SALT

Funds Management

Salt NZ Dividend Appreciation Fund Fact Sheet – February 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 28 February 2018

$56.3 million

Strategy Assets at 28 February 2018

$136.0 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 28 February 2018

Application	1.3542
Redemption	1.3487

Investment Guidelines

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

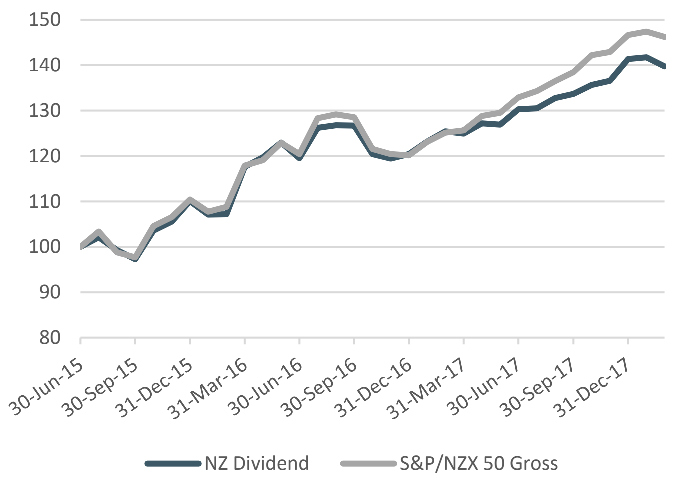
NZ shares	95% – 100%
Cash	0% – 5%
Unlisted securities	0% – 5%
Maximum active position	8%

Fund Performance to 28 February 2018

Period	Fund Return	Benchmark Return
1 month	-1.43%	-0.81%
3 months	2.28%	2.28%
6 months	5.25%	7.12%
1 year	11.38%	16.83%
2 year p.a.	14.17%	15.93%
Inception p.a.	13.36%	15.31%

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

Cumulative Fund Performance to 28 February 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 28 February 2018

NZ shares	99.38%
Cash	0.62%

Top Overweights	Top Underweights
Turners Automotive Group	Ryman Healthcare
Investore Property	Mainfreight
Scales Corporation	Infratil
Metlifecare	Trade Me
Tower	Fisher & Paykel Healthcare

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Monthly Equity Market Commentary

After global financial markets entered February with an array of indicators suggesting record 'bullishness' that the equities bull-market would continue, the MSCI All World index finished the month down 4.6% which ended a winning streak stretching back to November 2016. At one point during the month the S&P 500 was down 10%, although it recovered slightly to end the month down 3.9% due to interest rate exposed sectors faring worse than others. The more tech-oriented NASDAQ ended the month down 1.9%. The VIX rose to levels not seen since 2011 and Feb 5 saw its biggest daily increase in history. The primary causes were wage inflation and CPI prints that were higher than expected which in turn led to a bond sell-off lifting the US 10-year Treasury bond yield 16bps to 2.86%. The 2.96% high of the month was the highest rates seen since 2014.

Asian markets were also weak, with China's Shanghai Composite index down 6.4% in a month featuring Chinese Lunar New Year holidays. This was closely followed by Hong Kong's Hang Seng (-6.2%) and Korea's Kospi (-5.4%). In Europe, despite the best PMI readings since 2006, the ECB remain dovish with regards to the inflation outlook. Germany's DAX was down -5.7% as coalition talks entered their 5th month, the UKs FTSE 100 (-4.0%) and the CAC 40 (-2.9%).

In Australia the S&P/ASX 200 Accumulation Index outperformed global markets and finished the month down -0.4%. This result was weighed on by yield sensitive sectors (Telco -7.8%, REITS -4.1%) and Energy (-4.6%) on lower commodity prices. These sectors were partially offset by Healthcare (+7.0%) and to a lesser degree by Staples (+1.1%) and IT (+0.9%).

The New Zealand S&P/NZX 50 Gross Index ended the month down -0.81%. The largest constituent in the index a2 Milk posted an earnings surprise and major new supply deal leading to strong outperformance over the month. Conversely, another constituent, CBL Insurance entered liquidation.

Monthly Fund Commentary

The Fund had a disappointing month relative to the Index through what was a typically busy reporting season, falling -1.43% after all fees and expenses compared to the -0.81% return of the Index. Excluding a2 Milk, the rest of the Index fell by 4.2%. The Fund owned no CBL and the relative performance would have improved by around 0.40% if CBL was adjusted down from its pre-suspension price of $3.17 to zero given it entered liquidation during the month.

Despite having a healthy ratio of "winners to losers" of 1.7x in a relative performance sense, the biggest headwinds came from three names whilst the positive contributors made more numerous albeit smaller contributions.

The largest negative was our moderate overweight in Evolve Education (EVO, -34.5%) which lowered earnings guidance. EVO is a business with a high degree of fixed costs, (teacher salaries and rents), giving them a high degree of operational leverage to relatively small changes in child occupancy. We had been hopeful that motivated management in the form of CEO and large shareholder, Mark Finlay would be able to turn the ship around, but this has not occurred yet. With government payments having been frozen in recent years, there is perhaps some hope of a lift under the new Government, but this is far from certain. EVO generates strong free cashflows, its balance sheet strength is adequate and it is now on a Mar2018 PE of just 8.3x much downtrodden earnings.

Our small underweight in a2 Milk (ATM, +43.8%) continued to cause pain despite having largely covered it off. At 10.7% of the Index, this non-dividend paying name has been a real conundrum for the Fund, but it now clearly generates sizeable free cashflow and is considering the payment of a dividend in future. Its result was a moderate beat but a major supply deal with Fonterra saw significant further future growth potential priced into it. We added to our position on weakness.

The third key laggard was our holding in Turners Automotive (TRA, -9.7%) which came under consistent pressure over the month. This was somewhat puzzling as they reported a strong result back in late November and all indications point to continued reasonable trading. We can only view it as an overhang from their poorly managed share issuance last September. The stink bug infestation affecting used car imports should be a small short term positive as it tightens up used car stocks and pricing. At current levels, TRA is on a Mar17 PE of 10.7x and Mar19 of just 10.0x – too low in our view.

Several of our key underweights were the biggest contributors to returns. Our positioning in Fletcher Building (FBU, -16.7%) added to performance as the company announced further material losses, an eventual exit from the problematic Building and Interiors activities, a breach of debt covenants and speculation around a potential capital raise. Another notable contributor was Heartland Bank (HBL, -12.1%) as the result missed the market's expectations with higher costs and impairments. Our large Ryman Healthcare (RYM, -2.5%) underweight aided performance, as housing data continues to show a weak backdrop for the retirement village operators. Our Mainfreight (MFT, -6.3%) underweight also contributed albeit on limited news.

Portfolio changes were very limited in the month, with weakness used to add to Sanford and buy a very small position in Trustpower. Sky TV was lowered prior to its sharp weakness post-result. Cash declined from 2.5% to 1.2%.