SALT
Funds Management

Salt NZ Dividend Appreciation Fund Fact Sheet – February 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 NZ Dividend Appreciation Fund targets a portfolio of shares of New Zealand companies that may, in our opinion, pay high and sustainable dividends. A considerable body of robust research suggests that stocks with strong and sustained dividend policies tend to generate higher free cash flow than average and outperform their index benchmarks over time. The strategy is not intended to naively generate the highest possible yield but rather to generate a high and sustainable dividend yield.

Fund Facts at 28 February 2019

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$70.7 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 28 February 2019

Application	1.4041
Redemption	1.3984

Investment Guidelines

The guidelines for the NZ Dividend Appreciation Fund are shown below:

NZ shares	95% – 100%
Cash	0% – 5%
Unlisted securities	0% – 5%
Maximum active position	8%

Target investment Mix

The target investment mix for the Salt Dividend Appreciation Fund is:

Australasian Equities	100%

Fund Allocation at 28 February 2019

NZ shares	98.36%
Cash	1.64%

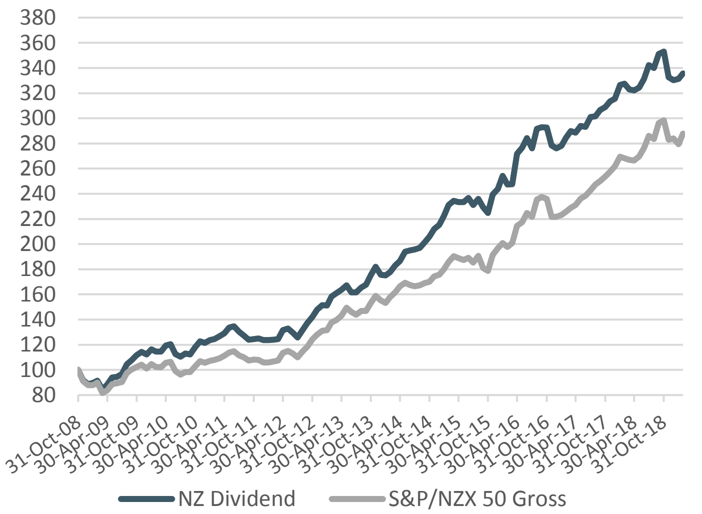
Fund Performance to 28 February 2019

Period	Fund Return*	Benchmark Return
1 month	3.27%	3.78%
3 months	4.94%	5.68%
6 months	-1.29%	0.13%
1 year	7.36%	11.36%
2 year p.a.	9.35%	14.06%
3 years p.a.	11.85%	14.38%
5 years p.a.	14.35%	13.32%
7 years p.a.	16.25%	15.88%
10 years p.a.	15.53%	13.97%
Inception p.a.	13.01%	11.19%

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

*From 1 October 2008 to 30 June 2015, performance is from a fund with the same strategy and the same portfolio manager.

Cumulative Fund Performance to 28 February 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.

Top Overweights	Top Underweights
Scales Corporation	Auckland Intl Airport
Investore Property	Infratil
Tower	Ryman Healthcare
Turners Automotive Group	Mainfreight
Metlifecare	EBOS

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Monthly Equity Market Commentary

Summary

- The Fund returned +3.3% after all fees and expenses for February compared to the +3.8% for the S&P/NZX 50 Gross Index.
- The largest positive came from the Fund's long-standing overweight in Scales (SCL, +8%).
- Other positives were underweights in Sky TV (SKT, -23%) and Fonterra (FSF, -12%) and modest overweights in A2 Milk (ATM, +13%).

The positive momentum in global equities from January continued, with the MSCI World Accumulation Index rising +3.0% in February, lifting the year to date return to 11%. There were strong positive returns in most developed markets and the MSCI Developed Market Index outperformed Emerging Markets by +2.7% as Argentina and Brazil were particularly weak.

After a tepid start, US markets steadily ground higher through a slew of February results with the S&P500 finishing up +3.0% and the NASDAQ up +3.4%. It appears the market has increasingly priced in a US-China trade deal as well as incremental Federal Reserve dovishness. This is somewhat surprising given consensus forecasts for the S&P500 earnings for FY2019 were revised down by -4% according to JPMorgan and bond yields were largely unchanged.

Signs of a deferral to the 1 March trade deadline coupled with expectations of fiscal and monetary stimulus in China drove Chinese stocks, with the Shanghai Composite surging +13% higher. Japan's Nikkei 225 and the Hang Seng also posted healthy returns of +2.9% and +2.5% respectively. European markets were also buoyed by improving trade relations and a softening-tone regarding Brexit with Germany's DAX up +3.1%, France's CAC up +5% and the UK's FTSE up +2.3%.

The Australian market had another strong month with the S&P/ASX200 up +5.3% with most sectors rising except Consumer Staples. Overall the market performed well despite negative revisions to consensus earnings by -3.4% according to Goldman Sachs. A more dovish outlook from the Reserve Bank of Australia assisted. Financials (+8.2%) rallied after the Royal Commission recommendations were less onerous than feared, and Energy (+7.2%) stocks performed, boosted by crude oil prices rising.

The New Zealand S&P/NZX50G enjoyed a strong +3.8% return over the month. The key contributors were Fisher & Paykel Healthcare (FPH +17%) on news of patent disputes with Resmed being dropped, A2 Milk (ATM +13%) on a strong result, whilst the biggest detractors were Fonterra (FSF -12%) on a weak result, Air NZ (AIR -12%) on a tough revenue outlook and Sky Television (SKT -23%) on a weak subscriber number.

Monthly Fund Commentary

The Fund returned +3.3% after all fees and expenses for the month of February compared to the very strong +3.8% turned in by the S&P/NZX50 benchmark.

The Fund's low beta nature can see it struggle at times to keep up in such a strong period. However, the market is now on an all-time record one year forward PE of 26.8x (ex property companies) using FNZC data. Earnings forecasts have actually retreated 6% since their high in April 2018, with extremely low bond yields being the main support for markets. However, even taking these into account, the NZ market is 15-20% overpriced on our analysis. We believe the Fund is well placed for relative performance when an inevitable return to more normal valuation levels inevitably occurs. There is also a record divergence between the average and median PE of the market, which has naturally seen more opportunities arise for the Fund in mid cap names.

Contributors

The largest positive came from the Fund's long-standing overweight in Scales (SCL, +8%). They delivered a strong result late in the month, this year's apple crop is shaping up well and they have significant accretive reinvestment capacity when their cool store sale settles. Other positives were underweights in Sky TV (SKT, -23%) and Fonterra (FSF, -12%) and modest overweights in A2 Milk (ATM, +13%), ANZ Bank (ANZ, +9%) and Contact Energy (CEN, +5%).

Detractors

The largest headwind came from our moderate overweight in the automotive company, Turners (TRA, -8%) whose tentacles stretch through all aspects of the car industry. They have been under pressure from slowing car sales although the used vehicle market and ancillary services such as finance and insurance are far less cyclical than new cars. While the import market remains very competitive, we believe the local purchase market has become somewhat more favourable leaving Turners well placed to meet guidance. A PE of circa 8x earnings that are below mid-cycle and a gross dividend yield above 10% are very attractive in our view.

Other headwinds came from highly priced growth stocks that perform well in a bull market but generate little free cashflow relative to their valuation. The Fund naturally tends to be underweight or not hold such names. Larger drags here included Fisher & Paykel Healthcare (FPH, +17%), Infratil (IFT, +6%), Synlait Milk (SML, +14%) and Ryman (RYM, +5%).

Portfolio changes were limited, and cash rose slightly from 1.0% to 1.6%. A small residual AMP holding was exited into a bounce, we lifted our Precinct Property position in its discounted equity raising at $1.48, Sky City was lightened from neutral to underweight into strength and Vector was lightened to an underweight as lower bond yields could create difficulties for allowable returns in their next regulatory rate reset.