



Funds Management

Salt NZ Dividend Appreciation Fund Fact Sheet – April 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 April 2019

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	\$84.7 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 April 2019

Application	1.5028
Redemption	1.4967

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%
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Fund Allocation at 30 April 2019

NZ shares	98.00%
Cash	2.00%

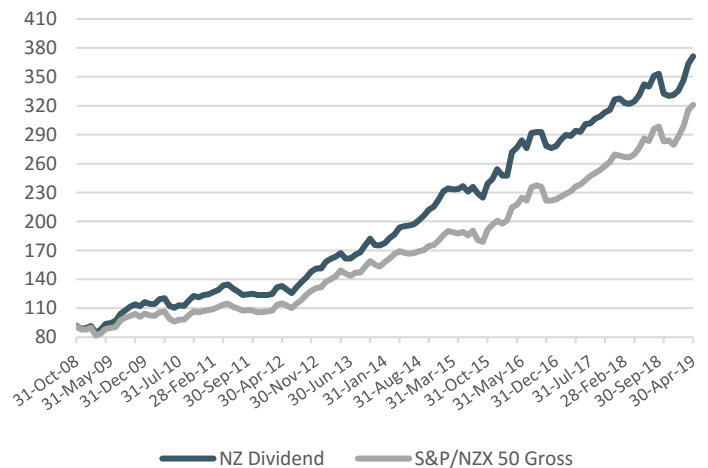
Fund Performance to 30 April 2019

Period	Fund Return*	Benchmark Return
1 month	2.07%	1.72%
3 months	10.53%	11.45%
6 months	11.56%	14.41%
1 year	14.31%	18.60%
2 year p.a.	12.34%	16.50%
3 years p.a.	10.28%	13.66%
5 years p.a.	14.66%	13.86%
7 years p.a.	16.38%	15.94%
10 years p.a.	15.12%	13.84%
Inception p.a.	13.56%	11.75%

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 April 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	Ryman Healthcare
Tower	Auckland Intl Airport
Investore Property	Mainfreight
Turners Automotive	Fisher & Paykel Healthcare
Metlifecare	Trade Me

SALT FUNDS MANAGEMENT

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Monthly Equity Market Commentary**Summary**

- The Fund returned +2.07% after all fees and expenses for the month compared to +1.72% for the S&P/NZX 50 Gross Index.
- The Australian exchange ended the month at 12-year highs, with the S&P/ASX200 up +2.4%.
- The largest positive came from the Fund's mid-sized holding in Tower (TWR, +11.4%) which rebounded sharply from its weakness in March.

April delivered yet more positive returns for global equity markets. The MSCI World Accumulation Index returned +3.5% over the month, with developed markets outperforming emerging markets by around 1.4%. The surge was largely driven by PE multiple expansion of 1.9 points to 15.7x rather than earnings upgrades, according to JP Morgan.

US markets drifted higher with the S&P500 +4.0% and NASDAQ +4.8%, with the S&P500 Financials (+6.3%) and Information Technology (4.9%) up the most, whilst Healthcare (-2.9%) was weak due to discussions regarding "Medicare-for-all" lifting costs. Various data pointed to a solid growth backdrop, with annualised GDP growth of 3.2% and ISM and payrolls data coming in ahead of expectations. Bond markets saw the 10-year Treasury yield up +5 basis points to 2.46%. Data in China came in stronger than expected, resulting in a change in language signalling more of a "wait and see" mode. Expectations of a US-China trade deal being signed soon accelerated with news leaks suggesting progress was being made but this hit stormy waters post month end. Markets in Asia were mixed, with Shanghai's Composite -1.5%, Hong Kong +3.5% and Japan +5%.

In the Eurozone, weak inflation and growth downgrades did little to stop markets performing well, with Germany's DAX +7.1% and France +4.9%. Turmoil regarding Brexit continued, albeit the UK was granted an extension until late-October although solutions are not obvious. The FTSE100 rose +2.3%.

WTI oil rose +3.8% given increased threats to supply in Libya and that the US would not renew export waivers from Iran, as production from Venezuela reaches new lows. Iron ore pricing has been strong, with the key 62% index rising +9% over the month, driven by supply being taken offline by Vale and the other majors already running at full capacity, coupled with steady demand.

The Australian exchange ended the month at 12-year highs, with the S&P/ASX200 up +2.4% on hopes the RBA would cut rates due to weak inflation data despite solid employment data. The top sector was Consumer Staples (+7.3%) on improved retail data and defensive positioning followed by Technology (+7.3%) as money chases growth agnostically to valuation. A-REITS (-2.6%) were the worst performing sector after a prolonged period of strong returns.

New Zealand also had a solid month, with the S&P/NZX50G rising +1.7% over the month. The best performers were PushPay (PPH +18%) on reiteration of guidance, A2 Milk (ATM +17%) on solid volumes and margin update, and Gentrack (GTK +12%) performed strongly despite a lack of news. The key underperformers were Summerset (SUM -15%) on disappointing sales numbers, Tourism Holdings (THL -12%) on an earnings downgrade and Sky Television (SKT -5%) as the new CEO's shakeout continues.

Monthly Fund Commentary

The Fund pleasingly outperformed a strong market during the month, advancing by +2.07% compared to the +1.72% turned in by the S&P/NZX50 benchmark.

The largest positive contributor by some distance was the Fund's mid-sized holding in Tower (TWR, +11.4%) which rebounded sharply from its weakness in March, when it had been removed from the FTSE/ Russell Global Small Cap Index. We have written at length about TWR in the past but see it as being on a PE of circa 11x and offering years of double-digit earnings growth as it dramatically lowers costs and gradually gains market share. In the short term, we view TWR as being on track for a very strong result in late May which should move it into solid dividend paying territory.

The second largest winner was our overweight in the high-yielding Turners (TRA, +7.5%) who pleasingly reiterated FY19 guidance and talked to improved trading during the current fourth quarter. Overall conditions are clearly still not easy, but we remain attracted to their leading position in the huge and very fragmented used car market. TRA trades well below our in-house DCF valuation which cross-checks against a forward PE of 9x with solid medium-term growth. Other contributors were having under/zero weights in Summerset (SUM, -15.0%) whose result showed inventory beginning to build and Tourism Holdings (THL, -14.8%) which warned on weak campervan resales.

Key headwinds over the month were more dispersed in nature and came from being underweight or having no holdings in three key names. Port of Tauranga (POT, +8.7%) rallied sharply for no apparent reason and in the face of evidence pointing to a slowdown in container volumes. Pushpay (PPH, +17.8%) rose sharply in common with many SaaS peers globally and Infratil (IFT, +4.1%) continued its bounce on optimism regarding its data centre investment despite its key Australian peer, Next DC being over 20% below its 2018 share price highs.

Portfolio changes were relatively limited. We continued to use weakness in Spark to lift the holding to a sizeable overweight as it is now a standout on relative yield and valuation terms versus the gentailers and property stocks. We purchased a small holding in Ebos in a discounted equity raising and we exited a tiny Restaurant Brands rump as it traded surprisingly strongly post the partial takeover bid.

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