Salt NZ Dividend Appreciation Fund Fact Sheet – January 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 31 January 2020

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$95.1 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 January 2020

Application	1.6779
Redemption	1.6711

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 January 2020

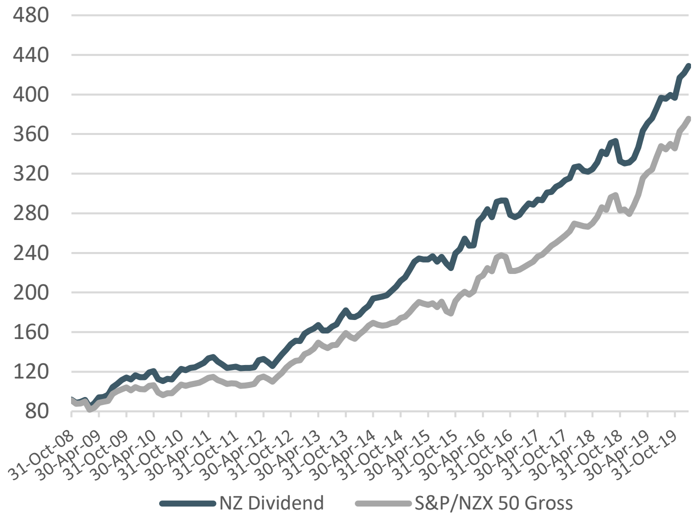
NZ shares	98.80%
Cash	1.20%

Fund Performance to 31 January 2020

Period	Fund Return*	Benchmark Return
1 month	1.76%	1.96%
3 months	8.09%	8.62%
6 months	8.12%	7.92%
1 year	27.67%	30.41%
2 year p.a.	14.38%	17.81%
3 years p.a.	14.61%	18.45%
5 years p.a.	13.14%	15.33%
7 years p.a.	15.28%	15.58%
10 years p.a.	14.11%	13.99%
Inception p.a.	13.70%	12.48%

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 31 January 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	Ryman Healthcare
Spark NZ	Mainfreight
Contact Energy	Auckland Intl Airport
Turners Automotive	Fisher & Paykel Healthcare
Investore Property	Ports of Tauranga

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Summary

- **The Fund marginally lagged its benchmark in January, returning +1.76% compared to +1.96% for the S&P/NZX50 Gross Index**
- **The largest tailwind was the Fund's sizeable overweight in Spark (SPK, +7.6%) that stood out in relative valuation and yield terms versus other "safe" dividend yielders such as property companies and the gentailers.**
- **Headwinds were led by our overweight in NZ Refining (NZR, -13.3%) which has been caught in an extended period of low refining margins and high shipping costs.**

Quarterly Equity Market Commentary

Coronavirus fears dominated global headlines and weighed on investor sentiment pushing the MSCI All World Index down by -1.2%. The Shanghai Composite Index fell -2.4% and Hong Kong's Hang Seng fell a sharp -6.7%.

Yields fell as investors sought safe havens, driving the US 10-year yield down 42bps to 1.50%. Yields in New Zealand fell from 1.65% to 1.30%, driven by the same forces.

Despite these lower yields, the S&P500 ended the month flat, whilst the NASDAQ rose by 2.0%. Commodities such as copper, iron ore and oil all fell by 10% or more, weighing on resource and energy stocks generally.

European markets were broadly weak with London's FTSE -3.4%, Germany's DAX30 -2% and France's CAC40 -2.7% on Chinese growth and trade concerns as President Trump pressed the EU on trade issues.

Australian stocks defied global weakness, with the S&P/ASX200 +4.6% rising sharply as Healthcare (+12%) and IT (+11%) soared despite a number of earnings downgrades, whilst other sectors benefited from lower bond yields, a surprise dip in the unemployment rate to 5.1% and continued signs the prices in the housing market are stabilising. JP Morgan analysis pointed to sharp outperformance by earnings and price momentum and underperformance by value factors.

NZ's S&P/NZX50 Gross Index rose by a solid +2.0%. The best performers were Pushpay (PPH +12%) on strong offshore buying, Fletcher Building (FBU +9%) on confidence the housing market is stabilising and Spark (SPK +8%) as investors sought 'safe' yield. The worst performers were Gentrack (GTK -47%) which announced a very negative earnings update, Tourism Holdings (THL -13%) given concerns regarding coronavirus, Australian bushfires and slowing tourism and New Zealand Refining (NZR -13%) on a continuation of weak refining margins.

Salt NZ Dividend Fund Commentary

The Fund marginally lagged its benchmark in January, returning +1.76% compared to +1.96% for the S&P/NZX50 Gross Index. This was satisfactory in the context of price and earnings momentum being the key explanatory factors that dominated performance in NZ and especially Australia.

Contributors

The largest tailwind was the Fund's sizeable overweight in Spark (SPK, +7.6%). This stake was purchased in the basis that SPK stood out in relative valuation and yield terms versus other "safe" dividend yielders in the market such as property companies and the gentailers. In a similar vein, Contact Energy (CEN, +4.3%) regained some of its previous sharp weakness although it will continue to fluctuate ahead of a final decision on the Bluff aluminium smelter. While CEN carries this risk, it stands out on relative valuation grounds versus peers.

Other notable positives came chiefly from what we didn't own or are underweight. Gentrack (GTK, -46.7%) delivered another profit warning; Sky City (SKC, -8.3%) weakened sharply late in the month due to earnings risks from coronavirus; Tourism Holdings (THL, -13,3%), Port of Tauranga (POT, -4.7%) and Mainfreight (MFT, -2.4%) all fell on similar fears.

Detractors

Headwinds were led by our modest overweight in NZ Refining (NZR, -13.3%) which generates sizeable free cashflows and dividends on mid-cycle assumptions but has been caught in an extended period of extremely low refining margins and high crude shipping costs. Despite coronavirus, margins are improving slightly as this piece is written although they remain well below normal. Other laggards were our large position in Tower (TWR, -3.5%) which fell on light volume for no discernible reason and our underweight in Fletcher Building (FBU, +9.0%) which rallied sharply on signs of a bottom in the NZ housing market although we still believe they are struggling in several areas.

Portfolio Changes

While the Fund's cash position was largely unchanged at a low 1.2%, volatility was used to make a number of adjustments to the portfolio. Metlifecare was sharply lowered as it traded at a full price relative to the takeover bid and this was switched into Oceania Healthcare, where private equity exited at an attractive discount. Fleeting strength was used to lower Auckland International Airport and Contact Energy a little, while we exited small holdings in Stride Property, Trustpower and Freightways. We used weakness to cover a degree of the underweights in Ryman Healthcare and Fisher & Paykel Healthcare and we covered off an underweight in Meridian Energy.