SALT

Funds Management

Salt NZ Dividend Appreciation Fund Fact Sheet – November 2018

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 November 2018

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$68.3 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 November 2018

Application	1.3380
Redemption	1.3326

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 November 2018

NZ shares	99.24%
Cash	0.76%

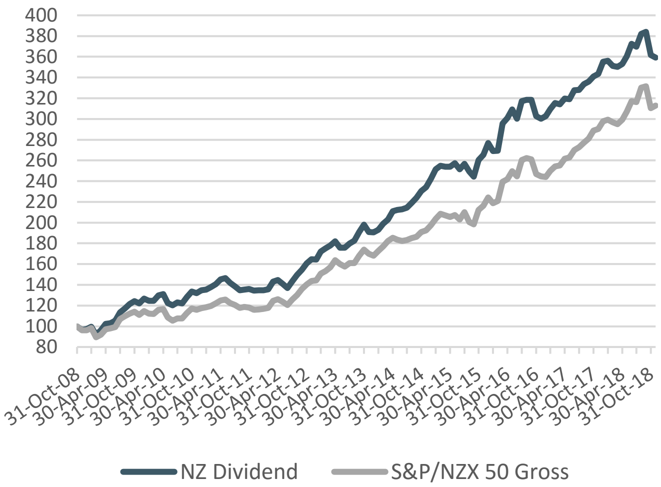
Fund Performance to 30 November 2018

Period	Fund Return*	Benchmark Return
1 month	-0.67%	0.81%
3 months	-5.94%	-5.26%
6 months	-0.32%	1.90%
1 year	4.64%	7.78%
2 year p.a.	9.38%	13.11%
3 years p.a.	10.63%	13.09%
5 years p.a.	14.17%	12.97%
7 years p.a.	15.59%	15.24%
10 years p.a.	14.41%	12.53%
Inception p.a.	12.81%	10.87%

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 fund with equivalent strategy and same portfolio manager.

Cumulative Fund Performance to 30 November 2018*



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
Investore Property	Ryman Healthcare
Scales Corporation	Auckland Intl Airport
Tower	Infratil
Turners Automotive Group	EBOS
Metlifecare	Mainfreight

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Monthly Equity Market Commentary

Summary

- The Fund declined by -0.67% during the month after all fees and expenses.
- Global equity markets saw a small rebound post the significant October sell-off.
- The strongest tailwind was our large underweight in Ryman Healthcare (RYM, -4%) whose result was typically opaque.

Global equity markets saw a small rebound post the significant October sell-off with the MSCI All World Index eking out at +1.3% gain. Largely dragged up by a rally in emerging markets (+4.1%) with the MSCI China in USD terms lead the pack (+7.1%) followed closely by strong rebounds in Turkey and Argentina.

Markets in the US extended losses seen in October with the S&P 500 down -2.2% and the Nasdaq down -2.4%. This masks the intra-month swing as markets drifted higher through the early part of the month only to fall a staggering -6.5% and -10% respectively as trade rhetoric picked up and there were indications in some corporate results of slowing consumer and housing demand. The market staged a late month rally as hopes of a trade deal rose and more importantly the Federal Reserve Governor Powell describing the Fed Funds Rate as closer to neutral, thus reducing expectations for hikes through 2019. As a result, the 10-year US Treasury yield, which reached a high of 3.24% early in the month, finished the month trading at 2.99%.

European markets extended the losses from October, with the UK FTSE100 ending the month down -1.6%, Germany's DAX -1.7% while France's CAC was down -1.7%. This was a mixture of continued UK political drama as Brexit dominates headlines, increased tensions around the Italian budget, riots in France, and early signs of a broader slowdown across the EU.

China's Shanghai Composite was down -0.6% in the month as a mix of local data suggested a continuation of a gradual slowdown as indicated by weak industrial profit growth and soft manufacturing and non-manufacturing PMI data as the trade dispute with the US continues to have an impact. Elsewhere in Asia, markets rebounded with the Hang Seng up +6.1% and Japan's Nikkei 225 up +2.0%.

The Australian S&P/ASX 200 Accumulation Index was down -2.2% with only Banks (+2.5%) and IT (+1%) in positive territory. Energy (-10.3%) suffered the biggest pullback as WTI Oil fell below $60, and Resources (-6.5%) fell on a slowing global growth outlook and Consumer Discretionary (-5.1%) was weak due to the continued fall in Australian house prices, with NSW and VIC seeing -9% and -5% declines respectively.

Despite global markets selling off, the S&P/NZX 50 Gross Index managed to post a +0.8% return for the month. The best performer was Trade Me (TME +26%) which received an indicative takeover offer at $6.40 which was quickly followed by a second bid of $6.45 by another hopeful private equity suitor. Air New Zealand was next (AIR +10%) as oil fell. The worst performers were Fletcher Building (FBU -21%) and Gentrack (GTK -11%) on guidance downgrades.

Monthly Fund Commentary

The Fund lagged its benchmark in November, declining by -0.67% after all fees and expenses compared to the +0.81% turned in by the S&P/NZX 50 Gross Index. Perceived defensiveness appeared to trump valuation in a "flight for safety" in what was another very volatile month for markets globally.

Detractors

Strong headwinds came from two overweights which had mediocre results and whose deeply beaten-down valuations provided no protection. Evolve Education (EVO, -26%) is now only a small holding (sub 0.5%) but has turned into a very disappointing saga. We bought in the days when it was a strong free cashflow generator which funded a solid dividend. Latterly, we had held for a turnaround of a business that has been poorly run and on the strong possibility that private equity interest in the sector could extend to EVO. This may have come close but has not eventuated outside the purchase of a strategic stake by the successful Australian investor, Chris Scott. Recent evidence does tentatively point to a stabilisation at weak levels but the balance sheet is now stretched.

Our medium-sized holding in Turners (TRA, -11%) came under heavy pressure post a result that was weaker than their earlier upbeat comments had suggested. While used car sales are holding up well, we underestimated the margin impact from a squeeze on car inventories due to greater difficulty and costs in sourcing Japanese imports. We remain major fans of TRA's unique vertical and horizontal integration in a highly fragmented industry with large profit pools. In the short term we have called the cycle wrong but in the long term we think this is a business on a sub 10x PE with many years of earnings and dividend growth ahead of it.

Other sources of pain came from being moderately underweight Trade Me (TME, +26%) which elicited an indicative takeover bid from private equity but which may have closure risks in a more difficult funding environment; having no holding in Infratil (IFT, +8%) which rose on the back of the perceived defensiveness of some of its investments; and being moderately overweight Sanford (SAN, -6%) which had a slightly weak result due to unusual climatic conditions that are unlikely to be repeated.

Contributors

The strongest tailwind was our large underweight in Ryman Healthcare (RYM, -4%) whose result was typically opaque. We did cover some near its lows intra-month but we remain concerned there is a sizeable overbuild occurring in the retirement village sector at a time when the domestic housing sector has peaked out. The harsh treatment meted out to Aveo Group in Australia illustrates what can happen when a highly geared balance sheet meets a slowdown in unit sales. The other main positive was our overweight in Tower (TWR, +4%) whose result was merely acceptable but is now getting close to a trigger point for possible corporate activity when Bain Capital's potential escalation payment expires in December. We owned no Gentrack (GTK, -11%) and were neutral in Fletcher Building (FBU -21%) which fell sharply post a weak AGM update.

Positional changes were limited. Weakness was used to move to a moderate overweight in Fletcher Building and a slight overweight in Sky City. Tilt was sold into the Infratil takeover bid.