

SALT

Salt NZ Dividend Appreciation Fund Fact Sheet – May 2021

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 May 2021

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	\$102 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 May 2021

Application	1.755
Redemption	1.7479

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%
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Fund Allocation at 31 May 2021

NZ shares	98.62%
Cash	1.38%

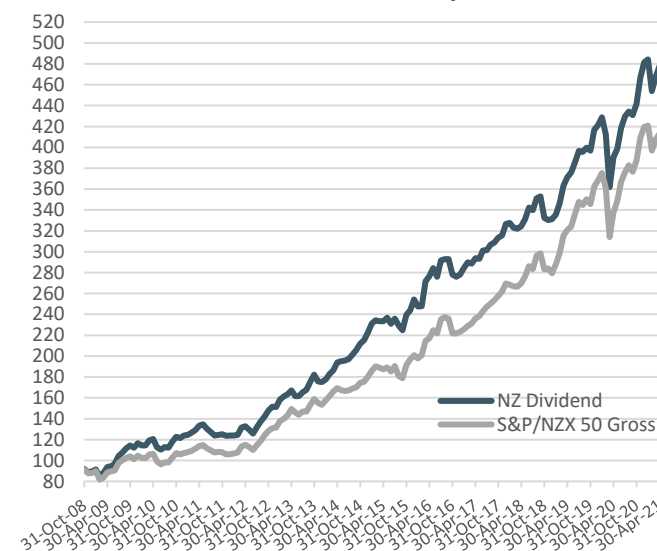
Fund Performance to 31 May 2021

Period	Fund Return*	Benchmark Return
1 month	-2.67%	-3.22%
3 months	2.47%	0.76%
6 months	-0.36%	-3.51%
1 year	16.69%	13.21%
2-year p.a.	11.24%	10.35%
3 years p.a.	11.94%	12.47%
5 years p.a.	10.34%	11.84%
7 years p.a.	13.21%	13.18%
10 years p.a.	13.19%	13.26%
Inception p.a.	12.89%	11.54%

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 May 2021*



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
Turners Automotive	Ryman Healthcare
Tower	Ports of Tauranga
Spark NZ	Fisher & Paykel Healthcare
Marsden Maritime Holdings	Goodman Property Trust
Oceania	Auckland International Airport

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Monthly Equities Market Commentary

Globally, economic growth was strong over May, though markets were more subdued reflecting an already solid start to the year and ongoing concerns about rising inflation and the extent to which it reflects fundamental, rather than transitory factors.

Economic activity continued to benefit from the rollout of vaccines and the easing of Covid-related restrictions. However, the pace of vaccination slowed in many countries leaving them vulnerable to a resurgence in the virus. A fresh outbreak of infections in India has been particularly troublesome, bringing the Indian health system to breaking point.

Economic activity continues to be supported by significant monetary and fiscal support. This is adding to the release of pent-up demand as economies open. The demand pressure is in turn leading to significant supply bottlenecks, with significant inflationary consequences. Central banks are generally seeing this inflation as transitory.

Developed world equities posted a 1.3% gain over the month and 38.5% for the year, as measured by the MSCI World Index in USD.

In the United States GDP data showed a gain of 6.4% in the March quarter with private consumption leading the charge. The first quarter earnings season was stronger than anticipated with S&P 500 companies reporting earnings growth of 47% y/y relative to consensus expectations of 20% growth. The S&P 500 rose 0.5% over the month to be up 38.1% over the year. 10-year Treasury yields fell 7 basis points in May to 1.6%, but remain around 90 basis points higher than year ago levels.

After a slow start, vaccination efforts are stepping up in Europe leading to expectations of a relaxation of Covid restrictions and a strong economic rebound later this year. Forward looking economic indicators support the recovery story. Europe was thus one of the best performing regions from an equity market perspective over the month. The German Dax rose 1.9% in May while the MSCI Europe ex UK rose 2.8% over the month. The UK's FT100 rose 0.8% over the month and 15.6% over the year,

The Australian index rose 1.6% over the month and 26.1% over the year. Economic activity data has remained strong, though a further Covid-related lockdown in Melbourne poses a risk to the near-term economic outlook.

The NZ economy is performing well but the share market has continued its recent weakening trend, reflecting higher bond yields. The S&P/NZX50 index fell -3.4% (-3.2% including imputation credits) in May to be up 10.8% for the year, though down around 10% from its peak in January. 10-year bond yields rose 15 basis points over the month and 98 basis points over the year to 1.80% as at the end of May.

Salt NZ Dividend Fund Commentary

The Fund delivered a solid month of relative performance in May, falling by -2.67% compared to the -3.22% decline by the S&P/NZX50 Gross Index.

By far the strongest contributor to the outperformance was yet again the large, long-standing overweight in Turners (TRA, +10.8%). TRA delivered a very strong result and stated that Q1 trading is running well ahead of the pre-Covid comparative period. TRA's vehicle sourcing advantages relative to their fragmented competitors have positioned them well in the current unusual period of car shortage, while their finance book is enjoying unusually low levels of bad debts. These circumstances won't last forever but when normality returns, TRA will have offsetting upside from greater car sales seeing greater attachment of finance and insurance sales. In addition, their debt collection business will hopefully move out of the doldrums. Meanwhile, TRA is generating strong free cashflow and investing part of that for growth, while using the remainder to pay a high and growing dividend yield.

The second main driver was the underweight in the low yielding Fisher & Paykel Healthcare (FPH, -17.1%). While their result was exceptionally strong, that was well and truly expected and the market soured on the likely longevity of the earnings boost from their positive exposure to Covid-19 treatments. The final stand-out was the underweight in Ryman Healthcare (RYM, -7.6%) whose result underwhelmed and where increasing focus is moving to their fully geared balance sheet.

The overweight in Tower (TWR, -16.7%) was the biggest detractor by quite some distance. They downgraded profit forecasts due to a combination of an unusual number of house fires and a claims cost inflation cycle getting under way. The former accords with data showing house fires to be volatile from period to period and should have a PE of 1x attached to it. The latter is more concerning as it takes time for TWR to re-price its policies as they mature over the year ahead. The basic attraction of TWR remains unchanged. Namely, a balance sheet awash with capital combined with a competitive advantage from their EIS tech backbone allowing them to enjoy strong operating leverage as they grow inorganically and organically. It will take time for their large Australian-based competitors to catch up.

At month-end, we estimate the Fund has a forward gross dividend yield of circa 3.9%, which compares to our estimate of 3.0% for the benchmark.

Matthew Goodson, CFA

