Salt NZ Dividend Appreciation Fund Fact Sheet – April 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 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 30 April 2020

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$84.6 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 April 2020

Application	1.5282
Redemption	1.522

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 30 April 2020

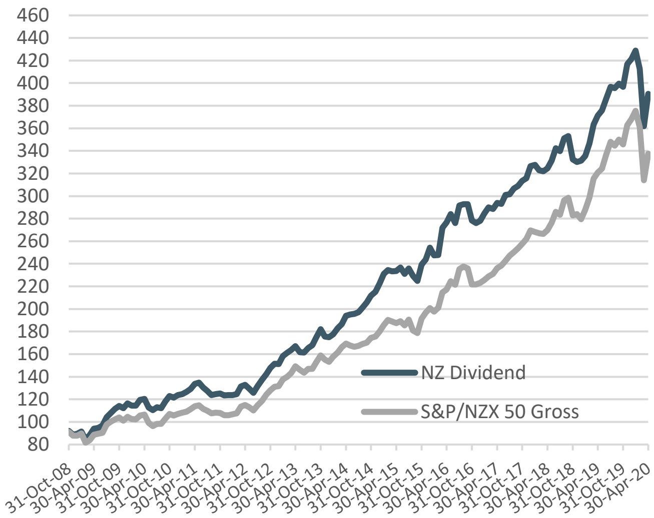
NZ shares	98.61%
Cash	1.39%

Fund Performance to 30 April 2020

Period	Fund Return*	Benchmark Return
1 month	7.92%	7.51%
3 months	-8.92%	-10.12%
6 months	-1.55%	-2.37%
1 year	5.20%	5.18%
2-year p.a.	9.66%	11.68%
3 years p.a.	9.91%	12.59%
5 years p.a.	10.82%	12.71%
7 years p.a.	12.87%	12.51%
10 years p.a.	12.47%	12.35%
Inception p.a.	12.47%	11.17%

Performance is after all fees and does not include imputation credits or PIE tax.
*From 1 November 2008 to 30 June 2015, performance is from a fund with the same strategy and the same portfolio manager.

Cumulative Fund Performance to 30 April 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.

Top Overweights	Top Underweights
Tower	Fisher & Paykel Healthcare
Investore Property	Ryman Healthcare
Turners Automotive	Ports of Tauranga
Marsden Maritime Holdings	Goodman Property Trust
Scales Corporation	Mainfreight

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

NZ Market Commentary

It's a somewhat unusual month when stocks surge globally, while analysts cut numbers aggressively to reflect a dramatic economic downturn. Markets globally experienced a bounce from the March 23 lows that continued through the month of April as confidence lifted that many countries were passing the peak of Covid-19 infections. **The MSCI All World Accumulation Index lifted +10.9% although it remains down -12.4% year to date**, with developed markets generally outperforming emerging markets.

All eyes are turned to assessing the economic fallout from lockdowns. Governments globally lifted hopes of a sharper recovery with significant fiscal stimulus and central banks globally committed to unprecedented levels of quantitative easing and rate cuts. They key question for investors is the degree to which this temporary shock has permanent economic and earnings impacts at a time when global debt levels are surging.

The S&P500 rallied +12.8% to reduce year to date losses to just- 9% whilst the Nasdaq is close to recovering the entirety of 2020's losses post April's 15% rally, as tech giants experienced a surge in demand as people work and shop from home.

European markets were buoyed on optimism that they were beating Covid-19, with London's FTSE +4%, Germany's DAX30 +9% and France's CAC40 +4% for the month. Asian bourses also rallied with Hong Kong's Hang Seng up 4.4% and Japan's Nikkei 6.7%.

The Australian S&P/ASX200 recovered 8.8% albeit remains down 16% year to date. Energy stocks (+25%) rallied off their lows despite oil remaining very weak given the evaporation of demand occurring more quickly than the ability of producers to shut in supply. Technology stocks also surged over 20% as investors sought growth unaffected by the economy, whilst Staples and Banks returned a mere 1-2%.

NZ's S&P/NZX50 Gross Index rallied +7.5% to remain down -8.4% on the year. The best performers were Air New Zealand (AIR, +58%) from depressed levels despite potential Government funding streams being potentially highly dilutive, Restaurant Brands (RBD, +48%) surged as if Covid-19 had never happened and Sky City (SKC, +42%) recovered as fears over the balance sheet faded as it appears NZ is beating Covid-19 and they reduced costs. The key laggards were Fisher & Paykel Healthcare (FPH, -10%) which retraced some of March's gains and Precinct Property (PCT, -7%) on potential rental and vacancy risks.

Salt NZ Dividend Fund Commentary

The Fund outperformed moderately in the month of April, rising by +7.92% compared to the +7.51% turned in by the S&P/NZX50 Gross Index. This was largely due to a number of the Fund's overweights bouncing sharply following an aggressive sell-off in the Covid-19 panic back in March.

The way was led by our long-standing holding in Turners (TRA, +25.4%) which rebounded sharply from its sharp sell-off in March. There is absolutely no doubt that TRA is being heavily affected by the Covid-19 response, both in terms of car sales and their finance book. We believe they can likely make it through to the recovery without a dilutive equity raising although we wouldn't rule this out. However, equity raisings that delivers balance sheet surety have tended to be positive catalysts. Ultimately, the crisis will lift their market share and thence future profits but the carnage of Covid-19 has been an unwelcome intrusion on a path that they were well set on already and disrupted a year where the business was performing very well.

Other overweights which rebounded sharply included Marsden Maritime (MMH, +20.4%), Contact Energy (CEN, +9.2%), Scales (SCL, +9.4%) and Oceania Healthcare (OCA, +11.6%). Our large overweight in Tower (TWR, +4.4%) did rise somewhat but one would have hoped for far more given that they are one of the few beneficiaries of the Covid-19 crisis thanks to a collapse in claims. We expect they will share much of this windfall with their clients via rebates but it should still underpin a strong result. We continue to see TWR as having years of mid-teen earnings and dividend growth ahead of it from a current underlying PE multiple of circa 10x. A final positive was our underweight in Fisher & Paykel Healthcare (FPH, -9.8%) which retreated somewhat from the extraordinary multiples it reached in a reflexive defence trade in March.

Headwinds were led by our underweight in Ryman Healthcare (RYM, +17.6%) which we view as very expensive. We have vivid memories of the moderate housing market decline in the post-GFC period when Ryman's share price halved and Metlifecare fell by 80%. House prices are far more extended now and the economic shock is greater. The key will be to watch the build-up in unsold retirement units, with the enormous leverage in the retirement village model making this difficult to finance.

Other detractors were led by two names that are extremely hard hit by Covid-19 and which are yet to carry out any actions to repair their balance sheets, namely Air NZ (AIR, +58.2%) and Sky City (SKC, +42.5%). We were particularly bemused by the move of the former, which appeared to see retail investors being major net buyers and they are perhaps not aware of the highly dilutive nature of the Government debt package.

One interesting aspect to April was that the NZ market witnessed a modest reversal to the long running trend of large cap stocks outperforming smaller names. The S&P/NZX10 Gross rose by +6.9% versus the Mid Cap Gross return of +8.7% and Small Cap Gross of +17.5%. Using Jarden numbers, we estimate the NZ market to be an extremely high forward PE of 33.8x at month-end but the median PE is only 16.5x. That said, the usefulness of this is somewhat limited by it being a melange of Covid impacted earnings and a projected post-Covid rebound.