Salt NZ Dividend Appreciation Fund Fact Sheet – December 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 December 2019

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$94.7 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 December 2019

Application	1.6489
Redemption	1.6422

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 December 2019

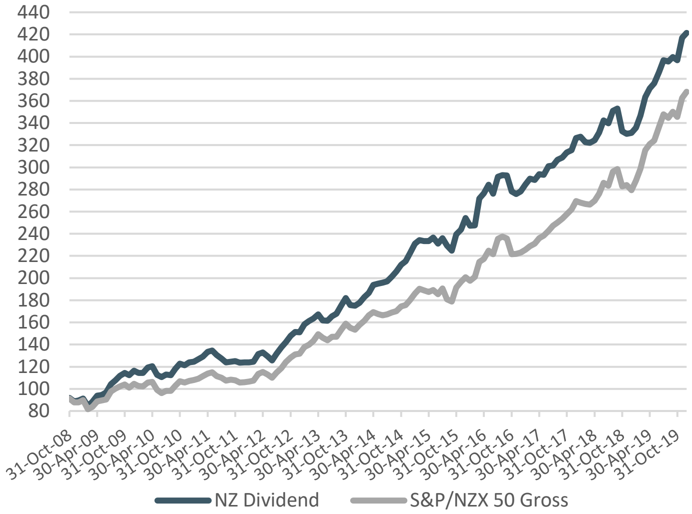
NZ shares	98.44%
Cash	1.56%

Fund Performance to 31 December 2019

Period	Fund Return*	Benchmark Return
1 month	1.08%	1.55%
3 months	5.49%	5.18%
6 months	9.20%	9.44%
1 year	27.12%	30.42%
2 year p.a.	13.55%	16.98%
3 years p.a.	14.81%	18.64%
5 years p.a.	14.53%	15.59%
7 years p.a.	16.45%	16.00%
10 years p.a.	14.19%	13.53%
Inception p.a.	14.05%	12.39%

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

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

Quarterly Equity Market Commentary

Global markets responded well to the detail-light phase one trade deal between the US and China, with most markets enjoying a bounce in December to add to already strong calendar year returns. The MSCI World Accumulation Index ended surged 8.6% over the December quarter. ending 2019 up 27.7%.

Key US indices posted strong quarterly numbers, shrugging off trade noise around steel tariffs, Trumps impeachment and inflation data. They were driven by strong November payrolls, industrial production and housing starts data and a phase one trade deal between the US and China. The S&P500 rallied +2.9% to have its best year since 2013 at 28.9% while the NASDAQ did slightly better, being +3.5% for the quarter and +35.2% for the year.

European markets were dragged up by general optimism, with France's CAC40 +5.5% and Germany's DAX +6.6% for the quarter, to end the year up 30.5% and 25.5% respectively. The UK's FTSE100 rose by 2.7% in the quarter, to return +17.3% in its best year since 2016 buoyed by the strong election outcome in favour of Boris Johnson.

Asian markets followed suit, also aided by stronger than expected macro data out of China. Japan's Nikkei and Hong Kong's Hang Seng both rose by 8% in the quarter although Hong Kong's performance for 2019 of +9% reflects the impact of the local political unrest.

The Australian market bucked the global trend and fell 0.9% in the quarter, although the advance for calendar 2019 of +18.4% was the best since 2009. The most significant laggard was Financials (-8%) with further fines and regulatory issues coupled with stricter capital requirements from the RBNZ, while Healthcare (+11.7%) was the strongest performing sector.

The S&P/NZX50G gained +5.2% over the December quarter to lift the calendar 2019 return to +30.4%. The biggest winners were Metlifecare (MET +53%) on a takeover offer, which catalysed buying across the sector with Summerset (SUM +34%), Arvida (ARV +31%) and Oceania (OCA +29%). The biggest detractors were Sky Television (SKT -37%) and Gentrack (GTK -28%) on disappointing results, and Westpac (WBC -19%) due to turmoil related to AUSTRAC claims leading to changes in management and a capital raise.

Salt NZ Dividend Fund Commentary

The Fund outperformed its benchmark in the December quarter, with its return of +5.49% outpacing the +5.18% turned in by the S&P/NZX50 Gross index. This was pleasing given the low beta nature of the Fund generally sees it struggle to keep pace in periods when the market is rising strongly.

The Fund did well out of the NZ retirement village sector thanks to the overweights we had built up in Metlifecare (MET, +53.1%) and Oceania Healthcare (OCA, +22.2%). We had bought much of these holdings when the stocks were somewhat friendless in the June to September period, with MET trading in a range of $4.30-$4.50 compared to the somewhat fortunate takeover bid that came in at $7.00 during the month. The two lessons from this were that you make your luck by playing in the right places and that these names were very weak when the Auckland housing market had only slowed down slightly, with the rest of the country still being strong. This points to the potential risk that exists if there is ever a sustained housing pullback and the premium multiples attached to the rapid developers, Ryman (RYM, +23.5%) and Summerset (SUM +34.4%), come under scrutiny.

Other notable tailwinds were led by our overweight in Marsden Maritime (MMH, +28.2%) where our somewhat early view on the merits of Northport are becoming more widely shared. While it will likely be a very considerable period before any meaningful container volumes move from Auckland to Northport, we see a far earlier move of the Devonport dry-dock as being highly likely. Car import volumes are also an interesting opportunity. By themselves, these would be meaningful relative to Northport's current volumes and as a catalyst for developing MMH's major land holdings.

The Fund also benefitted from an initial underweight in Ebos (EBO, -3.0%), where we moved to a moderate overweight by participating fulsomely in a large sell down at its lows. Other positives came from overweights in Sanford (SAN, +19.0%), Tower (TWR, +9.2%) and Turners (TRA, +9.5%).

The largest headwinds came from our two main underweights in the form of Ryman (RYM, +23.5%) and Fisher & Paykel Healthcare (FPH, +29.3%). While RYM has totally decoupled from any cashflow based valuation, the move was perhaps understandable in the short term given the improvement in housing market sentiment and the bid for Metlifecare – albeit this bid is at 1.0x book value versus the 3.4x multiple that RYM trades at.

The surge in FPH left any reasonable valuation metrics far behind and appeared to be driven by the sheer weight of momentum driven investment. The forward PE of 47.8x is clearly extended and compares to Resmed's 37.8x. FPH had previously been in downgrade mode for several years but has now shifted to a moderate upgrade path albeit a portion of this is low quality from a weak NZ$, new R&D tax credits and a slightly earlier mask release than had been guided.

Other headwinds were smaller in magnitude and were led by an underweight in Port of Tauranga (POT, +23.1%). The POT share price rose by +59% over the 2019 year but our 2020 forecasts rose by a mere +2.5% for revenue, +3.6% for EBITDA and actually fell -0.9% for EPS. Our Mainfreight (MFT, +7.1%) underweight defied a somewhat soft result and our Contact Energy (CEN, -18.5%) overweight fell back sharply due both to Rio Tinto's threatened closure of the Bluff aluminium smelter and also to CEN not being included in the MSCI Index as had been expected in some quarters.

Portfolio changes saw advantage taken of the considerable deal activity in the quarter. Kiwi Property was moved from under to overweight, and along with the Investore raising, this saw the Fund move from under to overweight listed property. This was partially offset by lightening Precinct into strength. Ebos was moved to overweight from zero and Tower was lifted in its deeply discounted rights issue. Infratil and Oceania were other names added to, while Chorus, Meridian Energy, Z Energy and Spark were lightened into strength. The latter remains a solid overweight based on strong relative valuation appeal. We exited Arvida and Genesis Energy, while we added a small new holding in Millennium & Copthorne at less than half of its ungeared NTA.