Salt NZ Dividend Appreciation Fund Fact Sheet – December 2020

Manager Profile

Salt Funds Management is a boutique investment management firm wholly owned by its employees which specialises in managing NZ/Australian equity and listed property mandates for wholesale and retail clients.

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 December 2020

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$106 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 December 2020

Application	1.8378
Redemption	1.8304

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 December 2020

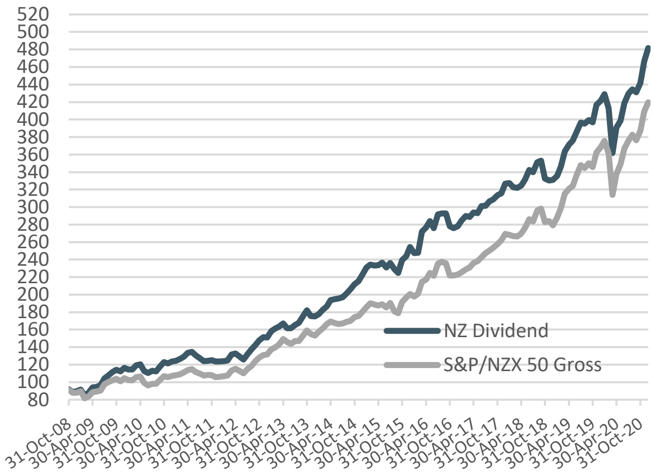
NZ shares	98.06%
Cash	1.94%

Fund Performance to 31 December 2020

Period	Fund Return*	Benchmark Return
1 month	3.19%	2.53%
3 months	11.74%	11.44%
6 months	15.04%	14.32%
1 year	14.30%	13.92%
2-year p.a.	20.54%	21.89%
3 years p.a.	13.80%	15.95%
5 years p.a.	13.61%	15.66%
7 years p.a.	15.53%	15.63%
10 years p.a.	14.54%	14.74%
Inception p.a.	13.69%	12.51%

Performance is after all fees and does not include imputation credits or PIE tax.
*From 1 November 2008 to 30 June 2015, performance is from a fund with the same strategy and the same portfolio manager.

Cumulative Fund Performance to 31 December 2020*



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	Meridian Energy
Spark NZ	Ports of Tauranga
Marsden Maritime Holdings	Auckland International Airport
Oceania	Ryman Healthcare

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NZ Market Commentary

Markets extended strong returns from November into the final month of the year, lifting the MSCI World Accumulation Index a further 4.2%. The final quarter performance of +14% did most of the heavy lifting in getting the 2020 annual return up to +15.9%.

US markets started the quarter being wary of a Democratic sweep (winning the House, Sensate and Presidency), then surged in November on a possible split with Republicans likely to retain control of the Senate and restraining Biden's agenda. The rally continued into December, as the S&P500 added +12.1% over the quarter, lifting the annual return to +18.4% despite a third wave of Covid-19 and surging fatalities in the US. The tech-heavy NASDAQ posted a stronger quarter (+15.4%) and calendar year return (+43.6%), with some businesses being direct beneficiaries of the structural work-from-home shift and pull forward of digitised workload, whilst others seem disconnected with fundamentals (Tesla). Vaccine efficacy data and emergency approvals meant vaccination rollouts started, fuelling optimism.

European stocks were supported by the US move and vaccine rollout, despite some countries re-entering various degrees of lockdowns given rampant third waves of Covid-19. The UK's FTSE100 added +10.9% in the quarter, reducing the years loss to -11.5% as the country suffered under Covid-19 and Brexit uncertainty. Germany's DAX30 posted a +7.5% return in the quarter to eke out a small gain of +3.5% for the year, while France's CAC rose +15.8% in the quarter, remaining underwater for the year at -5.0%.

November's record was added to in December in Australia with the S&P/ASX200 up +13.7% in the quarter just nudging the annual return into positive territory (+1.2%). The Tech sector was the standout performer through 2020 (+56%), while the key laggards were Energy (-30%) and Utilities (-22%).

In New Zealand, the S&P/NZX50 Gross rose +11.4% in the quarter lifting the 2020 return to +13.9%. The performance in Q4 was led by Pacific Edge Biotechnology (+94%) on favourable research reports from two brokers, Fletcher Building (+53%) and Mainfreight (+52%) on positive earnings updates. The standout notable detractors were a2 Milk (-21%) on weaker than expected demand for infant formula and Pushpay (-18%) on slowing customer growth.

Salt NZ Dividend Fund Commentary

The Fund pleasingly outperformed its benchmark in the December quarter, advancing by +11.74% compared to the +11.44% turned in by the S&P/NZX50 Gross Index. Normally, such a strong period might see the low beta strategy of this Fund lag a little but a mix of strong stock selection and a move in the market towards more cyclical securities assisted in driving outperformance.

A largest positive contribution came from Turners (TRA, +25.0%), whose high yield and diversified growth outlook make it a natural fit for the Fund. Their result and forward guidance delivered in November were solid. TRA is benefitting from a very strong credit performance in their finance book and strong margins are more than offsetting a shortage of used cars.

The second key tailwind was from what had previously been our long-suffering position in Tower Limited (TWR, +18.3%). The settlement of their land remediation dispute with the EQC puts them in a position to potentially pay strong dividends, do share buybacks and grow strongly both organically and inorganically. A small step in the latter was their purchase of a boat insurance referral agreement from Club Marine, which is exiting the market. Their result was strong but their 5% profit growth guidance struck us as a little light given their 5% GWP growth expectations and further cost reductions but this likely reflects a mix of lower investment earnings and low-balling. One negative is that several weather events during the quarter make it likely they will be hit on their full reinsurance excess again in 2021.

Other notable positives came from moderate overweights in Oceania Healthcare (OCA, +27.2%), Infratil (IFT, +48.3%) and Contact Energy (CEN, +34.0%).

The largest headwind came from our underweight in Meridian Energy (MEL, +49.9%). MEL is fundamentally expensive both in itself and relative to its listed peers. However, this has been accentuated by its inclusion in the S&P Global Clean Energy Index with a weighting of over 5%. Two huge clean energy ETF's are benchmarked to this index, with these having grown exponentially from US$2.5bn to US$12bn since the election of Joe Biden. This is a classic example of passive indices starting to become too big for the underlying securities that comprise it. MEL will likely be rebalanced down in the index but this is unlikely until April and its path in the interim will no doubt continue to be volatile.

Other headwinds were relatively modest in terms of their magnitude and came from underweights in Genesis Energy (GNE, +23.5%), Mainfreight (MFT, +52.0%) and Air New Zealand (AIR, +31.4%).

Matthew Goodson, CFA