary industrial. This does strike us as being classically late-cycle, especially given sharp falls in business confidence but for now the market is extremely robust. Contrastingly, CBRE noted that office and retail rental growth is largely flat and that while industrial rents are up over 6% on the year, this growth is beginning to slow somewhat.

Vital Healthcare Property (VHP, +5.2%) was the stand-out NZ outperformer, reversing several months of earlier weakness. There was no particular news driving this, but it was noticeable that long-WALT (lease length) REITS did bounce somewhat across Australia/NZ. Property For Industry (PFI, -0.3%) brought up the tail and was the only negative performer in the Index after a strong run previously.

Monthly Fund Commentary

The Fund experienced a solid month in July, advancing by +1.73% after all fees and expenses compared to the +1.64% return of the Index.

Contributors

Two moderate overweights stood out positively, with the first being the long-held Garda Property Trust (GDF, +9.0%). GDF reported a strong lift in NTA as at end-June, taking it from \$1.19 to \$1.29 per unit. In our view, there remains potential upside from a well-timed Melbourne office property development that GDF is currently undertaking.

The second stand-out was the long-held position in Millennium & Copthorne Hotels preference shares (MCKPA, +8.4%). There was no new news during the period but a strong interim result in early August saw their NTA per share rise to \$4.35 versus the closing share price of \$3.36.

Other smaller positives were overweights in Investore Property (IPL, +2.0%), which committed to a share buyback programme just after month-end; Stockland (SGP, +4.5%) which delivered an earnings update at the top end of their range confounding fears regarding their residential and retail divisions; and Mirvac (MGR, +5.1%).

Detractors

Key headwinds came from two NZ underweights. The largest was Goodman Property Trust (GMT, +2.4%) which turned in its fifth consecutive positive monthly performance. A smaller underweight in Vital Healthcare Property (VHP, +5.2%) experienced a strong rebound from six earlier months of weakness. There was no particular news driving this although the recent underperformance of long-WALT (lease length) REIT's did turn somewhat in the period. Just after month-end, VHP's parent Northwest Healthcare Properties entered a major joint venture deal with GIC in Australia and it will be interesting to see how the future unfolds for VHP's Australian holdings.

A third notable negative came from our short position in National Storage REIT (NSR, +4.0%). This highly acquisitive storage company has disappointed somewhat in recent earnings releases, it has a relatively geared balance sheet and it shows up as one of the most expensive property names in Australia/NZ in our relative valuation modelling.

The Fund's gross position lifted slightly from 112% to 114% over the month and the net position tightened from 95.5% to 97.7%. Within that, there were an unusually large number of modest position changes in Australia. Temporary weakness was used to lift Stockland and Villa World and buy small new holdings in Folkestone Education Property, Hotel Property Investments, 360 Capital Group and Unibail-Rodmaco-Westfield.