SALT
Funds Management

Salt NZ Dividend Appreciation Fund Fact Sheet – June 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 30 June 2019

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$86.6 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 June 2019

Application	1.5382
Redemption	1.532

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 June 2019

NZ shares	98.63%
Cash	1.37%

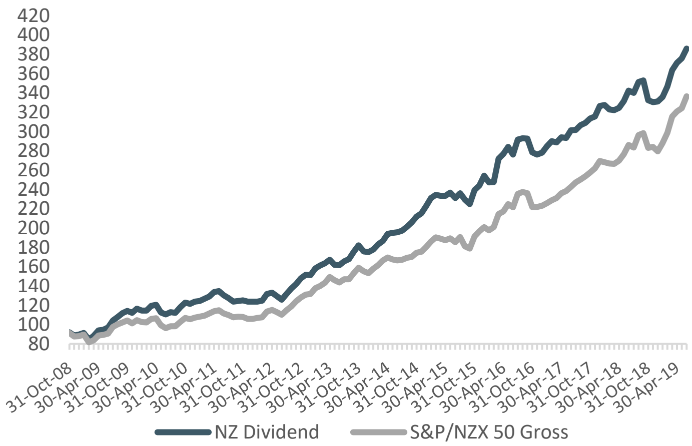
Fund Performance to 30 June 2019

Period	Fund Return*	Benchmark Return
1 month	2.67%	3.79%
3 months	6.10%	6.66%
6 months	16.41%	19.18%
1 year	12.64%	17.42%
2 year p.a.	13.16%	17.46%
3 years p.a.	11.78%	15.04%
5 years p.a.	15.35%	15.36%
7 years p.a.	17.97%	17.48%
10 years p.a.	15.24%	14.15%
Inception p.a.	13.76%	12.05%

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 30 June 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	Mainfreight
Turners Automotive	Ryman Healthcare
Investore Property	Goodman Property Trust
Sanford	Ports of Tauranga

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Monthly Equity Market Commentary

Summary

- The Fund advanced by +6.10% in the June quarter compared to the +6.66% turned in by the S&P/NZX50 benchmark.
- The MSCI World Accumulation Index dismissed concerns over slowing global growth given it surged through the month of June +6.6% to end the quarter +4.0%.
- The largest contributor was the Fund's long-standing overweight in Investore (IPL, +17.4%).

Markets soared like an aircraft propelled by falling rates through a turbulent trade-war cloud to close the June month and quarter largely in positive territory. The MSCI World Accumulation Index dismissed concerns over slowing global growth given it surged through the month of June +6.6% to end the quarter +4.0%.

US markets had somewhat of a rollercoaster ride in the second quarter, being up in April, down sharply in May followed by a strong recovery in June to close the quarter in positive territory. The key story has been the tit-for-tat trade war with headlines of negotiations advancing or failing driving markets. Markets surged late June when Trump and Xi agreed to resume negotiations at a recent G20 meeting. The S&P500 surged +5.7% in June reaching new highs to close the quarter up +3.8% and the Nasdaq rose 6.1% and +3.6% respectively. Expectations for the Federal Reserve to cut rates also increased.

Continued weakness in Eurozone inflation and reduced growth expectations led to a more dovish tilt at the ECB, driving European markets higher. Germany's DAX gained +5.7% in the month to close the second quarter up +7.6%, while France's CAC was +6.8% in June and 6.2% for the quarter. The UK saw Prime Minister Theresa May resign leading equities up +4% in June and +3.3% for the quarter.

The Shanghai Composite index was up +2.7% in June but ended the quarter down -3.6% reflecting the effect that trade wars are having on the growth outlook, despite recent moderate monetary and fiscal stimulus measures. Political tensions and riots did little to restrain Hong Kong's Hang Seng which was up strongly +6.1% in June although the effects of trade war uncertainty and slower China growth remain as the index ended down -1.8% for the quarter. It was similar in Japan with the Nikkei up +3.3% in June managing to eke out a small gain in the quarter of +0.3%.

Momentum in Australia continued in June with the S&P/ASX200 up +3.7% to close the quarter up +8%. A surprise election outcome in favour of the Liberals, a more supportive environment for lending with important tweaks by regulators and the Reserve Bank of Australia cutting rates by 50bps to 1% created a cocktail of rocket fuel to lift the index to within 2% of all-time highs.

The RBNZ reduced the OCR target by 25bps to 1.5% in May signalling a high likelihood of further cuts, driving NZ equities prices higher. The S&P/NZX50 rose +3.8% in June to end the quarter up +6.7%. Top performers in the quarter were Gentrack (GTK, +28%) on an in-line result, Vista (VGL, +24%) on a good result and outlook, and Auckland Airport (AIA, +21%) for no apparent reason other than falling bond yields. Key laggards were Tourism Holdings (THL, -17%) on downgraded earnings and a capital raise, Summerset (SUM, -16%) on a soft sales result and outlook, and Synlait (SML -13%) on a legal dispute over its Pokeno expansion. Using Jarden estimates, the year-ahead PE for the core NZ equity market (ex property) now sits at a quite remarkable 32.0x, while the median is somewhat lower at circa 19.0x.

Monthly Fund Commentary

The Fund advanced by +6.10% in the June quarter compared to the +6.66% turned in by the S&P/NZX50 benchmark. The low beta nature of the Fund would normally see it lag considerably during such a strong period. However, the sources of strength in the market were a little unusual in being a barbell of growth names, where the Fund was poorly placed, and large cap dividend yielders, where the Fund generally did well.

Contributors

The largest contributor was the Fund's long-standing overweight in Investore (IPL, +17.4%), which is finally seeing the strong theoretical valuation leverage of its ultra-long duration property assets be reflected in the market pricing. That said, the Fund moved from neutral to be moderately underweight property stocks overall as their phenomenal 31% surge over the last year has created a degree of overpricing. Valuations appear to be incorporating today's ultra-low discount rates in the denominator but forgetting to adjust the numerator for the lower future rental growth that likely accompanies this.

Other key overweights which worked well due to lower bond yields included Contact Energy (CEN, +15.3%) and Spark (SPK, +5.3%). From being underweight in the $4.20 region, we aggressively moved Spark up to be our largest overweight in the $3.60 region, with there being a record divergence between its yield and those of other low growth, low risk yielders such as the gentailers and property trusts.

A slightly offbeat contribution came from our small residual holding in Evolve Education (EVO, +43.8%). This was an error where we had failed to identify the weakness of former management, resulting in occupancy rates falling well below sector peers. This saw its formerly strong free cashflow and dividend yields dissipate rapidly. We reluctantly supported the 4.4/1 equity raising and the subsequent strong performance reflects the removal of solvency risk and the potential upside from Australian expansion. We are carefully exiting what is now a mere 0.25% holding.

Detractors

The largest headwind for the Fund was the underweight in Auckland Airport (AIA, +21.0%) which rose inexorably on what appears to be unending passive buying. The outlook for passenger growth continues to deteriorate, a Ministry of Transport paper cast doubt on the current benevolent regulatory framework and AIA has less than pure exposure to falling bond yields. Our error has been to think that fundamentals matter in the short term in the face of the passive tidal wave.

Other notable headwinds came from underweights in surging growth stories such as Mainfreight (MFT, +13.5%) whose results are yet to be buffeted by a sharp slowdown in global trade volumes; and having no holding in Ports of Tauranga (POT, +16.8%) also proved painful as it surged despite a tepid fundamental backdrop.

The portfolio saw a number of changes over the quarter. The completion of takeover bids saw Methven and Trademe exit the Fund. Corporate actions were used to initiate new holdings in Arvida and Infratil. Weakness was used to lift Spark, Tower, NZ Refining, Z Energy and Sanford, while strength was used to lighten Fletcher Building and Scales.