SALT

Funds Management

Salt NZ Dividend Appreciation Fund Fact Sheet – May 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 May 2019

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$85.6 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 May 2019

Application	1.4982
Redemption	1.4921

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 May 2019

NZ shares	98.22%
Cash	1.78%

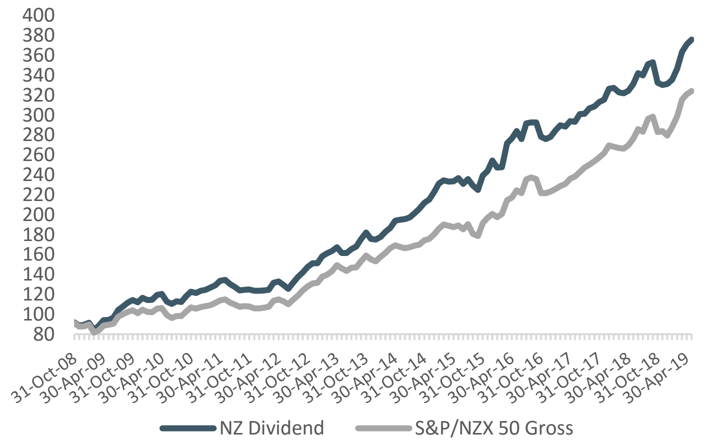
Fund Performance to 31 May 2019

Period	Fund Return*	Benchmark Return
1 month	1.24%	1.04%
3 months	8.36%	8.50%
6 months	13.71%	14.67%
1 year	13.35%	16.85%
2 year p.a.	13.18%	16.78%
3 years p.a.	9.74%	12.85%
5 years p.a.	14.83%	14.34%
7 years p.a.	17.02%	16.43%
10 years p.a.	15.21%	13.86%
Inception p.a.	13.59%	11.76%

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 May 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	Mainfreight
Turners Automotive	Ryman Healthcare
Investore Property	Fisher & Paykel Healthcare
Sanford	Goodman Property Trust

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

Monthly Equity Market Commentary

Summary

- The Fund returned +1.24% after all fees and expenses for the month compared to +1.04% for the S&P/NZX 50 Gross Index.
- The Australian market reached its highest level in 10 years, with the S&P/ASX200 Accumulation Index rising +1.7%
- The largest positive contributor was the Fund's long-standing overweight in Investore (IPL, +9.1%).

Globally, markets gave back recent gains as fears of an increasingly bitter and drawn out trade war captured imaginations. The MSCI World Accumulation Index fell -5.8% over May, with Emerging Markets (-6.6%) faring relatively worse off than Developed Markets (-5.6%).

As the US and China sparred via the media, fears of a trade war that reduces global GDP growth materially heightened. US markets were sold off sharply with the S&P500 down -6.6% and NASDAQ down -7.9%. The US 10-year bond yield fell to 2.12%, down a massive -0.38%. The White House issued an executive order restricting Huawei's ability to purchase US components as inputs for their devices as well as increasing tariffs on $200bn of Chinese goods by 15% in a month where macro activity data in China such as FAI and PMIs show a moderation of growth. China responded with measures expected to hurt the US albeit to a lesser degree. The MSCI China Index fell -13.6% in May erasing most of the gain's year to date. Japan's Nikkei also fell 7.4% on slower growth concerns.

The European Central Bank Financial Stability Review in May emphasised risks to a sharp slowdown on the banking system and heightened the market's concerns around what tools the ECB has left, particularly as CPI data so far suggests lower inflation than hoped. Germany's DAX fell -5% on macro concerns and the 10-year German bond yield hit all-time lows at negative -0.2%. The UKs FTSE 100 fell -3.5% as Brexit advances failed, forcing Prime Minister Teressa May to resign.

Brent Oil fell roughly $10 or 14% to $61.66 as inventory data showed stockpiles continue to build whilst iron ore rose a further $9 to $105.5 per tonne as the fallout from Vale supply curtailments continue in a market with minimal short term surplus production capacity available saw stockpiles drawn down again over the month.

The Australian market reached its highest level in 10 years, with the S&P/ASX 200 Accumulation Index rising +1.7% on a surprise election outcome seeing the incumbent Liberal-led coalition remain in power. Markets also priced in an increased likelihood of RBA rate cuts to stave off a slowdown and other monetary policy restraints being eased to encourage borrowing. The best performing Sectors were Communications (+7.3%), Banks (5.3%) and Healthcare (+3.1%) while Technology (-4.0%) and Consumer Staples (-4.2%) were the laggards. The Australian Government 10-year bond yield followed global peers and fell -0.33% to 1.47%.

New Zealand had another solid month, with the S&P/NZX 50 Gross Index rising +1.0% over the month. The best performers were Vista (VGL +15%) after presenting at an investor conference, Auckland Airport (AIA +10%) rose despite weak passenger numbers due to falling bond yields, and Trustpower (TPW +10%) rose on positive outlook comments. All the gentailers exhibited strength. The key underperformers were Synlait (SML -16%) on a dispute with a neighbour potentially disrupting the nearly complete Pokeno plant, Metlifecare (MET -10%) on weak sales updates from peers Ryman and Arvida, and Sky City (SKC -7%) after a weaker trading update than expected.

Monthly Fund Commentary

The Fund followed up a good month in April with a month of moderate outperformance in May, advancing by +1.24% compared to the +1.04% turned in by the S&P/NZX 50 Gross Index benchmark.

Contributors

The largest positive contributor was the Fund's long-standing overweight in Investore (IPL, +9.1%), which is finally seeing the strong theoretical valuation leverage of its ultra-long duration property assets be reflected in the market pricing. That said, the Fund is moderately underweight property stocks overall as our view is that a degree of overpricing has crept into the sector. Valuations appear to be incorporating today's ultra-low discount rates in the denominator but forgetting in many cases to adjust the numerator for the lower future rental growth that likely accompanies this.

The second biggest tailwind came from our very small residual holding in Evolve Education (EVO, +38.2%). This was an error where we had failed to identify the weakness of former management resulting in occupancy rates falling well below sector peers. We reluctantly supported the 4.4/1 equity raising and the subsequent strong performance reflects the removal of solvency risk and the potential upside from Australian expansion. We are carefully exiting what is a mere 0.4% holding (post the raising and the price increase).

Other key overweights which worked well due to lower bond yields included Contact Energy (CEN, +9.8%) and Spark (SPK, +4.0%). From being underweight in the $4.20 region, we have aggressively moved Spark up to be our largest overweight in the $3.60 region, with there being a record divergence between its yield and those of other low growth, low risk yielders such as the gentailers and property trusts.

Underweights which worked well included Synlait Milk (SML, -16.1%) and Ryman (RYM, -4.7%). The latter was however more than offset by our overweight in Metlifecare (MET, -9.7%) which has been a most disappointing performer over the last several years. Ironically, we have greater confidence in management at MET than in some time, they are the least geared in the sector and they are an absolute stand-out on relative valuation grounds. We can only put the weakness down to an older portfolio (albeit this is captured in valuations) and their greater exposure to the "golden triangle" where house prices have come off harder and earlier.

Detractors

The largest headwind for the Fund was the underweight in Auckland Airport (AIA, +10.0%) which rose inexorably on what appears to be unceasing passive buying. The outlook for passenger growth continues to deteriorate, a Ministry of Transport paper cast doubt on the current benevolent regulatory framework and AIA has less than pure exposure to falling bond yields both given its very low (non-cash covered) dividend yield and the reset process that applies to its regulated asset base. Our error has been to think that fundamentals matter in the short term in the face of the passive tidal wave. Other notable headwinds came from underweights in Mainfreight (MFT, +9.7%) whose results are yet to be buffeted by a sharp slowdown in global trade volumes; and in Goodman Property Trust (GMT, +7.2%).

Portfolio changes were relatively limited. We used strength to lessen our NZX overweight, while weakness was used to lift Z Energy, Sanford and to lower the magnitude of the Ryman underweight. We exited the Trade Me position on the completion of the takeover bid and we established a moderate new position in Infratil following their deal to purchase Vodafone.