Salt NZ Dividend Appreciation Fund Fact Sheet – February 2020

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 29 February 2020

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$91.10 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 29 February 2020

Application	1.6139
Redemption	1.6074

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 29 February 2020

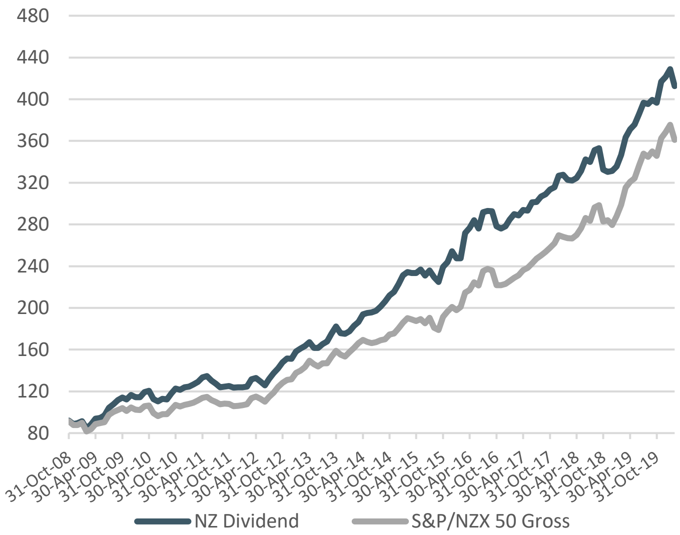
NZ shares	98.79%
Cash	1.21%

Fund Performance to 29 February 2020

Period	Fund Return*	Benchmark Return
1 month	-3.81%	-3.89%
3 months	-1.06%	-0.49%
6 months	4.28%	4.69%
1 year	18.91%	20.76%
2-year p.a.	12.99%	15.97%
3 years p.a.	12.45%	16.25%
5 years p.a.	11.95%	13.89%
7 years p.a.	14.35%	14.67%
10 years p.a.	13.66%	13.57%
Inception p.a.	13.21%	12.00%

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 29 February 2020*



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
Tower	Ryman Healthcare
Turners Automotive	Fisher & Paykel Healthcare
Scales Corporation	Auckland International Airport
Investore Property	Ports of Tauranga
Spark NZ	Mainfreight

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Summary

- **The Fund marginally outperformed its benchmark in February, returning -3.81% compared to -3.89% for the S&P/NZX50 Gross Index.**
- **The largest tailwinds came from underweights Ryman Healthcare (RYM, -7.5%) and Port of Tauranga (POT, -13.6%).**
- **Headwinds came our larger overweights, led by Turners (TRA, -10.7%) which fell hard on no new news.**

NZ Market Commentary

Global equities were hit hard over the month of February as the MSCI All World Index plummeted -8.5% making it the fastest correction ever from an all-time high. Surprisingly, the MSCI China Index was the only positive return standout (+1.3%), aided by Chinese stimulus and the banning of short selling.

The 10-year US yield ended the month at 1.15% and kept sliding into early March to reach record lows sub-1%. Brent Oil fell for a second month (down $6.50 to $50) in the face of weaker demand and possible supply disruption with many shale plays in the US on the brink of collapse. This will be exacerbated post month-end with the collapse of the OPEC+ deal.

The S&P500 fell -8.2% and the tech heavy NASDAQ fell -6.4% as investors priced the risk of supply and travel disruptions and sought liquidity to move assets into relatively lower risk exposures. Most of the weakness was concentrated in the last week of the month highlighting the panic for liquidity. In early March the Federal Reserve made emergency cuts which has done little to assuage fears, so far.

European markets were similarly thumped with London's FTSE -9%, Germany's DAX30 -8.4% and France's CAC40 -8.5% on similar fears of supply chain disruption and a shock to economic growth as Covid-19 started to spread through the continent.

Australia saw a similar sell-off with the S&P/ASX200 -7.7%. Every sector saw aggressive selling and all printed negative returns albeit the more defensive healthcare (-3.8%), utilities (-4.5%) and REITs (-5.1%) fared better in a relative sense versus other sectors. At the time of writing, RBA cuts in early March have done little to sooth concerns with the market pricing in and hoping for further monetary and fiscal stimulus.

NZ's S&P/NZX50 Gross Index fell just -3.9% in part due to two of the largest stocks posting positive updates being Fisher & Paykel Healthcare (FPH +11%) on a minor guidance upgrade and a2 Milk (ATM +9%) on a strong result. The falls were led by Synlait (SML -32%) on weak guidance, NZ Refining (NZR -25%) on weak refining margins in Asia and Sky Television (SKT -22%) on further subscriber losses and an increasingly stretched balance sheet.

Salt NZ Dividend Fund Commentary

The Fund marginally outperformed its benchmark in February, returning -3.81% compared to -3.89% for the S&P/NZX50 Gross Index. This was perhaps a touch disappointing given the nature of the Fund but it reflects the unusual extreme outperformance of the two low/non-yielding large caps Fisher & Paykel Healthcare (FPH, +10.6%) on a marginal guidance upgrade and a2 Milk (ATM, +8.7%) on a solid result. Excluding these two names, the Index recorded a -7.4% return and the S&P/NZX Mid Cap Gross Index fell by -6.7%.

Contributors

The largest tailwinds unsurprisingly came from underweights in some of the expensive underperformers. These included Ryman Healthcare (RYM, -7.5%), Port of Tauranga (POT, -13.6%), Auckland International Airport (AIA, -9.0%), Meridian Energy (MEL, -13.6%) and Freightways (FRE, -15.7%). News flow was dominated by the potential exposures to Covid-19 and the interaction of temporary earnings dislocations with balance sheet positioning.

Detractors

Conversely, the key negatives came mainly from our larger overweights. The way was led by Turners (TRA, -10.7%) which fell hard on no new news. While it is a reasonable expectation that used car sales may fall in a period of weaker consumer confidence, lower interest rates and petrol prices are helpful. Our soundings suggest that trading has remained solid. Scales (SCL, -8.8%) reported a solid result and outlook and that they are experiencing no issues to date in shipping apples to China although it is too early to tell about onward distribution. Finally, a small holding in the formerly high and sustainably yielding NZ Refining (NZR, -25.2%) has proven to be a mistake as refining margins come under considerable pressure. In a worst case, NZR has considerable value in the Wiri Pipeline but this small holding is now in the bottom drawer to await an upswing in this notoriously cyclical sector.

Portfolio Changes

The Fund's cash position was largely unchanged at a low 1.2%. As was the case last month, volatility was used to make several adjustments to the portfolio. Weakness was used to purchase a new holding in Mainfreight (albeit still underweight) and to lift Scales, Turners and Vector. Fleeting strength was used to lighten Contact Energy, Meridian Energy, Oceania Healthcare and Spark. We exited the rump of the holding in Metlifecare given that market volatility might create some slight risks to consummation of the takeover bid.