Salt NZ Dividend Appreciation Fund Fact Sheet – September 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 September 2023

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$110 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 September 2023

Application	1.5589
Redemption	1.5526

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 September 2023

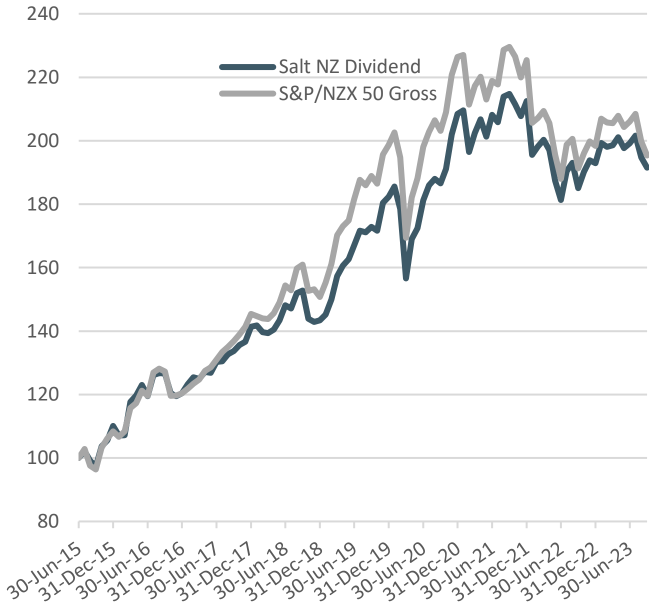
NZ shares	97.89%
Cash	2.11%

Fund Performance to 30 September 2023

Period	Fund Return*	Benchmark Return
1 month	-1.66%	-2.23%
3 months	-3.88%	-5.20%
6 months	-3.56%	-4.96%
1 year	3.49%	2.08%
2-year p.a.	-5.57%	-7.76%
3 years p.a.	0.87%	-1.30%
5 years p.a.	4.60%	3.85%
7 years p.a.	6.06%	6.31%
10 years p.a.	9.69%	9.08%
Inception p.a.	10.42%	9.03%

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 September 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

Equities Market Commentary

The quarter saw global equities stumble in the face higher bond yields. The MSCI World Index fell -3.4% (in USD) over the quarter, though it was still up a healthy 11.1% year-to-date. US 10-year bond yields rose from 3.88% to 4.54% and the global aggregate bond benchmark declined -3.6%.

Bond markets trembled as they realised that interest rates would remain higher for longer as central banks sought to tame stubbornly high inflation. Fiscal sustainability has been another focus, particularly in the USA, where concerns are rising about the amount of issuance from the large fiscal deficit. Oil prices surged 28% and present another headwind to consumer demand and will be problematic for central banks as headline inflation reaccelerates.

Key US activity data expanded. Third quarter GDP growth is tracking at a healthy 1.2% (q/q annualised). Headline inflation rose again on the back of higher oil prices, but core declined to an annual 4.3%. The Fed left interest rates unchanged in September, though projections showed one more hike and less easing next year. The ECB raised its deposit rate by 25bps to 4% but the Bank of England, in a surprise move, left rates unchanged at 5.25%.

China economic data improved in August with a reacceleration in both retail sales and industrial production and, after a brief flirtation with deflation, the annual rate of CPI inflation rose to 0.1%. Real estate distress remained a key focus, but the authorities have been eager to signal support by easing banks' Reserve Requirement Ratio. In Japan, the BoJ kept its policy stance unchanged, maintaining its widened Yield Curve Control. The Statement was dovish although Governor Ueda didn't push back on speculation of further monetary policy normalisation in the months ahead.

Australian activity and inflation data came in stronger than expected though the RBA, in its first meeting under new Governor Michele Bullock, left rates unchanged for a third consecutive meeting. We see a high chance of a further hike at the November meeting. In NZ, the RBNZ unsurprisingly left interest rates unchanged at the August Monetary Policy Statement but emphasised the higher for longer message.

Salt NZ Dividend Fund Commentary

The Fund outperformed strongly in the September quarter, declining by -3.88% compared to the sharp -5.20% retracement recorded by the S&P/NZX50 Gross Index. This is consistent with the Fund's history of generally adding value when markets decline and makes sense given its relatively low beta nature. As we had commented in the monthlies during the period, there was very little performance dispersion across the Fund's array of holdings in the quarter, with the outperformance being the summation of many modest positives and no large negatives.

The Fund's large, long-held position in Turners (TRA, +5.2%) did well in the period. Considering the parlous state of the economy, they delivered a surprisingly robust update at their ASM in August and it is encouraging that 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 notable tailwinds came from three of our larger underweights. Sky City's (SKC, -11.8%) result was largely as expected but Adelaide was a little soft, while the regulatory and ESG headwinds are only strengthening. Auckland Airport (AIA, -6.8%) fell following the successful sell-down of the Auckland Council stake. We believe it is fundamentally expensive, traffic is taking time to return to pre-Covid levels and the regulatory backdrop is more challenging than they portray. A2 Milk (ATM, -14.8%) was hammered over -12% on the day of their result release, and while they are performing solidly relative to peers, the outlook for Chinese birth-rates and thence infant formula demand is weak.

Detractors were very limited and barely merit a mention. We were naturally underweight Pacific Edge Biotechnology (PEB, +39.1%) but this was tiny, as was having no holding in the travel software business Serko (SKO, +14.7%). Other slight headwinds came from not owning Tourism Holdings (THL, +0.9%), Channel Infrastructure (CHI, +8.8%) or Skellerup (SKL, +5.0%). At month-end, we project the Fund to yield 4.8% versus 4.1% for the Index.

Matthew Goodson, CFA