SALT

Funds Management

Salt NZ Dividend Appreciation Fund Fact Sheet – July 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 July 2019

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$88.4 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 July 2019

Application	1.5809
Redemption	1.5745

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 July 2019

NZ shares	98.21%
Cash	1.79%

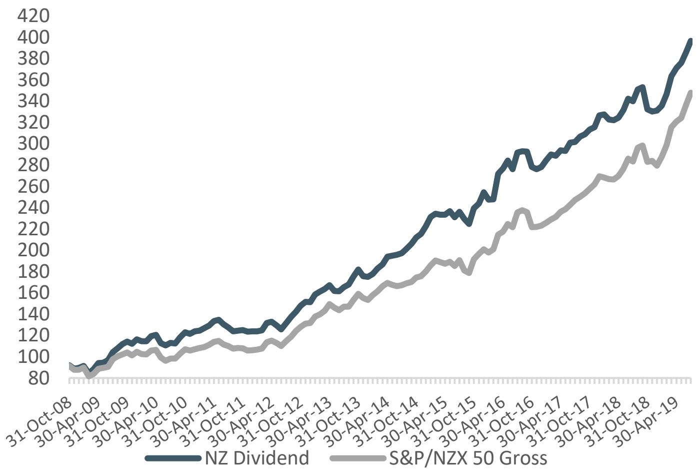
Fund Performance to 31 July 2019

Period	Fund Return*	Benchmark Return
1 month	2.77%	3.40%
3 months	6.83%	8.43%
6 months	18.08%	20.84%
1 year	16.60%	21.70%
2 year p.a.	14.64%	18.79%
3 years p.a.	10.77%	13.90%
5 years p.a.	15.85%	16.01%
7 years p.a.	17.65%	17.34%
10 years p.a.	14.71%	13.67%
Inception p.a.	14.06%	12.40%

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 31 July 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	Ryman Healthcare
Turners Automotive	Mainfreight
Investore Property	Goodman Property Trust
Sanford	Fisher & Paykel Healthcare

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Monthly Equity Market Commentary

Summary

- The Fund advanced by +2.77% in the month of July compared to the +3.40% turned in by the S&P/NZX50 benchmark.
- New Zealand equities rose strongly, with the S&P/NZX50 +3.4% in the month, lifting the year to date return to a staggering +23.2% as the biggest companies continued to outperform.
- The largest contributor was the Fund's Overweight in ATM which had a monthly return of 22.8%.

Global equities as measured by the MSCI World Accumulation Index posted a modest positive return in July of +0.5%, bringing the year to date performance to +17.6% despite slowing economic growth.

In the US, the Federal Reserve lowered the central reference rate by 25bps in light of muted inflation and concern over the implications of global developments for the economic outlook. The reduction was less than markets had anticipated and thus was met with selling on the day. However, the S&P500 still managed to eke out a return of +0.5% and the NASDAQ was up +1%. The US 10-year treasury yield closed the month at largely unchanged at 2.01% but has rallied sharply since then.

European stocks were mixed as the UK's Boris Johnson succeeded in becoming Prime Minister and the FTSE100 outperformed neighbouring markets, returning +1.2% in the month. In mainland Europe, confirmation Christina Lagarde would replace Mario Draghi at the helm of the ECB initially boosted stocks given the widespread belief she would lead a new round of aggressive stimulus but stocks fell in Germany and France on weak economic data. Germany's DAX closed the month down -1.7% and France's CAC -0.3%.

The Shanghai Composite index fell -1.6% as the market digested a lack of progress on the US-China trade dispute, falling PMIs and industrial profits as well as Q2 GDP growth data that was a touch behind expectations at +6.2%. Hong Kong's Hang Seng fell in sympathy by -2.7% over the month, weighed by the slowing growth of its biggest neighbour and also from disruptions related to the ongoing and increasingly alarming protests taking place.

Australia had its seventh positive month in a row in July with the S&P/ASX200 up +2.9% with all GIC sectors positive, bringing the year to date return up to +23.2% and finally pushing through the index's pre-GFC high 12 years earlier. The market was buoyed by further stimulus in the form of the RBA cutting rates by 25bps to 1% and the Australian 10-year yield slid to an all-time low of 1.19%.

New Zealand equities rose strongly, with the S&P/NZX50 +3.4% in the month, lifting the year to date return to a staggering +23.2% as the biggest companies continued to outperform. The largest constituent and biggest contributor was a2 milk (ATM +22.8%) on solid volumes and improved pricing which dragged up Synlait Milk (SML +9.2%). Ryman Healthcare (RYM +9.8%) rose surprisingly despite competitors citing a challenging operating backdrop. Key detractors were Gentrack (GTK -14.5%) on a disappointing downgrade, Pushpay (PPH -12.8%) on apparent transition flows and a founder sell-down and Auckland Airport (AIA -5.5%) as the market starts to digest weakening passenger numbers.

Monthly Fund Commentary

The Fund rose by +2.77% in the month of July compared to the +3.40% turned in by the S&P/NZX50 benchmark. The low beta nature of the Fund has seen it modestly lag what has been the most powerful bull market in decades but we remain well placed as this enters an increasingly frail old age.

Over the last three years, the style factors which have outperformed in NZ have been led by "price momentum" and "earnings momentum", while "value" has lagged horribly. This combination has been very much the case globally. As a reminder, this Fund is neither "value" nor "growth" - what it seeks to own are companies which pay sustainable and preferably growing dividends, with this payment providing a window on a company's underlying free cashflow generation and growth. Typically, such funds outperform strongly in bear markets, outperform moderately in normal markets and lag strong bull markets. Our experience is true to label.

An interesting factor which the Fund has been slow in picking up over the last year has been remarkable outperformance by "size" as a factor. Splitting the S&P/NZX50 into groups of 10 ranked by size, the ten largest companies have risen by a simple average of +26%, the next ten by +16%, while numbers 21 through 50 have actually fallen on average. The bull market has been confined to large companies and there has been a quiet bear market in everything else. We suspect this reflects a mix of passive flows, relative earnings downgrades and shrinking research coverage. With the forward PE for the market now being circa 30x versus a median of circa 18x, we are certainly seeing more opportunities at the mid cap end of the spectrum but we are conscious of being aggressive when large cap opportunities do rarely arise.

Contributors

Tailwinds were led by our modest overweight in a2 Milk (ATM, +22.8%) which doesn't currently pay a dividend but most certainly has the capacity to do so and we expect will pay one in our forecast timeframe. The large underweight in Auckland Airport (AIA, -5.5%) was the other stand-out as it finally came under a degree of modest pressure as earnings downgrades from declines in passenger growth forecasts began to feed through. Smaller positives were underweights in Pushpay (PPH, -12.8%) and Gentrack (GTK, -14.5%).

Detractors

Headwinds for the Fund were led by three underweights which all have low yields, moderate to no free cashflow generation and are very expensive in our view – these comprised Ryman (RYM, +9.8%), Ebos (EBO, +7.7%) and Fisher & Paykel Healthcare (FPH, +6.7%).The performance of RYM was in marked contrast to its industry peers and over the last year, RYM has returned +8% versus -26% for Summerset and -27% for Metlifecare. RYM has the least disclosure, is the most geared and is by magnitudes the most expensive.

Portfolio changes were minor, with the Fund selling ANZ Bank and lightening Westpac as falling cash rates and flattening yield curves portend a more difficult outlook for banks that is at odds with their recent share price strength. Cash levels remained relatively low at 2.0%.