SALT
Funds Management

Salt NZ Dividend Appreciation Fund Fact Sheet – September 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 September 2019

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$89.4 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 September 2019

Application	1.5924
Redemption	1.5859

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 September 2019

NZ shares	97.47%
Cash	2.53%

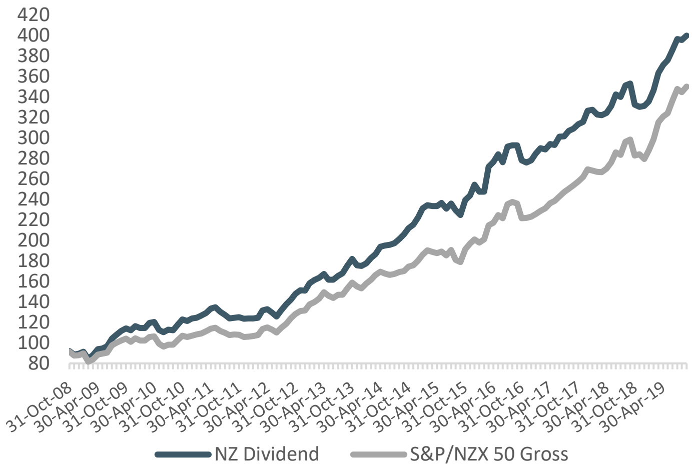
Fund Performance to 30 September 2019

Period	Fund Return*	Benchmark Return
1 month	1.00%	1.57%
3 months	3.52%	4.04%
6 months	9.83%	10.98%
1 year	13.06%	16.84%
2 year p.a.	13.67%	17.38%
3 years p.a.	10.89%	14.07%
5 years p.a.	15.04%	15.77%
7 years p.a.	16.54%	16.14%
10 years p.a.	14.03%	13.221%
Inception p.a.	13.92%	12.27%

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 30 September 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	EBOS
Scales Corporation	Fisher & Paykel Healthcare

Summary

- **The Fund fractionally underperformed over the September quarter, returning +3.52% compared to the +4.04% turned in by the S&P/NZX50 benchmark.**
- **The largest contributor was the Fund's overweight in Spark which we had aggressively purchased on a sharp but temporary sell-off in the previous quarter.**
- **The largest headwind for the Fund was the underweight in Ryman Healthcare (RYM, +13.1%).**

Monthly Fund Commentary

The Fund fractionally underperformed over the September quarter, returning +3.52% compared to the +4.04% turned in by the S&P/NZX50 benchmark. This was satisfactory given the low beta nature of the Fund typically sees it lag slightly during strong periods for the market.

Contributors

The strongest tailwind by some distance was the large overweight in Spark (SPK, +14.3%) which we had aggressively purchased on a sharp but temporary sell-off in the previous quarter. There had been some concerns that SPK might have to cut its dividend slightly but this was definitively refuted as they delivered an in-line result in August. While SPK is not cheap in absolute terms, such quibbles have long since ceased to matter in the NZ market and it is very "cheap" versus other large caps in relative yield terms. Its gross dividend yield at end-quarter was 7.4% versus 4-6% for the listed property trusts and 3-5% for the gentailers.

The second largest contributor was the Fund's long-held position in Turners (TRA, +14.1%). which rallied sharply following their comment that, "Q1 trading conditions were robust and all business divisions were tracking ahead of budget and ahead of FY19…" We are irresistibly drawn to companies that have a PE of 10-11x and an earnings growth outlook averaging 10%+. The new car sales outlook is gloomy to put it mildly but used cars are a steadier business and TRA appears to be picking up considerable market share in a highly fragmented market as low-end players exit. This is also taking the pressure off the prices that they need to pay for used vehicles. The one piece of negative news was that they withdrew the sale of Oxford Finance. The business is doing well and bids were received above book but clearly not at the very attractive prices that they were hoping for.

Other positives came from the overweight in Contact Energy (CEN, +10.4%) although we are now only moderately overweight the gentailers as a group; the underweight in Auckland International Airport (AIA, -7.1%) which remains very expensive and gave weak guidance for the year ahead as traffic growth headwinds mount; and the overweight in Scales (SCL, +5.3%) which is one of several names we hold with minimal economic sensitivity and a positive exposure to the weak NZ$.

Detractors

The largest headwind for the Fund was the underweight in Ryman Healthcare (RYM, +13.1%) which rallied for reasons that elude us. Their result back in May was poor and market conditions remain difficult as ample new retirement village supply hits a market where housing turnover is moribund.

The second key laggard was our high conviction long in Tower (TWR, -9.2%). They pre-announced earnings for the Sept19 year which saw a solid beat as we had hoped. However, they accompanied this with a 1:4 equity raising at a relatively deep discount. This will be used firstly to buy Youi's NZ insurance book which takes a relatively aggressive competitor out of the market and will be highly accretive. The second reason was a modest negative in that the RBNZ will no longer allow TWR to count their EQC receivable as part of their solvency capital. It changes nothing in terms of what TWR will ultimately receive but does signal that the RBNZ will take an even more conservative approach to all insurers' capital positions. Over time, this is likely to see higher capital ratios and stronger premium growth than the status quo. On our forecasts, TWR is now on a Sept20 PE of approx. 9x with strong growth and solid dividends thereafter as their costs fall towards those of peers.

Portfolio Changes

Cash levels in the Fund rose slightly from 1.5% to 2.6% and positional changes were dominated by a thematic of reducing exposure to the weakening NZ economy. We exited small holdings in Briscoes and Mainfreight and lowered our exposure to Fletcher Building, Freightways, Kiwi Property, Sky City and Stride. We lifted our holding in Goodman Property in their equity raising and used brief weakness to add to Meridian Energy, Scales and Oceania Healthcare.