Salt NZ Dividend Appreciation Fund Fact Sheet – May 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 31 May 2020

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$86.3 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 May 2020

Application	1.5382
Redemption	1.532

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 31 May 2020

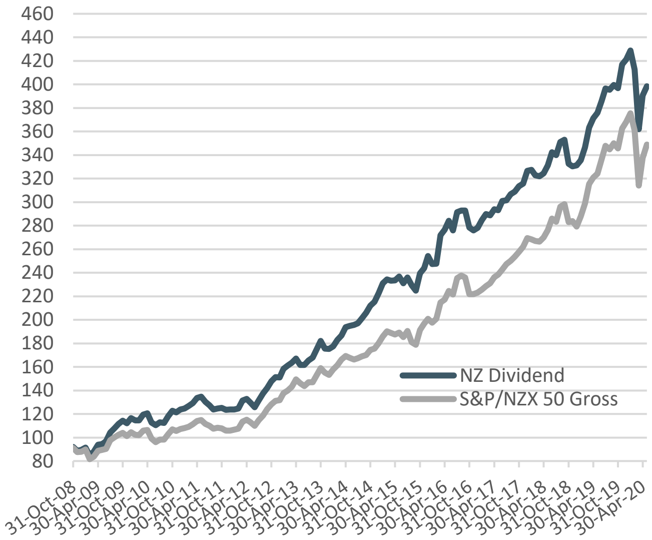
NZ shares	98.65%
Cash	1.35%

Fund Performance to 31 May 2020

Period	Fund Return*	Benchmark Return
1 month	2.05%	3.33%
3 months	-3.38%	-3.36%
6 months	-4.40%	-3.84%
1 year	6.04%	7.56%
2-year p.a.	9.63%	12.11%
3 years p.a.	10.74%	13.62%
5 years p.a.	10.97%	13.24%
7 years p.a.	13.74%	13.40%
10 years p.a.	13.47%	13.52%
Inception p.a.	12.57%	11.40%

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 31 May 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
Investore Property	Fisher & Paykel Healthcare
Turners Automotive	Ports of Tauranga
Marsden Maritime Holdings	Goodman Property Trust
Contact Energy	Genesis Energy

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

NZ Market Commentary

Fighting the Fed and other central banks was shown to be a losing strategy through an eventful May as lower yields around the world enticed more buyers into equities. Investors appear optimistic that the largest monetary and fiscal stimulus packages ever seen will lead to a short and sharp V-shape recovery, whilst views amongst economists are far more varied. Global equities as measured by the MSCI ACWI climbed +4.8% reducing the year-to-date decline to -8.2%.

The S&P500 posted a +4.8% return to be a mere 10% below the record high in February as optimism grew regarding the US economy reopening. The market seems to be dismissing concerns around the proportion of lost jobs that won't immediately come back when the economy reopens and the resulting hit to disposable income and confidence. Macro concerns remain in the background regarding China moving to increase its control in Hong Kong and threats to the stability in that financial hub and increased trade tension.

European bourses lifted on hopes their countries were past the worst of Covid-19 and economies will benefit from a gradual reopening. The UK's FTSE lifted +3.3%, whilst Germany's DAX rose +6.7% and France's CAC +3.4%, yet all remaining in double digit negative year-to-date return territory.

Australia's S&P/ASX200 has recovered nearly half the pandemic induced sell-off adding a further +4.2% in May and reducing the negative YTD performance to -12.7%. Tech stocks soared while Telco and Materials closely followed, whereas the defensive Healthcare and Consumer Staples gave back some recent performance. The RBA revealed they expect joblessness to settle at 9.0% by the end of this year and 7.5% by the end of 2021, similar numbers to those forecast by NZ Treasury.

The NZ S&P/NZX50 Gross Index ground +3.3% higher over the month to be down a mere -5.3% YTD. The key performers were Pushpay (PPH +77%) on a strong outlook boosted by Covid-19, Tourism Holdings (THL +38%) on a cost-out update and Kathmandu (KMD +32%) on optimism of re-opening and the worst being behind it. The key laggards were NZ Refining (NZR -24%) on a weak update and uncertainty around the strategic review, Z Energy and Sky City due to the lockdown impact (ZEL -9%, SKC -8%).

Salt NZ Dividend Fund Commentary

The Fund lagged the benchmark in the month of May, rising by +2.05% compared to the +3.33% turned in by the S&P/NZX50 Gross Index. The month saw sharp outperformance by several low/non-yielding names that the Fund is naturally not a holder of.

The largest headwind by quite some distance was having no holding in Pushpay Holdings (PPH, +77.3%). This soared as they delivered a result at the bottom-end of expectations but this came with better than expected guidance as the Covid crisis has accelerated the channel shift from physical to digital church donations that their app powers. Growth and momentum investors fell over themselves in aggressively chasing the share price.

Other notable detractors were the overweight in Turners (TRA, -5.8%) and underweights in Fisher & Paykel Healthcare (FPH, +9.5%), Port Of Tauranga (POT, +7.0%), Property For Industry (PFI, +12.6%) and Kathmandu (KMD, +31.6%).

Positive contributors were relatively modest in terms of their magnitude, with the way being led by the overweight in Oceania Healthcare (OCA, +15.6%) which outperformed other retirement sector stocks. An underweight in Sky City (SKC, -8.3%) and a large overweight in Tower (TWR, +1.7%) also made modest contributions. The latter reported a result just after month-end that was largely in line with expectations.

The month was notable for something of a "FOMO" trade, where a fear of missing out saw a number of previously beaten-up stocks rally sharply on hopes (or dreams) that the worst is over for them. Prime examples in the Index included Tourism Holdings (THL, +37.5%), Kathmandu (KMD, +31.6%) and Vista Group (VGL, +20.0%). A remarkable increase in the amount of small ticket retail investing was one important driver of this. Relatively safe yield stocks generally did little or even underperformed in the month but we expect an extended period of ultra-low interest rates to see the FOMO trade morph into "TINA" – there is no alternative. We expect the Fund to be well placed in an environment where safe yield is sought after and the hard realities of a tough economic environment hit many of the names that have experienced a sharp snapback.

Matthew Goodson, CFA