SALT
Funds Management

Salt NZ Dividend Appreciation Fund Fact Sheet – April 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.

Benchmark

S&P/NZX 50 Gross Index

Fund Assets at 30 April 2018

$57.3 million

Strategy Assets at 30 April 2018

$137.5 million

Includes all Funds and separately managed accounts that employ the same investment strategy as the Salt NZ Dividend Appreciation Fund.

Inception Date

30 June 2015

Portfolio Manager

Matthew Goodson, CFA

Unit Price at 30 April 2018

Application	1.3613
Redemption	1.3557

Investment Guidelines

The guidelines for the NZ Dividend Appreciation Fund are shown below:

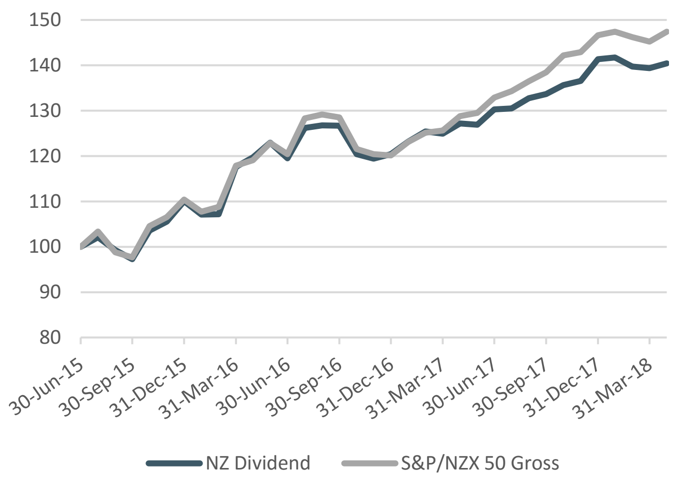
NZ shares	95% – 100%
Cash	0% – 5%
Unlisted securities	0% – 5%
Maximum active position	8%

Fund Performance to 30 April 2018

Period	Fund Return	Benchmark Return
1 month	0.76%	1.50%
3 months	-0.91%	0.02%
6 months	3.53%	3.65%
1 year	10.41%	14.43%
2 year p.a.	8.31%	11.26%
Inception p.a.	12.73%	14.69%

Performance is after all fees and does not include imputation credits or PIE tax.

Cumulative Fund Performance to 30 April 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.

Fund Allocation at 30 April 2018

NZ shares	99.91%
Cash	0.09%

Top Overweights	Top Underweights
Turners Automotive Group	Ryman Healthcare
Tower	Mainfreight
Investore Property	Trade Me
Scales Corporation	Infratil
Metlifecare	Ports of Tauranga

Monthly Equity Market Commentary

The MSCI World Accumulation Index ended the month up +1.1% which was not enough to bring the index into positive territory for the year. In the US the S&P 500 eked out a mild +0.3% return for the month, after two negative months. This was despite starting April on the backfoot as trade tensions ramped up between the US and China with rhetoric being followed quickly with planned tariffs which will hurt export earners, as well as the 10-year Treasury Bond Yield trading slightly over 3% momentarily driven by continued broad economic momentum. US inflation readings have now ticked up to the targeted 2.0% level and even a touch above depending on the measure.

Over the month the key Asian markets reflected the US-China trade war tensions whilst reflecting a significant de-risking of potential conflict on the Korean Peninsula. The Shanghai Composite fell -2.7%, whilst the Japan Nikkei 225 enjoyed a strong +4.7% month and Hong Kong's Hang Seng returned +2.4%. European markets rebounded after a weak start to the year with Germany's DAX +4.3%, France CAC +6.8% and the UK's FTSE +6.4% on continued broad-based economic recovery.

In Australia the S&P/ASX 200 Accumulation Index had a strong month up +3.9% driven by Energy and Materials mostly. The index was up approximately +5.7% excluding Financials which eked out a +0.1% gain in the month as the negative Royal Commission news-flow reached a higher level of intensity and fears arose over the quality of some mortgage lending. Oil stocks lifted as Brent crude rose 9% and most metals rose with Aluminium (+14%) being supported by potential sanctions by the US on the key global producer, Rusal.

The New Zealand equity market enjoyed a reasonable return of +1.5% over the month, with the best performers being Synlait Milk (SML, +19.2%) which announced a small capacity expansion and delivered a strong albeit one-off result in late March and Fletcher Building (FBU, +9.3%) which undertook a significant equity raising to address any issues created by its construction division losses.

Monthly Fund Commentary

The Fund slightly lagged a relatively positive market over the month of April, rising by +0.76% after all fees and expenses compared to the +1.50% of the Index. A couple of modest (and we believe temporary) headwinds combined with an absence of any major positives to deliver the moderate lag.

The largest negative was an overweight in AMP Limited (AMP, 19.3%) which has a dual listing in NZ. We had previously exited the position into former strength in Australia but re-entered on weakness just prior to the surprising revelations in the Australian Royal Commission Enquiry, which saw a further 15% lopped off the share price. We have found over the years that when a robust response occurs in these sorts of situations, then the worst of the damage can be alleviated. In our view the share price decline is out of all proportion to the direct issues themselves. At a forward PE of just 11.8x, AMP now appears priced for significant difficulties that recent rapid changes to management and the Board may avert.

The other headwind of note was a further rise in Synlait Milk (SML, +19.2%) to levels that appear quite extraordinary for a milk processing business that has some risks from the deal that its key customer a2 Milk has done with Fonterra. SML delivered a strong result in late March but this was due to surprisingly high gross margins thanks to volatile seasonality and commodity related factors that aligned in their favour but are unlikely to be repeated. NZ milk products are all the rage at present but SML is a processor rather than a brand-owner and is on a forward PE of 25x at a time when there is considerable new entry.

Other negatives were limited but the Fund also had fewer relative positives than there have been in quite some time. The small overweight in Tilt (TLT, +7.8%), the underweight in Fisher & Paykel Healthcare (FPH, -3.4%) and the zero-weight in Pushpay (PPH, -7.0%) are the only movements worth mentioning.

Cash levels closed the month at an unusually low 0.2% although this was a temporary blip and they returned to more normal 2.0% levels post month-end. The Fund participated in the Fletcher Building equity raising but did move from neutral to a slight underweight into subsequent strength. A small residual position in Vista was exited, Mercury was lightened, while we lifted Precinct Properties on weakness.