Salt NZ Dividend Appreciation Fund Fact Sheet – July 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 July 2021

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$93.1 million
Inception Date	31 July 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 July 2021

Application	1.7951
Redemption	1.7878

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 July 2021

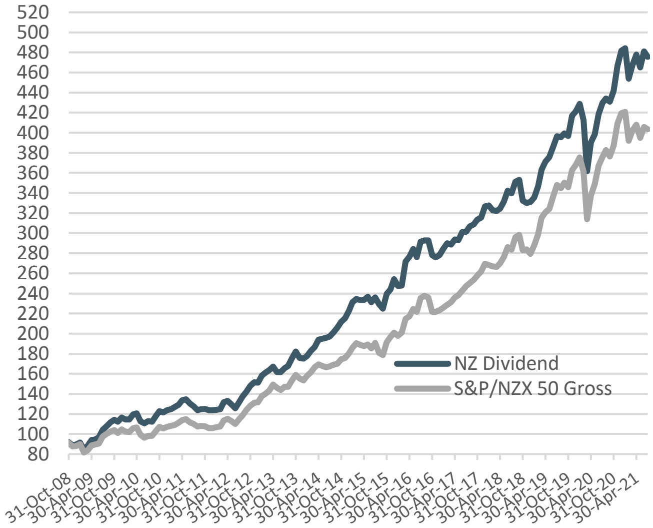
NZ shares	99.76%
Cash	0.24%

Fund Performance to 31 July 2021

Period	Fund Return*	Benchmark Return
1 month	-1.11%	-0.47%
3 months	-0.45%	-1.07%
6 months	-1.76%	-4.06%
1 year	10.69%	7.39%
2-year p.a.	9.52%	7.70%
3 years p.a.	11.83%	12.18%
5 years p.a.	10.27%	11.38%
7 years p.a.	13.40%	13.57%
10 years p.a.	14.07%	14.01%
Inception p.a.	12.91%	11.57%

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

Cumulative Fund Performance to 31 July 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
Turners Automotive	Ryman Healthcare
Tower	Ports of Tauranga
Spark NZ	Auckland International Airport
Marsden Maritime Holdings	Goodman Property Trust
Sky City	Fisher & Paykel Healthcare

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Monthly Equities Market Commentary

The global recovery continued in July. The ongoing rollout of the Covid vaccine allowed restrictions on activity to be reduced further across a number the world's major economies. Sentiment was dented somewhat however with the increased spread of the more contagious Delta variant.

Bond yields fell sharply as the spread of the Delta variant raised concerns there may be a setback to the economic recovery. This boosted equities, with the MSCI World Index rising 1.8% (in USD) over the month and 35.7% over the year.

Emerging markets lagged developed market equities, falling -6.7% (in USD), led by China where unpredictable regulatory changes triggered a sharp decline in stocks.

In the USA the differing messages from equity and bond markets were stark. The S&P 500 hit all-time highs, ending +2.4% higher and +34.4% over the year. However, Treasury yields rallied to their lowest since February. There were a number of factors – the renewed spread of Covid, concerns the US economy may be passed its peak and signs the Federal Reserve was only moving incrementally towards removing stimulus. Technical factors also appear to have been at play in the bond markets. The 10-year US Treasury yield ended the month at 1.23%, down from 1.47%.

The major development in Europe was the European Central Bank's strategic review which saw it adopt a more symmetric 2% inflation target compared to the previous "below but close to 2%". This confirmed that monetary conditions are on hold in Europe for the foreseeable future. At the same time, the purchasing managers' index data for July pointed to economic growth gathering pace. The FTSE Europe ex-UK index rose 2.1% (in EUR) over the month and 33.9% over the year. In the United Kingdom the FTSE All-Share index was up 0.4% over the month (in GBP) and 22.8% over the year.

Recent data out of Japan has been downbeat and is unlikely to improve any time soon given the re-imposed state of emergency around the Tokyo area. The closely followed and more forward-looking Tankan survey has improved recently but only modestly. The TOPIX index returned -2.2% (in JPY) over the month and is up 21.7% over the year.

The Australian economy has been performing well. Activity has been growing strongly and the unemployment rate has fallen to 4.9%, prompting the Reserve Bank of Australia to announce the tapering of its asset purchase program. The outlook has however become more uncertain with the renewed spread of Covid and a number of states reimposing lockdowns. The S&P/ASX200 rose 1.1% (in AUD) over the month and 24.7% over the year.

In NZ, the economy continues to perform well but signs of over-heating and that the RBNZ is seriously behind the curve continue to build. The RBNZ ended its asset purchase program towards the end of the month and there is now universal expectation the RBNZ will start to raise interest rates in August – the only questions now being how high the Official Cash Rate needs to go and how fast. At the same time however, NZ bond yields were not entirely immune from the global rally. NZ 10-year yields fell from 1.77% over the month to 1.51%. The NZX50 fell 0.5% (in NZD) over the month to be up 7.4% over the year, but down 7.1% from the peak in January this year.

Salt NZ Dividend Fund Commentary

After having had a strong June quarter, the Fund lagged its benchmark in the month of July, with a return of -1.11% compared to the -0.47% decline by the S&P/NZX50 Gross Index.

In what was a very quiet month for the market, there was an unusual lack of large positive contributions, with the only one of any note being the underweight in Pushpay (PPH, -5.6%).

Conversely, there were an array of modest negatives which combined to see the Fund lag overall during the month. The largest drag was the overweight in Sky City (SKC, -8.3%) which appeared to suffer collateral damage from the behavioural woes of Crown Casino and a brief lockdown affecting their Adelaide Casino. The stock stands out as cheap and with good earnings momentum relative to an expensive market but it will never be a massive overweight given the ESG risks.

The other main headwind was the overweight in Tower (TWR, -4.7%) which was sold off on West Coast flooding events even though they are already at their reinsurance limit. The overweight in Turners (TRA, -3.3%) and underweights in Goodman Property (GMT, +5.6%) and Z Energy (ZEL, +7.7%) also dragged on returns. NZ property stocks outperformed, partly on the potential for the inclusion of several more of them in the global FTSE-EPRA NAREIT Index. Collectively the Fund's underweight in what we consider an expensive sector cost 0.13%.

At month-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. At quarter-end, we estimate the Fund has a forward gross dividend yield of circa 3.9%, which compares to our estimate of 3.0% for the benchmark.

Matthew Goodson, CFA

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