SALT
Funds Management

Salt NZ Dividend Appreciation Fund Fact Sheet – October 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.

Fund Facts at 31 October 2018

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$68.7 million
Total Strategy Assets	$145.8 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 October 2018

Application	1.3727
Redemption	1.3671

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:

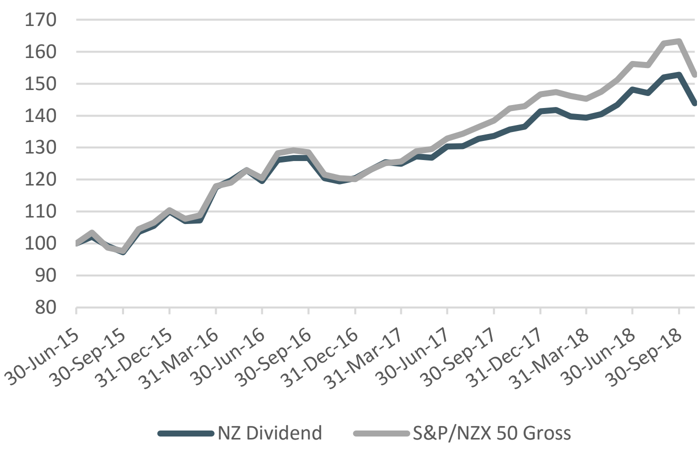
Australasian Equities	100%

Fund Performance to 31 October 2018

Period	Fund Return	Benchmark Return
1 month	-5.82%	-6.40%
3 months	-2.17%	-1.90%
6 months	2.46%	3.66%
1 year	6.08%	7.44%
2 year p.a.	9.31%	12.13%
3 year p.a.	11.57%	13.50%
Inception p.a.	11.53%	13.57%

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

Cumulative Fund Performance to 31 October 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 31 October 2018

NZ shares	98.78%
Cash	1.22%

Top Overweights	Top Underweights
Scales Corporation	Ryman Healthcare
Investore Property	Auckland Intl Airport
Turners Automotive Group	Infratil
Tower	EBOS
Sanford	Mainfreight

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Monthly Equity Market Commentary

Summary

- The Fund outperformed its benchmark declining by -5.82% after all fees and expanses compared to the -6.40% turned in by the S&P/NZX 50 Gross Index.
- October saw the worst monthly performance for global equities since the GFC
- The key outperformer was our large underweight in Ryman Healthcare (RYM, -13.6%).

There is no way to sugar coat it – October saw the worst monthly performance for global equities since the GFC, with the MSCI World Index tumbling -7.6%. Industrials (-10.3%) and IT (-9.5%) were the worst performing sectors whilst more defensive Utilities (-0.8%) and Staples (-2.3%) fared better. Brazil was the only major market that was up (+17.8%) as the country elected a business-friendly president Jair Bolsonaro.

Markets in the US were rocked with selling which was more skewed to the widely held high growth and high momentum names amidst a slightly mixed reporting season. The tech-heavy NASDAQ was down -12% at one point with selling concentrating on the much loved FANGMAN names and ended the month down -9.2%. The S&P 500 ended the month down -6.9% with a 13% spread between the intra-month high and low indicating a pick-up in volatility.

Given supportive economic data, the lowest unemployment rate since 1969 and continued pick-up in inflation and bullish Fed commentary the 10-year US Treasury yield surged to a high of 3.26% early in the month before ending the month at 3.14% as funds flowed into safe havens.

European markets were affected by the global risk-off mood as well as a mixture of continued Brexit related drama, Germany's Chancellor Angela Merkel stating she will not run for re-election in 2021, and debate over the Italian budget. The UK FTSE 100 ended the month down -4.8%, Germany's DAX down -6.7% while France's CAC was down -7.0%.

China's Shanghai Composite was down -7.8% as trade war tensions with the US increased and the economy continued to show signs of economic growth slowing. The PBOC cut the required reserve ratio for the second time in 3 months. Asian markets were broadly weak, with the Hang Seng down -10% and Japan's Nikkei 225 -9.1%.

The Australian S&P/ASX200 Accumulation index fared marginally better than the MSCI World, ending the month down -6.1% with Technology (-11.2%) and Energy (-10.5%) underperforming the more defensive A-REITS (-3.1%) and Utilities (-4.0%).

Here in NZ, the expensive S&P/NZX 50 Gross Index fell 6.4% over the month, led by Synlait Milk (SML, -20.1%) on concerns around volume growth, Kathmandu (KMD, -19%) as Australian retail names were sold off and Summerset (SUM -14.7%) given the weak housing market. The best performer was Restaurant Brands (RBD +9.7%) which received a partial takeover offer.

Monthly Fund Commentary

The Fund outperformed its benchmark in a very difficult month for markets in October, declining by -5.82% after all fees and expenses compared to the -6.40% turned in by the S&P/NZX 50 Gross Index.

Contributors

The key outperformer was our large underweight in Ryman Healthcare (RYM, -13.6%). It had been down further intra-month and we used that weakness to cover a degree of the underweight but this is a trading view and it remains a large relative position. Fundamentally, we are very wary of the lack of equity in the capital structure, the aggressive early booking of sales, the opaque capitalisation of costs, looming signs of an inventory build in the sector, a NZ housing market that is clearly peaking, an outright decline in Melbourne sales and prices, and a valuation that is extraordinary.

Other notable tailwinds came from our underweight in Fisher & Paykel Healthcare (FPH, -9.7%) and our zero-weights in Synlait Milk (SML, -20.1%) and Ebos (EBO, -7.2%).

Detractors

The largest headwind was our mid-sized holding in Tower (TWR, -8.6%). which fell back from a minor spike in September for no particular reason. We believe their business is travelling very well with strong premium growth in excess of claims inflation and a far quieter period on the storm front. It now has very little sell-side coverage but on our numbers is trading on a PE of just 8.6x for Sept19 and 6.8x for Sept20, when cost savings from their current heavy IT investment begin to come through. We would also highlight that the escalation clause attached to Bain's purchase of 19.9% from Vero at 80cps expires on 8 December.

Other detractors were overweights in Metlifecare (MET, -10.5%) Scales (SCL, -7.6%) and AMP Limited (AMP, -21.4%). The latter came under heavy pressure from a market that was unhappy with the mooted sale price for their wealth protection and mature businesses. This rebounded to a degree post month-end as AMP provided further information on the sale and takeover speculation reared its head in the Australian press.

Positional changes were limited. The overweight in property stocks was lowered to a small underweight as we lightened into their strong outperformance. The large Ryman underweight was covered to a degree and modest new holdings were opportunistically purchased in Kathmandu and Vista Group.