SALT
Funds Management

Salt NZ Dividend Appreciation Fund Fact Sheet – January 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 January 2019

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 31 January 2019

Application	1.3596
Redemption	1.3541

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 2019

NZ shares	99.13%
Cash	0.87%

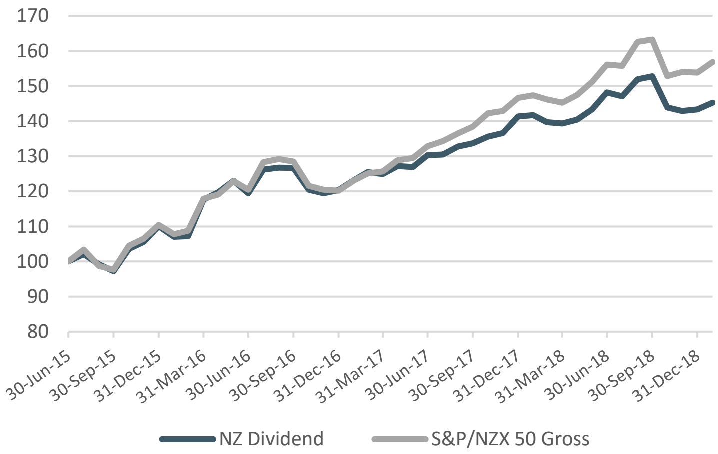
Fund Performance to 31 January 2019

Period	Fund Return*	Benchmark Return
1 month	1.32%	1.98%
3 months	0.93%	2.66%
6 months	-1.25%	0.71%
1 year	2.48%	6.44%
2 year p.a.	8.58%	12.89%
3 years p.a.	10.70%	13.35%
5 years p.a.	14.32%	13.01%
7 years p.a.	15.84%	15.40%
10 years p.a.	14.27%	12.47%
Inception p.a.	12.79%	10.88%

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

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Monthly Equity Market Commentary

Summary

- The Fund slightly returned +1.32% for January compared to the +1.98% for the S&P/NZX 50 Gross Index.
- In NZ, the S&P/NZX 50 Gross Index rallied +2.0%, which appears dull in comparison to global markets but it followed strong outperformance over 2018.
- Positives in the Fund were led by a small overweight in a2 Milk (ATM, +13.5%)

After a dismal performance in the final quarter of 2018, the MSCI World Accumulation Index surged +7.8% over January. Given currency movements, that translated to a slightly weaker return of +4.6% in NZ$ terms.

US markets started the new year with a sugar rush, with the S&P 500 rising +7.9% and the tech-heavy NASDAQ gained +9.7% primarily due to a significant change in tone from the Federal Reserve. In December the FOMC expected multiple rate hikes over 2019, now they are unsure of the direction of the next move. As a result, the market has gone from pricing in at least one rate hike in 2019 to at least one rate cut, thus providing a boost to equities. The economic weakness that prompted this change in tone appears to have been overlooked for now. The US Treasury 10-year yield ended the month at 2.64% and gold continued to rally, adding +3% in the month.

The US-China trade war started showing signs of thawing with a slower growth rate in China and a weak stock market in the US encouraging both sides to come to the table. China also announced a range of new fiscal and monetary stimuli to help lift a slowing economy. Asian markets reacted positively with the Hang Seng (+8.1%), the Shanghai Composite (+3.6%) and Japan's Nikkei 225 (+3.8%) posting positive returns. Europe similarly enjoyed a return to rising markets, with the FTSE 100 up +3.6% as May survived a Brexit related challenge, a more dovish tone from the ECB supported Germany's DAX30 (+5.8%) and France's CAC40 (+5.6%) managed to stage a recovery as rather disruptive 'Yellow Vests' protests started to subside.

The Australian indices posted a healthy rebound, with the S&P/ASX 200 Accumulation Index up +3.9%, partly on higher energy and commodities prices (e.g. Brent oil +13% in January) and a rebound in risk-taking appetite. With the fall in house prices and falling confidence, the dispersion in valuations for cyclicals and defensives has become increasingly stretched as investors appear focused on trying to avoid the next downgrade, while ignoring valuation. The market at the time of writing is pricing in a 50% chance of a 0.25% cut to interest rates from the RBA. The listed property vehicles performed well in this environment with the S&P/ASX 200 A-REIT Accumulation index up +6.2% in the month despite increasing evidence of cap rates reaching their lows and weaker foot traffic for retail.

In NZ, the S&P/NZX 50 Gross Index rallied +2.0%, which appears dull in comparison to global markets but it followed strong outperformance over 2018. The strongest performers were a2 Milk (ATM +13.5%) on good export data and a broker upgrade, Push Pay on a solid December quarter update (PPH +12.1%), whilst the biggest detractors were Kathmandu (KMD -12.8%) which gave a weak trading Christmas trading update and Air New Zealand (-9.4%) issued a profit downgrade on softer revenue growth.

Monthly Fund Commentary

The Fund slightly lagged its benchmark in a month that featured a sharp snapback from the December quarter gloom that had enveloped equity markets around the world. The return of +1.32% after all fees and expenses compared to +1.98% for the S&P/NZX 50 Gross Index benchmark. Overall, the month was characterised by very expensive large cap defensive stocks becoming even more expensive and this tended to weigh a little on the Fund which follows disciplines in terms of both valuation and dividend sustainability.

Contributors

Positives were smaller in nature and were led by a small overweight in a2 Milk (ATM, +13.5%) which we hold on the basis of its strong future dividend paying capability. Underweights in Fisher & Paykel Healthcare (FPH, -3.3%), Tourism Holdings (THL, -5.2%) and Ryman Healthcare (RYM, -2.4%) also assisted.

Detractors

The largest detractor from performance was having no holding in EBOS (EBO, +8.0%) which defied downbeat industry comments and weakness from its key Australian competitor, API. We are wary of EBO's highly extended valuation of a 21x forward PE ratio at a time when competition is ramping up in aspects of both their wholesale and retail businesses. EBO is still basking in the aftermath of winning the Chemist Warehouse supply deal but the full financial arrangements and whether this is ultimate value-adding remains to be seen – the losing incumbent, Sigma strongly suggested otherwise.

Another modest headwind came from the middling overweight in Metlifecare (MET, -4.0%) which fell on gathering concerns about the housing market outlook and the knock-on effects for retirement villages. This drag was largely offset by our underweights in other names in the sector and MET is by far the cheapest on any metric. Other laggards were having no holdings in Push Pay (PPH, +12%) and Infratil (IFT, +3.3%).

Portfolio changes were limited in what was a typically quiet January. Cash remained very low at 1.0%. Fleeting weakness was used to cover off a Spark underweight and re-enter Restaurant Brands on very attractive terms relative to the partial takeover bid. Mercury and NZ Refining were lightened.

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