Salt NZ Dividend Appreciation Fund Fact Sheet – December 2021

Manager Profile

Salt Funds Management is a boutique investment management firm wholly owned by its employees which specialises in actively seeking to maximise returns while managing the risks of the investment. Salt examines investments for their environmental and social impact as well as the quality of their governance.

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 December 2021

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$117.8 million
Inception Date	30 September 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 December 2021

Application	1.8233
Redemption	1.8159

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 December 2021

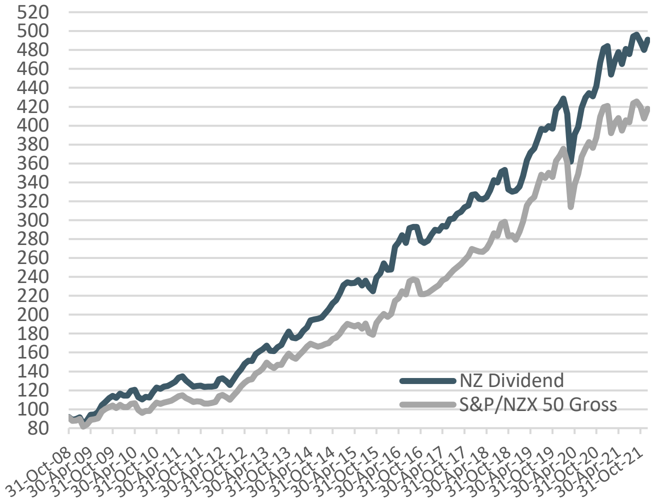
NZ shares	98.52%
Cash	1.48%

Fund Performance to 31 December 2021

Period	Fund Return*	Benchmark Return
1 month	2.27%	2.48%
3 months	-1.06%	-1.82%
6 months	2.06%	3.00%
1 year	1.93%	-0.44%
2-year p.a.	7.94%	6.50%
3 years p.a.	13.98%	13.94%
5 years p.a.	12.01%	13.63%
7 years p.a.	11.95%	12.92%
10 years p.a.	14.76%	14.81%
Inception p.a.	12.75%	11.48%

Performance is after all fees and does not include imputation credits or PIE tax.
*From 1 November 2008 to 30 September 2015, performance is from a fund with the same strategy and the same portfolio manager.

Cumulative Fund Performance to 31 December 2021*



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
Turners Automotive	Auckland International Airport
Marsden Maritime Holdings	Goodman Property Trust
Spark NZ	Fisher & Paykel Healthcare
Meridian	Property For Industry

SALT

Quarterly Equities Market Commentary

Developed market equities continued to rally in the December quarter, delivering equity investors a third consecutive calendar year of strong returns. Strong earnings growth outweighed fresh volatility as news broke of the new Omicron variant of Covid-19. Markets quickly recovered as early indications suggested Omicron was less likely to lead to serious illness. The MSCI World Index rose 7.6% (in USD) over the quarter to be +20.4% over the year.

In the USA, the CPI reached a 39-year high of 6.8% in the November year and the unemployment rate fell to 4.2%. This combination led to the "Powell pivot" which saw the word "transitory" retired from the FOMC lexicon and a faster taper of the Fed's asset purchase program, so it ends in March 2022. The S&P500 rose 11.0% over the quarter to be up 28.7% over the year. 10-year US Treasury yields fell slightly over the quarter from 1.55% to 1.52% but rose from a 1.35% low.

In Europe, a combination of factors led to a sharp rise in gas and electricity prices over the quarter, adding to already robust inflationary pressure. The ECB signalled an initial though moderate step towards less accommodative policy at its December meeting. The MSCI Europe ex-UK index rose 7.0% (in EUR) over the quarter to be +24.4% over the year.

In Japan, a contraction in Q3 GDP was followed by more robust Q4 data for retail sales, industrial output and the service sector. A supplementary fiscal package, amounting to around 6.5% of GDP, was passed just prior to Christmas and will provide support for economic activity in 2022. The Topix index returned -1.7% (in JPY) over the quarter and is +12.7% over the year.

The Australian economy contracted a better-than-expected -1.9% in Q3. Q4 activity data has bounced back suggesting a strong recovery and the unemployment rate fell to 4.6% in November with employment rising 366,100. However, Omicron case numbers are surging. The S&P/ASX200 rose 1.5% (in AUD) over the quarter and was +13.0% over the year.

NZ GDP contracted by less than expected in Q3 and the economy is slowly emerging from a long Auckland lockdown. Activity will rebound in Q4 but a full recovery won't be achieved until early 2022. The labour market has tightened further with the unemployment rate falling to just 3.4% in the September quarter. The RBNZ raised the OCR for the second time this cycle and signalled ongoing rate hikes ahead with a terminal rate higher than neutral. New Zealand 10-year yields rose sharply over the quarter from 1.97% to 2.37%. Despite a strong recovery during the December month, the NZX50 ended the quarter -1.8% lower and broadly flat (down -0.4%) over the year.

Salt NZ Dividend Fund Commentary

The Fund delivered solid outperformance in the December quarter, declining by -1.06% compared to the -1.82% fall by the S&P/NZX50 Gross Index. This is exactly how one would expect the Fund to perform given its relatively low beta nature.

Two large contributions came from notable declines in two underweights, with Ryman Healthcare (RYM, -18.3%) coming under considerable pressure. This followed a result in which they appeared to walk away from previous guidance re development targets and the economy saw continued evidence of widespread inflationary pressures that will likely force the RBNZ to tighten on more occasions than the 0.25% lift to 0.75% in the period. We expect this to weigh on the housing market and RYM is entering what is a high-risk period with a fully geared balance sheet.

The second key tailwind was the Pushpay (PPH, -28.6%), which fell sharply following a result which led to moderate earnings downgrades and some potential concerns being raised around the ultimate size of their addressable market.

A stand-out from the overweight side of the ledger was our at-times difficult position in the high-yielding Tower (TWR, +12.3%). Their result was at the top-end of (earlier downgraded) expectations, they announced a material capital return, and they have had a good start to the current year in terms of the large claims experience that has hobbled them for the last three years. In context, they are exposed to the first $20m of large events before reinsurance kicks in. The market projects overall NPAT of just $22-23m this year, building in the full $20m pre-tax claims hit. They have had years of almost no large claims but such is sentiment that the market prices the full hit forever after rather than a more realistic actuarial average. TWR's investment book will also benefit from higher interest rates.

Headwinds were fewer in number and there were none of notable magnitude. The stand-out was perhaps the underweight in Goodman Property (GMT, +7.3%) which has risen to very extended levels on industrial property bullishness. They are a quality entity but their dividend yield of 2.1% appears just a little too sparse. A tiny holding in Vital Networks (VTL, -27.5%) hurt when they surprisingly missed out on a government radio contract.

At quarter-end, we estimate the Fund has a forward gross dividend yield of circa 3.4%, which compares to our estimate of 2.8% for the benchmark.

Matthew Goodson, CFA