



Funds Management

## Salt Enhanced Property Fund Fact Sheet – March 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 31 March 2019

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	\$7.2 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA
Associate PM/Analyst	Andrew Bolland, CFA

### Unit Price at 31 March 2019

Application	1.5663
Redemption	1.5599

### 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 31 March 2019

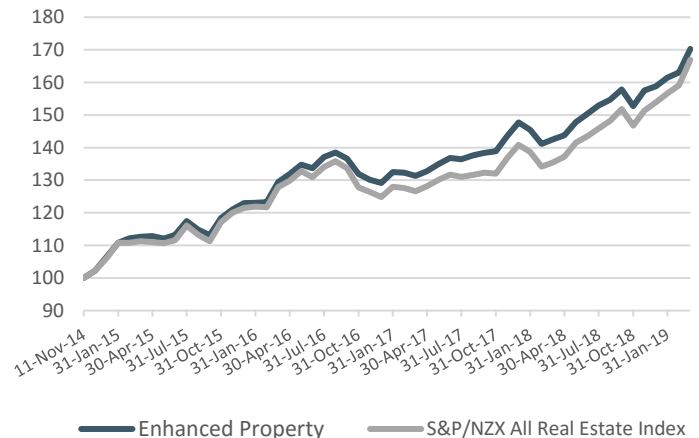
Long Exposure	103.60%
Short Exposure	8.41%
Gross Equity Exposure	112.01%
Net Equity Exposure	95.18%

### Fund Performance to 31 March 2019

Period	Fund Return	Benchmark Return
1 month	4.42%	4.92%
3 months	7.22%	8.50%
6 months	7.85%	10.67%
1 year p.a.	19.50%	24.13%
2 years p.a.	13.85%	15.24%
3 years p.a.	9.56%	9.54%
Inception p.a.	12.93%	12.58%

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

### Cumulative Fund Performance to 31 March 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 31 March 2019

NZ Listed Property Shares	94.31%
AU Listed Property Shares	3.28%
Cash	2.42%

Top Overweights	Top Underweights/Shorts
Centuria Metropolitan REIT	Property for Industry
Investore Property	Kiwi Property Group
Unibail-Rodamco-Westfield/CDI	Argosy Property Trust
Asset Plus	Charter Hall Group
Garda Capital Group	Goodman Property Trust

SALT FUNDS MANAGEMENT

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## Quarterly Property Market Commentary

### Summary

- The Fund rose +7.22% for the March quarter after all fees and expenses for the month.
- The S&P/NZX All Real Estate Gross Index rose by a powerful 8.50% in the quarter.
- In such a strong up-market, negative contributions came from our shorts and our larger underweight positions in NZ.

The S&P/NZX All Real Estate Gross Index rose by a powerful 8.50% in the quarter, to deliver a 24.0% annual advance. It was the fifth consecutive quarterly increase as the great property bull market was given further impetus by falling bond yields. NZ 10-year bond yields fell from 2.38% to just 1.75% over the period – below NZ's CPI inflation rate of 1.9%. The global FTSE EPRA/NAREIT index rose by a staggering 14.2% in the period, after two negative quarters prior to that, while the Australian benchmark rose by an even sharper 14.8%.

Property sector news was dominated by the sizeable \$150m equity raising carried out by Precinct Properties (PCT, +0.3%) at \$1.48. This will give PCT sufficient capital to carry out further property development opportunities at Wynyard Quarter in Auckland and Bowen Campus in Wellington. The liquidity demands of this weighed only momentarily on the wider listed property sector.

Results during the quarter saw Property For Industry (PFI, +8.7%) report sizeable cap rate contraction of 36 basis points to 6.2% although their 2.5% rental reviews and relatively muted guidance were perhaps a touch disappointing given the strong industrial property backdrop. Vital Healthcare Property's (VHP, +4.5%) result was a touch light on higher than expected costs but the key from here are their proposed management fee reductions and the subsequent potentially sizeable purchase of some Healthscope property assets and the equity raising that would likely be required for this.

Goodman Property (GMT, +14.2%) reported a solid 7.6% portfolio revaluation, with rents +5% and cap rates firming 28bp to 5.80% as the aggressive chase for industrial assets continued unabated. Kiwi Property's (KPG, +8.8%) revaluation was mixed, with weak retail assets offsetting a continuing surge in office property.

Stock performance in the quarter was led by Goodman Property (GMT, +14.2%) as the stand-out although the aggressive quest for industrial property saw Property For Industry (PFI, +8.7%) only deliver market performance given their weaker property level performance. Laggards were Vital Healthcare Property (VHP, +4.5%) on the aforementioned issues and Asset Plus (APL, +5.1%) as shareholders await next steps for this sub-scale entity.

### Quarterly Fund Commentary

The Fund moderately lagged its benchmark in the March quarter gaining +7.22% relative to the index at +8.50%. Unsurprisingly in such a strong up-market, negative contributions came from our shorts and our larger underweight positions in NZ, with these performing more strongly than some of our overweights.

### Detractors

Collectively, our shorts detracted 106bp from performance during the quarter although they obviously allowed further long investments as an offset. Our Australian longs contributed +0.94%. Our net Australian exposure averaged around 4% over the period, so to have a slight net negative overall contribution from that market was disappointing and reflects the higher beta nature of some of our shorts in a rampant bull market. Examples included Charter Hall (CHC, +38.4%) which we shorted well above the lows but still a little early and Dexus, (DXS, +20.0%) even as the Sydney office property boom enters its late middle age.

NZ headwinds were led by underweights in the industrial property names, Goodman Property (GMT, +14.2%) and Property For Industry (PFI, +8.7%). While PFI only performed in line with market following a somewhat tepid result, GMT was a notable outperformer on the back of investor appetite for the industrial asset class. Their 7.6% portfolio revaluation in March, with rents +5% and cap rates firming 28bp to 5.80%, merely franked what had already occurred with the share price.

### Contributors

Our key overweights were led by the previously weak Unibail-Rodamco-Westfield (URW, +10.9%). While investors globally are generally allergic to retail assets, we view the great bulk of URW's shopping centres as being ultra-premium in nature and largely immune to the chill-winds blowing further down the quality spectrum. Their result itself was solid although they surprised the market by opting for a future path that encompasses a greater degree of property sales and de-gearing than previously envisaged along with a lower dividend yield.

Theoretically the very long duration assets in Investore (IPL, +6.5%) should have done better than their peers in a quarter when bond yields collapsed. However, this was not to be and IPL remains below a slightly dated NTA as a time when it has sold one or two of its weaker assets at well above NTA.

The large overweight in Centuria Metropolitan REIT (CMA, +7.3%) ground its way higher as it continued to shake off the overhang of their equity raising back in October. We remain attracted to their late-cycle exposure to non-CBD office property and they continue to stand out strongly in our relative valuation model both in terms of income and asset valuation metrics.

The Fund's gross positioning rose slightly from 109% to 112% over the quarter as volatility threw up opportunities. The net rose slightly from 92.4% to 95.2% but has dropped back again post quarter end. The Fund participated aggressively in the Precinct Property equity raising at \$1.48 to move from under to overweight. We lifted the underweight in Kiwi Property into strength as it defied concerns in other markets regarding retail assets and will soon face sharply heightened competition in Auckland. We had closed some of the underweights in Goodman Property and Property For Industry prior to their sharp increases. The Fund lightened the Unibail position into strength and exited Abacus, Elanor Retail Fund and Villa World (unfortunately prior to the takeover bid). We covered shorts in Goodman Group and Vicinity, while new shorts were initiated in Charter Hall Retail (since covered), Growthpoint, Mirvac and Scentre.