

SALT

Salt Enhanced Property Fund Fact Sheet – January 2020

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 January 2020

Benchmark	S&P/NZX All Real Estate Gross Index
Fund Assets	\$14.8 million
Inception Date	11 November 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 January 2020

Application	1.9029
Redemption	1.8952

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 January 2020

Long Exposure	99.74%
Short Exposure	4.24%
Gross Equity Exposure	103.97%
Net Equity Exposure	95.50%

Fund Performance to 31 January 2020

Period	Fund Return	Benchmark Return
1 month	1.84%	2.40%
3 months	5.19%	4.71%
6 months	8.26%	7.01%
1-year p.a.	32.42%	32.02%
2 years p.a.	21.22%	22.53%
3 years p.a.	17.29%	17.60%
5 years p.a.	14.04%	13.45%
Inception p.a.	15.67%	15.07%

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

Cumulative Fund Performance to 31 January 2020



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 January 2020

NZ Listed Property Shares	90.04%
AU Listed Property Shares	7.75%
Cash	2.21%

Top Overweights	Top Underweights/Shorts
Centuria Capital Group	Property for Industry
Investore Property	Precinct Properties New Zealand
Garda Diversified Property Fund	Stride Property
Millennium & Copthorne Hotels	BWP Trust
Elanor Commercial Property Fund	National Storage REIT

SALT FUNDS MANAGEMENT

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Summary

- **The Fund lagged its benchmark in the month of January, returning +1.84% compared to the +2.40% turned in by the S&P/NZX All Real Estate Gross Index.**
- **By far the strongest positive contribution to the Fund came from the moderate overweight in Augusta Capital (AUG, +31.3%) which surged on the bid from Centuria Capital at \$2.00 per share.**
- **the largest headwind also came from takeover activity in our large short in National Storage REIT (NSR, +17%) which received a takeover bid from a credible party at a price that is yet to be disclosed.**

Quarterly Property Market Commentary

The S&P/NZX All Real Estate Gross Index followed up a strong month in December with another solid month in January, advancing by +2.4%. There was a strong tailwind for the market thanks to NZ 10-year bond yields falling from 1.65% to 1.30% and such moves saw offshore property markets also perform strongly. The FTSE EPRA/NAREIT Index rose by 0.9% and the S&P/ASX200 A-REIT Accumulation Index surged by +5.7%.

News-flow in the quiet January month was dominated by a bid for Augusta Capital (AUG) by the rapidly expanding Australian-listed Centuria Capital. The bid is in cash or a cash/scrip equivalent and equates to \$2.00 per share compared to an undisturbed price for AUG of \$1.67. It has unanimous support from AUG's independent directors subject to falling within the valuation range of an independent report.

Performance in the quarter saw marked dispersion, with the bid for Augusta Capital (AUG, +31.3%) seeing it lead the way by quite some distance. Other positives on typically light January volume were Goodman Property (GMT, +4.5%), Argosy (ARG, +3.5%) and Investore (IPL, +2.7%) which began to shake off the overhang from its equity issuance back in November. Vital Healthcare Property (VHP, -1.4%) was the only negative of note.

Salt Enhanced Property Fund Commentary

The Fund lagged its benchmark in the month of January, returning +1.84% compared to the +2.40% turned in by the S&P/NZX All Real Estate Gross Index.

Contributors

By far the strongest positive contribution to the Fund came from the moderate overweight in Augusta Capital (AUG, +31.3%) which surged on the bid from Centuria Capital at \$2.00 per share. It is a long way from the dark days of 2009/10 when the Manager initiated a position in what was then Kermadec Property in the low \$0.40 region.

Detractors

Conversely, the largest headwind also came from takeover activity in our large short in National Storage REIT (NSR, +17%) which received a takeover bid from a credible party at a price that is yet to be disclosed. The market assumes this is around the \$2.20 region. This compares to a

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NTA of \$1.63 and would place NSR on an EV/EBITDA ratio of 33x. They have had a track record of consistently downgrading underlying earnings over the last several years. In our hitherto highly successful property screening model, it stood out as being egregiously expensive but there is no way to reckon with an aggressive buyer in a world of zero interest rates.

Thanks to the combination of the NSR bid and a buoyant Australian market during the month, our shorts detracted -0.55% of which -0.41% was NSR. Overall, we had net exposure to Australia of close to zero and it cost us -0.33%, so value was still added outside the glaring exception of NSR.

Other headwinds came from the Fund's long-standing holdings in Millennium and Copthorne ordinaries (MCK, -3.0%) and preferreds (MCKPA, -15.6%), with the latter crossing a very wide bid/offer spread. MCK is a hybrid of a hotel owner/operator and a land developer via its listed subsidiary, CDI Investments. The former business will clearly come under pressure for at least for next several months thanks to the sudden onset of coronavirus although their latter business is rebounding as the Auckland property market is coming back to life. The key attraction is that MCK is ungeared, is on a PE ratio of just 8x and trades at less than half its net tangible asset backing if one strips out a deferred tax liability that is unlikely to ever be crystallised.

Portfolio Changes

Portfolio changes in the month saw the gross position fall from 111% to a low 104% although the net was unchanged at 96%. New positions were purchased in Centuria Capital, which undertook an equity raising to fund its bid for Augusta; Abacus Property, whose lower quality storage peer, National Storage REIT received a takeover bid; Australian Unity Office and Hotel Property Investments. In NZ, the Fund exited its moderate holding in Metlifecare and replaced this with a position in Oceania Healthcare, where the private equity owner exited in a large discounted block trade. Weakness was used to cover some of the Argosy Property underweight, while strength was used to lighten holdings in Precinct and Goodman Property.