Salt NZ Dividend Appreciation Fund Fact Sheet – October 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 31 October 2023

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$107 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 October 2023

Application	1.5016
Redemption	1.4955

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 October 2023

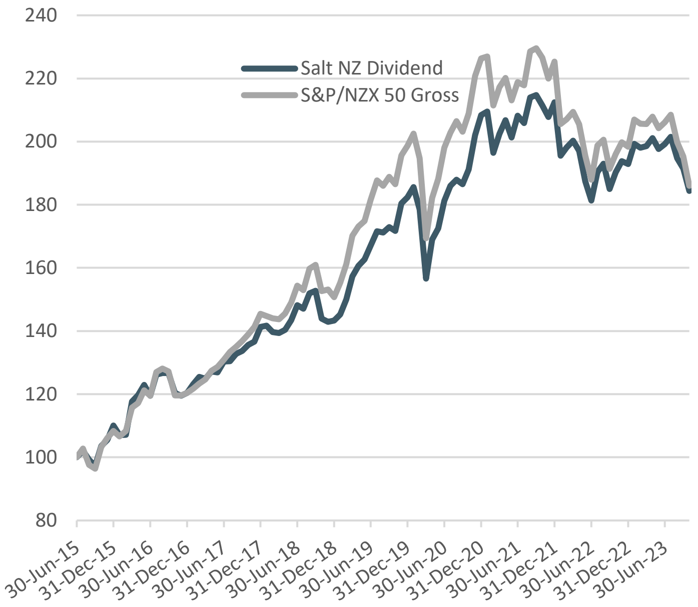
NZ shares	99.11%
Cash	0.89%

Fund Performance to 31 October 2023

Period	Fund Return*	Benchmark Return
1 month	-3.68%	-4.77%
3 months	-8.50%	-10.77%
6 months	-8.28%	-10.51%
1 year	-3.05%	-5.13%
2-year p.a.	-6.61%	-9.39%
3 years p.a.	-1.19%	-3.81%
5 years p.a.	5.07%	4.21%
7 years p.a.	6.27%	6.41%
10 years p.a.	8.87%	8.16%
Inception p.a.	10.08%	8.62%

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 31 October 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	Goodman Property Trust
Marsden Maritime Holdings	Sky City
Freightways	Meridian Energy
Spark NZ	A2 Milk

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Equities Market Commentary

Markets fell in unison through October as geo-political tensions weighed on market sentiment following the start of Israel-Hamas hostilities. Bond yields rose sharply in response to buoyant economic data which supported the "higher for longer" mantra, coupled with rising concerns about fiscal sustainability. Developed market equities fell 2.9% (in USD) while global bonds were down 1.2% (in USD).

US markets had to contend with strong retail sales, and blowout jobs and GDP reports. Inflation data also came in higher than expected. This resilience in the data suggests the Fed may have to keep interest rates at these higher levels longer. Conversely, the Eurozone was fragile. Latest bank surveys by the ECB highlighted contracting business and household credit. Forward-looking indicators such as PMI surveys continued to weaken, with the composite index down a further 0.7 points to 46.5 in October.

In Japan, 10-year yields moved higher as persistent price pressure led markets to question the ongoing sustainability of the Bank of Japan's Yield Curve Control Policy. Despite earlier attempts to defend its accommodative position, the BoJ made a further tweak to its YCC policy with the 1.0% upper limit now being referred to a "reference". Better looking industrial production, retail sales and GDP data out of China suggests policy easing efforts are starting to have some stabilising effect but continued weakness in the beleaguered property sector suggests the economy is not out of the woods yet. Further policy easing may be required.

The RBA left interest rates unchanged at the start of the month, but since then, activity and inflation data have printed stronger than expected. That has led to the rising expectations that the RBA will hike at its November meeting.

The NZ General Election delivered a new National-led government, although the final shape is yet to be determined. Economic data softened further and the labour market saw a noticeable easing in pressure as the unemployment rate rose from 3.6% in June to 3.9%. This supports our view that the RBNZ has tightened enough and now just needs to be patient.

Salt NZ Dividend Fund Commentary

While October was a very weak month for markets, the Fund outperformed strongly with a decline of -3.68% compared to the sharp -4.77% retracement recorded by the S&P/NZX50 Gross Index. As in the September quarter, this is consistent with the Fund's history of particularly adding value in weak and choppy markets due to its relatively low beta nature.

After many months of there being limited performance dispersion across our holdings, the Fund's sizeable long-held position in Turners (TRA, +11.2%) was a marked outperformer. This was a follow-on from their robust update at their ASM back in August and was perhaps driven by a realisation that they are highly likely to enter the S&P/NZX50 Index in December. Their core used car business is doing well thanks to market share gains, while they are now through the worst of the margin headwind on their finance book caused by being only partially hedged to rising short term interest rates.

Other positive drivers were of a smaller magnitude but the overweight in Tower (TWR, +3.2%) did well as they delivered a small profit upgrade thanks to the absence of any major events in the last few weeks of their September year. It is remarkable to think that they will still make a profit in this year of biblical downpours. We see the stock as being remarkably cheap in a normalised claims year, positively exposed to higher interest rates and entering a point in the cycle where premium inflation starts to finally rise more quickly than moderating claims cost inflation. Underweights in Auckland Airport (AIA, -7.2%), Ryman (RYM, -10.0%) and a2 Milk (ATM, -8.3%) also assisted.

Headwinds were limited, with the only one of note being our moderate overweight in Freightways (FRW, -8.7%), which delivered an earnings downgrade due to the economic cycle and lower paper prices for the document destruction business. This is a high-quality name that we will add to at the appropriate juncture as the market teases out a cyclical bottom. It closed the month at $7.45 versus (over-priced) 2021 highs of over $13. At month-end, we project the Fund to yield 5.0% versus 4.3% for the Index.

Matthew Goodson, CFA