SALT
Funds Management

Salt NZ Dividend Appreciation Fund Fact Sheet – August 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 31 August 2019

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$88.3 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 August 2019

Application	1.5766
Redemption	1.5702

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 31 August 2019

NZ shares	98.34%
Cash	1.66%

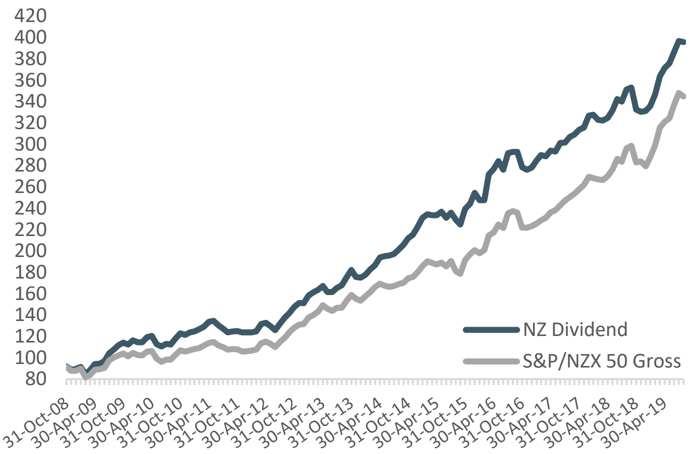
Fund Performance to 31 August 2019

Period	Fund Return*	Benchmark Return
1 month	-0.27%	-0.93%
3 months	5.23%	6.32%
6 months	14.03%	15.36%
1 year	12.56%	15.50%
2 year p.a.	13.51%	17.31%
3 years p.a.	10.51%	13.29%
5 years p.a.	15.31%	15.55%
7 years p.a.	16.92%	16.62%
10 years p.a.	14.31%	13.26%
Inception p.a.	13.81%	12.11%

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 31 August 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
Spark NZ	Auckland Intl Airport
Tower	Ryman Healthcare
Turners Automotive	Mainfreight
Investore Property	Goodman Property
Scales Corporation	Fisher & Paykel Healthcare

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

SALT
Funds Management

Summary

- **The Fund declined by a marginal -0.27% in the month of August, outperforming the S&P/NZX50 Index which fell -0.9%.**
- **The RBNZ cut the OCR target by 50bps during the month which sparked a furious hunt for yield**
- **The largest contributor was the Fund's overweight in Spark as they delivered an in-line result.**

Monthly Equity Market Commentary

Global equity markets fell in August as the world observed the continued sparring between the two largest nations on trade and contemplated the degree to which economic growth may slow as a result. Whilst the MSCI World Accumulation Index fell -2.0%, it remains up +15.2% year to date.

The US saw choppy trading through August to see the S&P500 close down -0.9% and the Nasdaq -1.8%. The seesaw trading was driven by disappointed investors that were looking for the Federal Reserve to lower rates or signal more dovishness, a weaker than expected ISM reading and flat quarterly GDP growth at 2%. President Trump threatening to hike tariffs in a surprisingly aggressive manner which were later delayed by a few months. US earnings season was solid but did see a typical pattern of downgrades on a forward-looking basis. Funds fleeing to safety pushed the US 10-year Treasury yield down from 2.01% to 1.5% and gold surged +7% to US$1529/oz.

UK stocks underperformed neighbours with the FTSE100 down -5% as new Prime Minister Boris Johnson pushed toward a hard Brexit. An aggregate earnings beat for FTSE stocks did little to offset the no-deal Brexit related fear selling. The spillovers combined with weak economic data weighed on mainland Europe, with Germany's DAX30 ending the month -2.6% and France's CAC40 fell -0.7%.

Protests in Hong Kong saw no signs of de-escalation, heightening concern for a key global financial hub and how China responds to quell the turmoil, pulling the Hang Seng down -6.7%. Weaker industrial production, increased trade war rhetoric and Hong Kong concerns saw the Chinese H-Shares index -5%.

For the first occasion in 2019, the Australian ASX200 posted negative monthly returns as it fell -2.7% on a slightly weak earnings season and iron ore fell 24% over the month. Defensive areas such as Healthcare +3.8% and REITs +1.3% posted positive returns as investors sought safe yield and IT +1% performed as low beta with growth was bought in general. All other sectors were down. The RBA kept rates on hold as the housing market looks like it has, at least temporarily, stopped falling.

The S&P/NZX50 Index fell -0.9%. The RBNZ cut the OCR target by 50bps sparking a furious hunt for yield which saw NZ REITs continue their unprecedented run and rise by a further +3.2%. The best performers were Kathmandu (KMD +23%) on strong sales growth, Mercury and Contact (MCY +14%, CEN +11%) for defensive yield, whilst the biggest detractors were Vista (VGL -35%) on a poor result due to higher costs, a2 Milk (ATM -20%) on weaker margins as they invest for growth and Sky Television (SKT -13%) as its earnings base continues to erode.

Monthly Fund Commentary

The Fund declined by a marginal -0.27% in the month of August, comfortably outperforming the -0.93% performance turned in by the S&P/NZX50 benchmark. The low beta nature of the Fund saw it perform as one would hope in a volatile and negative month for the market.

Contributors

The largest contributor by some distance was the large overweight in Spark (SPK, +11.1%) which we aggressively purchased on a sharp but temporary sell-off back in April and May. There had been some concern raised by a couple of broking analyst outliers that SPK may cut its dividend slightly but this was definitively refuted as they delivered an in-line result. While we cannot say with hand on heart that SPK is cheap in absolute terms, such quibbles have long since ceased to matter in the NZ market and it is very "cheap" versus other large caps in relative yield terms. Its gross dividend yield at end-August was 7.4% versus 4-5% for the listed property trusts and 3-5% for the gentailers.

While the Fund is now only marginally overweight the large cap gentailers as a group, their continued strong performance saw the Contact Energy (CEN, +11.3%) holding be the second largest contributor. CEN and Mercury (MCY, +13.6%) had particularly strong months on speculation that they may be added to the MSCI Large Cap Index in October. Such is the outsized influence of passive and its flood of flows. The Fund also benefitted from being underweight Vista Group (VGL, -34.8%) which was sold off sharply following a disappointing result.

Detractors

The largest headwind for the Fund was its small overweight in a2 Milk (ATM, -19.8%) which was sold aggressively following a result which met revenue expectations but missed slightly on the bottom line as they invest aggressively for longer term growth. The only other negative of any great note was the large underweight in Auckland Airport (AIA, +3.4%) which somehow managed to shrug off weak guidance for the coming year, continued risks to traffic numbers and an outrageously high valuation. The underweight in Goodman Property (GMT, +6.3%) also weighted slightly although the Fund is close to neutral in the overall property sector.

There were few material changes over the month and cash levels remained relatively low at 1.7%. A small residual position in Briscoes was exited and the underweight in Fletcher Building was enlarged. We are wary of cyclical earnings risk and have tilted the Fund to having exposure to areas of lower earnings risk against a very soft business confidence backdrop.