Salt NZ Dividend Appreciation Fund Fact Sheet – June 2023

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 30 June 2023

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$112 million
Inception Date	31 December 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 June 2023

Application	1.6218
Redemption	1.6152

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 30 June 2023

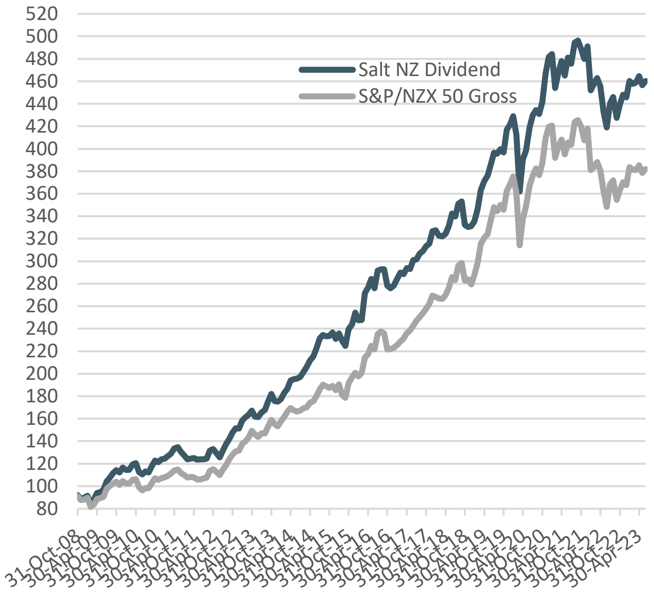
NZ shares	97.77%
Cash	2.23%

Fund Performance to 30 June 2023

Period	Fund Return*	Benchmark Return
1 month	0.79%	0.87%
3 months	0.33%	0.27%
6 months	3.27%	3.85%
1 year	9.87%	9.63%
2-year p.a.	-2.18%	-2.97%
3 years p.a.	3.21%	1.33%
5 years p.a.	6.08%	5.91%
7 years p.a.	7.56%	8.12%
10 years p.a.	11.03%	10.37%
Inception p.a.	10.90%	9.58%

Performance is after all fees and does not include imputation credits or PIE tax.
*From 1 December 2008 to 31 December 2015, performance is from a fund with the same strategy and the same portfolio manager.

Cumulative Fund Performance to 30 June 2023*



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	Auckland International Airport
Turners Automotive	Meridian Energy
Marsden Maritime Holdings	Vital Healthcare Property Trust
Spark NZ	Chorus Networks
Argosy	Mercury Energy

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Equities Market Commentary

The June quarter saw the MSCI World Index return +6.8%, the S&P500 +8.7% and the Nasdaq 100 +13.1% as aggressive moves higher in large cap tech stocks led the way. The bullishness unleashed by the emergence of generative AI as an investment theme has seen overall equity markets prove resilient to the recent aggressive tightening in monetary conditions.

US inflation has fallen sharply from a peak of 9% to 4%, but mostly due to lower oil prices. Core inflation has remained stickier as the labour market has remained tight. While goods inflation is back to the 1% region, services inflation remains well over 5%. The US consumer has continued to spend, reflecting continued employment gains and a decline in savings. Weaker business investment intentions and weak corporate loan demand pose risks for growth going forward.

Economic activity in Europe has proven stronger than expected as lower energy prices have delivered real income gains back to consumers. However, with core inflation still in excess of 5%, the ECB has raised interest rates to 3.5%, with more hikes still to come. Chinese data points to a renewed slowdown and there has been much conjecture about the degree to which the authorities would stand ready to support growth as needed.

In Australia, there are increasing signs of slowdown from a very strong period in 2022. The labour market has remained resilient but it typically lags growth. The RBA is taking a stop-start approach to raising interest rates. We think they have more work to do; we see the cash rate rising to 4.6% in the next few months. In NZ, the RBNZ delivered a hawkish 50bp hike in the Official Cash Rate in April which was followed by a dovish 25bp hike in May and they are now done until at least the October election. The NZ economy is in a technical recession but with inflation still uncomfortably high, we don't anticipate conditions will be appropriate for interest rate cuts until we are well into 2024.

Salt NZ Dividend Fund Commentary

The Fund slightly outperformed in the June quarter, advancing by +0.33% compared to the +0.27% recorded by the S&P/NZX50 Gross Index. It was a very quiet quarter, in the sense that there were no one-off contributors or detractors of material note.

The strongest tailwind was the long-held overweight in Turners (TRA, +9.5%). They delivered a rock-solid result despite strong economic headwinds. They are being held back by only hedging 50% of their finance book's funding in a rising rate environment but this will turn into a tailwind when the RBNZ eventually starts easing. They are taking significant share in the NZ used car market and we expect their debt collection business will revive after some quiet years. The PE of 9x and dividend yield of circa 9% are compelling in our view.

A smaller positive came from going underweight in Ebos (EBO, -21%) when it briefly spiked on MSCI index inclusion and then fell sharply as it lost the Chemist Warehouse contract. A final modest contributor was Tower (TWR, +3.3%), where rampant claims inflation and high short term interest rates are setting up for a powerful future profit performance if they can ever have a quiet claims year. Maybe El Nino might deliver this.

Detractors were led by not owning Arvida (ARV, +38.1%) which bounced sharply from its lows. However, it was still down 26% over the year, and while house prices may be bottoming, the outlook for the sector remains difficult given a paucity of house sales and difficulty in fully recovering care costs. Minor headwinds came from not owning the small travel software company Serko (SKO, +56.9%) and being modestly overweight Marsden Maritime (MMH, -6.1%), with the entire port sector struggling at present.

At month-end, we project the Fund to yield 4.5% versus 3.8% for the Index.

Matthew Goodson, CFA