Salt NZ Dividend Appreciation Fund Fact Sheet – March 2022

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 March 2022

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$119.4 million
Inception Date	30 September 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 March 2022

Application	1.7187
Redemption	1.7117

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 March 2022

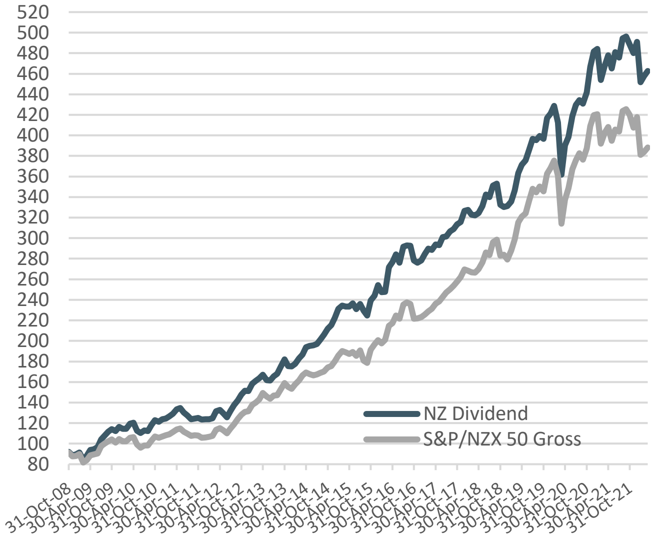
NZ shares	98.63%
Cash	1.37%

Fund Performance to 31 March 2022

Period	Fund Return*	Benchmark Return
1 month	1.08%	1.11%
3 months	-5.74%	-7.09%
6 months	-6.74%	-8.78%
1 year	-1.06%	-3.59%
2-year p.a.	13.08%	11.18%
3 years p.a.	8.36%	7.14%
5 years p.a.	9.88%	10.97%
7 years p.a.	10.26%	11.00%
10 years p.a.	13.39%	13.18%
Inception p.a.	12.01%	10.65%

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 March 2022*



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	Goodman Property Trust
Turners Automotive	Fisher & Paykel Healthcare
Marsden Maritime Holdings	Ryman Healthcare
Freightways	Auckland International Airport
Mainfreight	Contact Energy

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Quarterly Equities Market Commentary

The first quarter of 2022 was challenging for markets. Concerns over the need for a faster pace of interest rate hikes to combat higher inflation, along with the economic implications of Russia's invasion of Ukraine, weighed on both equity and bond markets. Russia is a major energy and commodity producer, with the invasion exacerbating both the current surge in inflation and already constrained global supply chains, posing risks to global growth.

Central banks became gradually more hawkish as the transitory inflation narrative was overtaken by rising core inflation, higher inflation expectations and stronger wage inflation. As central banks became more hawkish, bond yields rose rapidly as the market feared they are now seriously behind the curve.

Even the European Central Bank was more hawkish than expected and indicated the end of its asset purchase program was likely some time in Q3 2022 and declined to push back on expectations of rate increases before the end of the year. The US Federal Reserve hiked the Fed funds rate for the first time this cycle in March.

The flattening of the US yield curve and, at times, inversion of certain parts of the curve has generated a degree of consternation about the prospect of recession in the US. An important consideration is that through history there has been an average 19-month lag between the inversion of the yield curve and the onset of recession. We don't dismiss the prospect of future recession but it's important to not get too negative too soon.

The RBNZ hiked the OCR by 25bp for a third time in February. A more hawkish than expected statement sets the scene for more aggressive hikes in the next few months. This fits well with our view that the RBNZ needs to get the OCR to neutral as fast as possible which argues for 50bp hikes in both April and May.

Salt NZ Dividend Fund Commentary

The Fund delivered strong outperformance in the March quarter, declining by -5.74% compared to the -7.09% delivered by the S&P/NZX50 Gross Index. This is exactly as one would expect given the low beta nature of the Fund and did occur in the face of 10-year bond yields rising from 2.37% to 3.27%.

The quarter was notable for there being no positions that were materially problematic for the Fund, with the largest individual detractor being the good-sized overweight in Turners (TRA, -8.3%) on fears of the impact of Omicron. They did reiterate the top-end of their guidance range late in the period. A tiny residual holding in Vital Networks (VTL, -43%) was weak in the aftermath of their surprising failure to win the Government's digital radio contract. Other slight headwinds came from overweights in Sky City (SKC, -8.0%), Investore Property (IPL, -10.6%) and Mainfreight (MFT, -10.8%).

By far the largest positive contributions came from being under-weight or zero-weight a number of high beta names which were hard-hit in the quarter on a mixture of rising interest rates and a weaker economic outlook. The way was led by Ryman Healthcare (RYM, -23.4%) which is highly leveraged to any future slowdown in the NZ housing market. Other wins came from Pacific Edge Biotechnology (PEB, -27.8%) which fell in line with the sector globally, Fisher & Paykel Healthcare (FPH, -25.7%), Goodman Property (GMT, -7.9%), Oceania Healthcare (OCA, -21.6%) and Serko (SKO, -33.4%). The overweight in Spark (SPK, +5.2%) defied market weakness.

At quarter-end, we estimate the Fund has a forward gross dividend yield of circa 3.7%, which compares to our estimate of 3.1% for the benchmark.

Matthew Goodson, CFA