Salt NZ Dividend Appreciation Fund Fact Sheet – November 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 30 November 2019

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$93.6 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 November 2019

Application	1.6313
Redemption	1.6247

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 30 November 2019

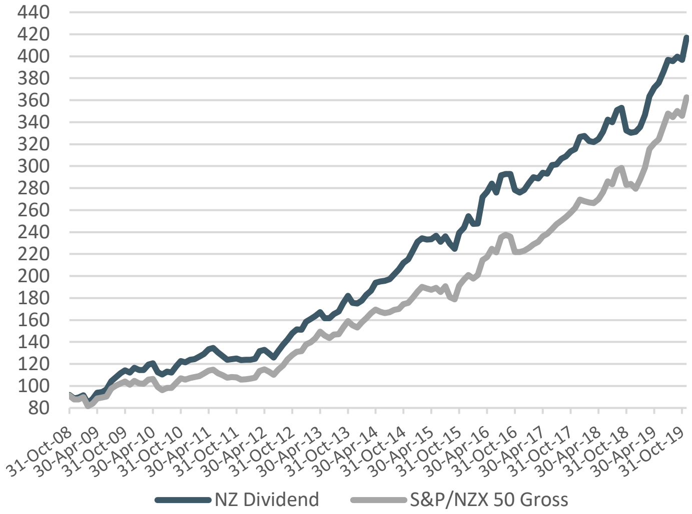
NZ shares	97.33%
Cash	2.67%

Fund Performance to 30 November 2019

Period	Fund Return*	Benchmark Return
1 month	5.09%	4.90%
3 months	5.41%	5.20%
6 months	10.92%	11.85%
1 year	26.13%	28.25%
2 year p.a.	14.88%	17.57%
3 years p.a.	14.70%	17.95%
5 years p.a.	15.04%	15.84%
7 years p.a.	16.22%	15.81%
10 years p.a.	14.48%	13.73%
Inception p.a.	14.16%	12.43%

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 30 November 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
Tower	Fisher & Paykel Healthcare
Turners Automotive	Ryman Healthcare
Contact Energy	Auckland Intl Airport
Spark NZ	Mainfreight
Investore Property	Ports of Tauranga

Summary

- **The Fund outperformed in the month of November, returning +5.09% compared to the quite startling +4.90% turned in by the S&P/NZX50 benchmark.**
- **The strongest upside came from the large overweight in Tower (TWR, +11.8%) which delivered a solid result, guided to a return to an attractive dividend payout and gave much stronger than expected guidance for the year ahead.**
- **There were two sizeable headwinds, the largest of which was Ryman (RYM, +17.0%) and Fisher & Paykel Healthcare (FPH, +15.7%).**

Monthly Equity Market Commentary

Markets moved higher during November, largely buoyed by bouts of optimism that a Phase 1 trade deal between the US and China was inching closer to the finish line, tempered late in the month when the US passed legislation in support of protestors in Hong Kong, angering China. The MSCI World Accumulation index climbed 2.1%, up 24% year to date.

The US S&P500 did slightly better, rising 3.6%, boosted by deal optimism and positive macroeconomic data. GDP data came in ahead of consensus at 2.1% (versus 1.9%) and CPI was 10bps higher than expected at 1.8%. Asian markets were mixed, with Japan's Nikkei lifting 2% whilst Hong Kong's Hang Seng fell 2.8% to be up only 1.9% year to date, reflecting the impact of the protests and fears of a slowing economy. European equity markets were buoyed by improved global sentiment, with Germany's DAX rallying 2.1% and France's CAC up 2.5%. The UK's FTSE100 rose 0.6% despite slightly softer than expected data for GDP and CPI.

In Australia, the S&P/ASX200 reached records highs mid-month to end +2.7%. Information Technology (+11%) and Consumer Staples (+7.8%) led the way, while Financials lagged (-2.7%). The RBA left the cash rate unchanged at 0.75% whilst unemployment ticked up 0.1% to 5.3% and wage inflation remained in line at 2.2%.

The S&P/NZX50 Gross surged a staggering 4.9% in the month reaching all-time record highs. With one month to go for 2019, the NZ50G is up +28.4% year to date. The best performances were Metlifecare (MET +21%) on a possible takeover, Pushpay (PPH +21%) and A2 Milk (ATM +19%) on solid results. The biggest detractors were Gentrack (GTK -22%) and Trustpower (TPW -11%) on disappointing financial results.

Monthly Fund Commentary

The Fund outperformed in the month of November, returning +5.09% compared to the quite startling +4.90% turned in by the S&P/NZX50 benchmark. While only slight, this outperformance was pleasing in the context of the low beta nature of the Fund and comes after also doing well relative to the weaker market in October.

Contributors

Performance contributions were characterised by larger positives and negatives than is normally the case. The strongest upside came from the large overweight in Tower (TWR, +11.8%) which delivered a solid result, guided to a return to an attractive dividend payout and gave much stronger than expected guidance for the year ahead. Christchurch headwinds are gradually abating, the premium environment remains strong and TWR's much-vaunted IT system is being rolled out as one would hope. This is critical to delivering major management expense ratio reductions commensurate to those of TWR's peers. In our view, it remains a rare cheap stock in an expensive market.

Other notable tailwinds were led by the overweight in Metlifecare (MET, +21.1%) which received an indicative takeover bid at an undisclosed price. We have clearly expressed our view to the company that any bid in the mid $6 region should be put to shareholders. While this is below MET's book value of close to $7, this takes no account of corporate costs, MET has not demonstrated an ability to grow book value via development, and we are deeply suspicious of all book values in the sector because they appear to have little relationship to the underlying free cashflows that are generated when one looks at individual village accounts.

The Fund also benefited from an underweight in Ebos (EBO, -7.5%) where we participated fulsomely in a large sell down; and overweights in Sanford (SAN, +9.8%) and Marsden Maritime (MMH, +8.1%) where our somewhat early view of the merits of Northport is now being more widely appreciated.

Detractors

There were two sizeable headwinds, the largest of which was Ryman (RYM, +17.0%). Their H1 result was actually quite weak, with higher costs pressuring the care business, while development deliveries will be very much H2 weighted. Uncontracted stock rose from 69 units (1.0% of portfolio) to 111 units (1.6%) in the half and it will take a herculean sales effort in H2 to sell their significant delivery pipeline and there is some risk of rising debt levels getting up to potentially uncomfortable levels. However, the market appeared more focused on nascent signs of a better NZ property market and also appeared to buy the lift in RYM's medium term delivery target to 1,600/year which distracted from the slow current environment.

The second notable detractor was Fisher & Paykel Healthcare (FPH, +15.7%). While valuation and momentum measures had appeared to have run their course, the share price simply kept on running. The forward PE of 46.3x is rather extended and compares to Resmed's 35.7x. The reality is that FPH had been in downgrade mode for several years but has now shifted to a moderate upgrade path albeit a portion of this is low quality from a weak NZ$, new R&D tax credits and a slightly earlier mask release than had been guided. Medium term, we are concerned that potential US price changes may favour machines over masks, which would be a net headwind for FPH.

Portfolio Changes

Cash levels in the Fund rose slightly from 1.3% to 2.8% as volatility and several equity raisings drove a number of portfolio changes. The largest was using the discounted selldown in Ebos to move from zero weight to a slight overweight. The Fund also purchased Investore and Kiwi Property in and after their equity raisings. Small holdings were exited in Arvida, Synlait, Sky TV and Genesis Energy, while strength was used to lower Chorus, Z Energy, Spark and Sky City.