Salt NZ Dividend Appreciation Fund Fact Sheet – October 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 October 2019

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$89.0 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 October 2019

Application	1.5813
Redemption	1.5749

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 October 2019

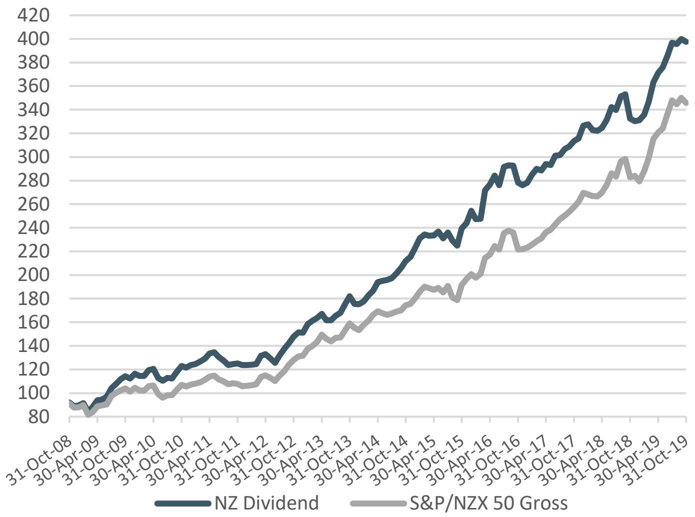
NZ shares	98.86%
Cash	1.14%

Fund Performance to 31 October 2019

Period	Fund Return*	Benchmark Return
1 month	-0.69%	-1.26%
3 months	0.03%	-0.64%
6 months	6.86%	7.73%
1 year	19.22%	23.26%
2 year p.a.	12.46%	15.08%
3 years p.a.	12.52%	15.73%
5 years p.a.	14.25%	14.90%
7 years p.a.	15.79%	15.40%
10 years p.a.	13.70%	12.87%
Inception p.a.	13.64%	11.94%

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 October 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	Fisher & Paykel Healthcare
Contact Energy	EBOS Group

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Summary

- **The Fund outperformed in the month of October, returning -0.69% compared to the -1.26% decline turned in by the S&P/NZX50 benchmark.**

- **The strongest tailwind came from the Fund's moderate holding in Marsden Maritime (MMH, +12.3%) which rose sharply as the case for a significant lift in the services provided at Northport takes shape.**

- **The good month came despite a -0.27% headwind from being overweight the high yielding gentailers.**

Monthly Equity Market Commentary

Central Banks continued to push the interest rate cut button over October with the Reserve Bank of Australia going on the 1st of October with a 25bps cut and the US Federal Reserve book-ending the month with a 25bp cut. These cuts were largely anticipated and expectations for further cuts increased given the soft economic data released over the month – both the US manufacturing and non-manufacturing ISM numbers were below expectations, US non-farm payrolls missed, as did average hourly earnings and the core US CPI for September was soft. Interestingly, the US has now returned to a positive yield curve with a slight steepening over the month.

The S&P500 had a strong month finishing up 3.3% driven by good Healthcare and Tech earnings results as well as hopes for positive developments in the US/China trade negotiations.

European equity markets rallied on the back of the positive mood in the US equity market, with Germany's DAX rallying 4.9% and France's CAC up 2.4%. The UK was weak (-1.5%) largely due to Brexit concerns.

In Australia, the S&P/ASX200 finished October down -0.4% with the fears of a global slowdown adding to concerns for the outlook of the domestic economy. As in the US, healthcare sector names performed strongly but tech names were very weak. The expectations for a positive outcome to the US China trade war and subsequent "risk on" was largely reflected through strength in the Australian dollar. As a result, the S&P/ASX200 was actually up +1.8% in US dollar terms.

The S&P/NZX50 Gross slid -1.3% during a month that was full dramatic events and news. Sky City and Fletcher Building were faced with a massive fire in the International Convention Centre building project which creates uncertainty around cost and time delays. Rio Tinto's announcement that it was considering closing its Tiwai Point smelter had a dramatic impact on the performance of the gentailers' share prices.

Monthly Fund Commentary

The Fund outperformed in the month of October, returning -0.69% compared to the -1.26% decline turned in by the S&P/NZX50 benchmark. This outperformance was as one would hope and expect given the low beta nature of the Fund typically sees it lag a little in rising markets but do relatively better in those seemingly rare periods when the market falls.

Contributors

The strongest tailwind came from the Fund's moderate holding in Marsden Maritime (MMH, +12.3%) which rose sharply as the case for a significant lift in the services provided at Northport takes shape. The first obvious steps are to move the Devonport dry-dock and at least some car import services but beyond that, there appears significant political willpower to make sizeable investments in the rail and roading network. MMH will benefit from both the port operations themselves and from their significant land holdings being developed.

Over notable positives were the underweight in Fletcher Building (FBU, -11.1%) and overweights in Metlifecare (MET, +8.1%) and Scales (SCL, +5.7%). Our high conviction position in Tower (TWR, +2.4%) provided a catch-up from the pain we had taken in September from its rights issue. The Fund benefitted from both its proportional rights allocation and a relatively aggressive sub-underwriting of the shortfall.

Detractors

The good month came despite a -0.27% headwind from being overweight the high yielding and gentailer sector. Our Contact Energy (CEN, -13.6%) overweight bore the brunt of the pain. The sector was hard hit by a combination of slightly higher bond yields but most particularly by Rio Tinto's threat to close the Bluff aluminium smelter unless it can get cheaper power prices. While the equity market reacted strongly to this, future wholesale power prices only fell slightly and it would seem that the smelter is free cashflow positive and has significant rehabilitation costs upon any closure. While not riskless, we tend to see this weakness as a buying opportunity.

The only other negative of note was the underweight in Fisher & Paykel Healthcare (FPH, +10.7%) which rose on a slight earnings upgrade due chiefly to an earlier than expected release of its new mask product and favourable short term forex moves. These were enough to spark aggressive momentum-based buying. We are wary of its extreme valuation and upcoming US competitive bidding changes which will likely hurt FPH as pricing moves in favour of machines relative to masks.

Portfolio Changes

Cash levels in the Fund fell slightly from 2.6% to 1.3% and went down further after month-end as the Fund participated in the Kiwi Property equity raising. Notable changes were otherwise minor, with Tower being added to in their rights issue, Genesis Energy was lowered and property added to as the sector weakened on both fundraising for KPG and due to higher bond yields.