SALT Funds Management

Salt NZ Dividend Appreciation Fund Fact Sheet – January 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 January 2018

$57.2 million

Strategy Assets at 31 January 2018

$138.0 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 January 2018

Application	1.3738
Redemption	1.3682

Investment Guidelines

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

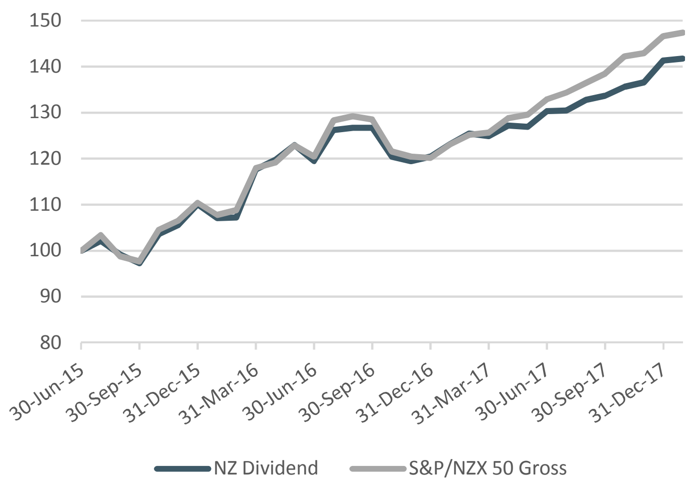
NZ shares	95% – 100%
Cash	0% – 5%
Unlisted securities	0% – 5%
Maximum active position	8%

Fund Performance to 31 January 2018

Period	Fund Return	Benchmark Return
1 month	0.29%	0.52%
3 months	4.49%	3.63%
6 months	8.61%	9.72%
1 year	15.06%	19.73%
2 year p.a.	15.06%	16.97%
Inception p.a.	14.45%	16.21%

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

Cumulative Fund Performance to 31 January 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 January 2018

NZ shares	97.63%
Cash	2.37%

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

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

World financial markets started the year with strong momentum, pushing the MSCI All World Index up 5.6% to a new record. Whilst emerging markets outperformed developed markets (+8.3% versus +5.2%), the US indices continued to surge ahead with the S&P 500 reaching an all-time high of 2873 during January and finishing the month +5.6%, with the NASDAQ +7.4%.

As US equity markets priced in the benefits of corporate tax reform, the bond market priced in a marginally less accommodative monetary policy stance, larger future fiscal deficits and a greater likelihood of more inflation, causing the US rate curve to steepen with the US 2-year bond rising 26bps to 2.14% whilst the 10-year bond rose 30bp to 2.71% - its highest level since 2014.

In Asia, Hong Kong's Hang Seng was up strongly for a second month (+9.9%) along with Singapore (+4.4%). In Europe, the UKs FTSE 100 was weighed down by Brexit related concerns to finish the month -2% whilst Germany's DAX (+2.1%) and France's CAC (3.2%) were buoyed by an improving outlook for the Eurozone.

In Australia the S&P/ASX 200 Accumulation Index bucked the global trend and finished the month down 0.5% as seven out of eleven sectors were weaker with Utilities (-4.5%) and REITs (-3.3%) pulling the index lower as bonds yields rose and the A$ appreciated 3.2% versus the US$.

The NZ equity market finished the month in a somewhat unusual fashion. Early in the morning on the last day of the month the market was weak but it then surged 2.4% from its lows into the close to end the month up 0.5%.

Monthly Fund Commentary

The Fund slightly underperformed the market during what was generally a quiet month in January, rising by +0.29% compared to the +0.52% return of the Index. However, this somewhat anodyne description hides a tumultuous last hour of trading for the month on January 31 which saw the Index close 2.4% above its lows earlier in the day as a torrent of passive buying swamped the closing match. Needless to say, the low beta nature of the Fund meant it did not benefit from this in relative terms.

Major contributors and detractors were fairly sparse over the month but the stand-out positive was our large underweight in Trade Me (TME, -7.0%). There was no particular news behind this but TME has steadily fallen from its highs of the last year or two as it faces a number of challenges across its business verticals. Our underweight in Fisher & Paykel Healthcare (FPH, -7.0%) also helped relative performance as FPH fell back sharply from its undue strength in the prior month which had been driven by MSCI Index inclusion. NZ$ strength and a strong product cycle from its competitor, ResMed were other factors.

Headwinds were led by our large underweight in Ryman Healthcare (RYM, +3.4%) which rose on what appeared to be offshore buying despite gathering evidence of increasingly difficult housing market conditions. Interestingly, almost all of RYM's monthly performance came in the last several hours of trading on January 31. The other laggard for the Fund was the moderate underweight in The a2 Milk Company (ATM, +14%) which rose sharply after being somewhat weak in the prior two months. Other laggards were overweights in Investore Property (IPL, -3.4%), NZ Refining (NZR, -5.7%) and Turners Automotive Group (TRA, -1.8%).

Portfolio changes were limited. Periods of weakness were used to lift holdings in Air New Zealand, Contact Energy, Mercury Energy, Tilt Renewables and to buy a very small holding in Ryman. Strength was used to trim Restaurant Brands and Precinct Properties.