SALT

Funds Management

Salt NZ Dividend Appreciation Fund Fact Sheet – July 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 31 July 2018

$70.5 million

Strategy Assets at 31 July 2018

$149.2 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 31 July 2018

Application	1.4031
Redemption	1.3974

Investment Guidelines

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

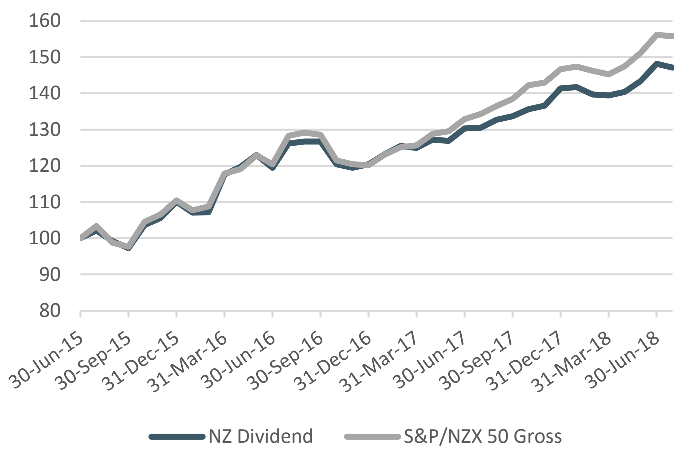
NZ shares	95% – 100%
Cash	0% – 5%
Unlisted securities	0% – 5%
Maximum active position	8%

Fund Performance to 31 July 2018

Period	Fund Return	Benchmark Return
1 month	-0.72%	-0.24%
3 months	4.73%	5.67%
6 months	3.78%	5.69%
1 year	12.72%	15.96%
2 year p.a.	7.96%	10.19%
3 year p.a.	12.93%	14.65%
Inception p.a.	13.33%	15.47%

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

Cumulative Fund Performance to 31 July 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 31 July 2018

NZ shares	97.18%
Cash	2.82%

Top Overweights	Top Underweights
Investore Property	Ryman Healthcare
Turners Automotive Group	Infratil
Tower	Mainfreight
Scales Corporation	EBOS Group
Metlifecare	Fisher & Paykel Healthcare

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

Monthly Equity Market Commentary

Summary

- The Fund lagged its benchmark in July, declining by -0.72% compared to the -0.24% recorded by the Index.
- Global markets generally recorded strong gains over the month of July however, relative to international equity markets, the S&P/NZX 50 Gross Index lagged.
- All eyes are on the upcoming reporting season for those companies with a June balance date. Given weak recent business confidence surveys, a keen focus will be on any evidence of increasing cost pressures from elements such as rising petrol and labour input costs.

Global markets generally recorded strong gains over the month of July. Within European markets, Germany and France led the way with the German DAX 30 and French CAC40 returning a positive +4.1% and 3.5% respectively, both bouncing back from a tough June. Over in the US, the S&P 500 was strong, returning +3.7% in a month where the widely followed US 10-year yield hit a high of 2.99%, before settling a few points lower at 2.96% at month's end.

July contained the second quarter reporting season for many US and European stocks with close to 60% of companies having reported at the time of writing. According to JP Morgan research, 86% of S&P 500 companies beat analyst consensus earnings per share estimates. This was the highest level recorded in the nine years JP Morgan have been tracking the data. While the current business cycle is arguably long in the tooth, favourable economic conditions continue to provide a platform for earnings growth. At the top line, S&P 500 sales growth was up 10% on the prior year, alongside robust earnings and dividend growth. Meanwhile, in Europe the cyclicals continued to outperform with sales growth +8%, and defensives flat-to-slightly negative.

At a higher level, the "trade war" dispute between China and the USA continued to escalate over the month providing plenty of headlines. The US published a list of $200bn in Chinese imports, beginning a legal process that sees these imports become subject to a 10% tariff. Total imports into the US from China are estimated to be worth $500bn. To date, President Trump has indicated via social media that up to 80% of these may be subject to tariffs. From a Chinese standpoint, the initial retaliation came in the form of reciprocal tariffs on $34bn of US exports. However, a larger focus is now centred on monetary policy. The Chinese reserve rate cut announced late in June, served to lower domestic money market rates in an attempt to support domestic demand and also saw sharp accompanying weakness in the Yuan. The Shanghai Composite Index finished the month positive, returning +1%, after falling -8% in June.

Closer to home, The Australian S&P/ASX 200 Accumulation Index returned +1.4% led by telecoms and industrials returning +7.9% and 3.5% respectively. The laggards were consumer staples -0.5%, and Utilities -1.4%. The utilities sector was negatively impacted by a report released by the competition regulator which proposed a major shake-up of the industry including market intervention and default retail pricing.

Relative to international equity markets, the S&P/NZX 50 Gross Index lagged, returning a negative -0.24% for the month. EBOS (EBO, +12.5%) announced they had won a material distribution contract with Chemist Warehouse which saw the share price leap. Kathmandu (KMD, +5.8%) maintained positive share price momentum after the favourable trading update released in June. At the other end of the performance table, a2 Milk's (ATM, -8.7%)) share price continued to drift off. Locally, all eyes are on the upcoming reporting season for those companies with a June balance date. Given weak recent business confidence surveys, a keen focus will be on any evidence of increasing cost pressures from elements such as rising petrol and labour input costs. The divergent impact of a weaker NZD will also be a point of interest.

Monthly Fund Commentary

The Fund lagged its benchmark in July, declining by -0.72% compared to the -0.24% recorded by the Index. It was an extremely quiet month for the market, which largely held at a record forward PE ratio of 24.7x despite business confidence surveys pointing to gathering weakness in the economy generally and firms' profitability outlooks specifically.

Contributors

Positives were of modest size, with zero-weights in Tourism Holdings (THL, -8.3%) and Synlait Milk (SML, -4.9%) being helpful. We continue to view SML as being dramatically over-priced on any analysis of free cashflow generation, but it benefits from the halo-effect of producing for a2 Milk. Our Investore Property (IPL, +2.0%) overweight gained, with IPL pleasingly committing to a value-accretive share buyback programme just after month-end.

Detractors

The only headwind of major note for the Fund was having no holding in EBOS (EBO, +12.5%) which rose sharply on winning the major trans-Tasman wholesale supply contract with Chemist Warehouse off Sigma Pharmaceuticals. Given Sigma's claims that the contract was struck at sub-economic levels and a degree of uncertainty existing around the exact terms for EBO, the enthusiasm of the market was perhaps a little surprising. EBO's forward PE ratio of over 20x strikes us as rather aggressive for a business that has an EBIT margin of circa 3%. Other small headwinds came from an underweight in Ryman (RYM, +1.7%) and our overweight in Tower (TWR, -2.6%).

The portfolio only saw modest positional changes in the month. We used weakness to add a new holding in Trade Me (albeit remaining underweight) and we used a sharp temporary bounce to lower Spark from a moderate overweight to a small underweight. The final residual payment for the Tenon takeover came in during the month, seeing that name exit the portfolio.