Salt NZ Dividend Appreciation Fund Fact Sheet – November 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 30 November 2022

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$92 million
Inception Date	30 November 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 November 2022

Application	1.6037
Redemption	1.5972

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 November 2022

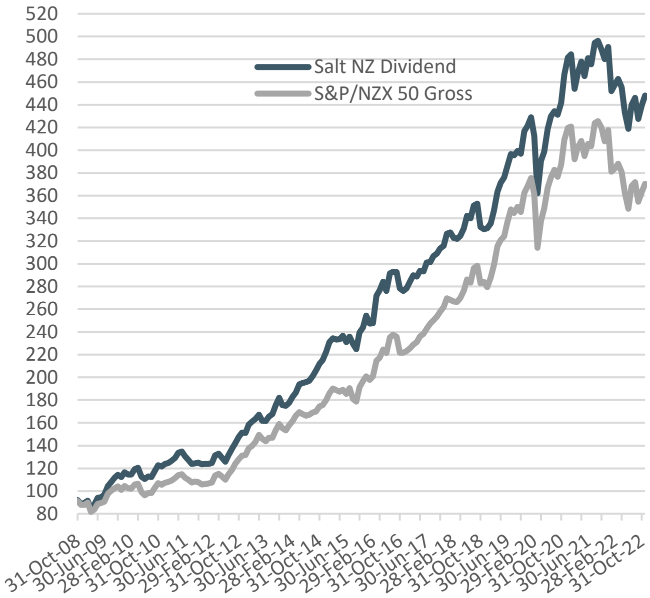
NZ shares	98.94%
Cash	1.06%

Fund Performance to 30 November 2022

Period	Fund Return*	Benchmark Return
1 month	1.90%	1.88%
3 months	0.43%	-0.42%
6 months	3.44%	2.16%
1 year	-6.69%	-9.18%
2-year p.a.	-2.04%	-4.88%
3 years p.a.	2.42%	0.69%
5 years p.a.	7.24%	7.13%
7 years p.a.	9.06%	9.55%
10 years p.a.	11.45%	11.05%
Inception p.a.	11.16%	9.76%

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

Cumulative Fund Performance to 30 November 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	Auckland International Airport
Turners Automotive	Ryman Healthcare
Marsden Maritime Holdings	Goodman Property Trust
T&G Global	Vital Healthcare Property Trust
Mainfreight	Skellerup Holdings

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

Equities Market Commentary

Equity markets continued their recovery from mid-October's lows with developed markets rising a healthy 7% and emerging markets up nearly 15% (in USD). Despite further aggressive 75bp rate hikes from both the Fed and the BoE, the Global Aggregate Bond Index rallied 4.7% (in USD) over the month on softer US inflation data raising hopes the Fed may slow the pace of rate hikes.

China has started to tentatively ease Covid controls and has stepped up efforts to vaccinate the elderly. Markets rallied on the back of hopes of an eventual end to Covid-zero. Activity data in China was mostly weaker than expected and monetary policy was eased somewhat.

Australian data was mixed with the labour market being resilient but retail sales suffered their first fall of 2022 in October as rising prices and higher interest rates finally seemed to have an impact on spending. The RBA has continued to hike at the reduced rate of 25bp per meeting, despite higher than expect Q3 inflation data.

The RBNZ delivered its largest ever interest rate increase of 75bps in November, taking the OCR to 4.25%. Cementing the hawkishness even further was the admission the Bank had considered a 100bp hike. The projected terminal rate of the OCR was lifted from 4.1% to 5.5%, higher than was expected by the market. The NZD has rallied 10% since its lows in early October, reflecting a combination of hawkish domestic monetary policy and the softer USD. Very soft ANZ Business Outlook survey readings in November suggest the NZ economy may already be close to recession and that a 5.5% OCR may not ultimately be required.

Salt NZ Dividend Fund Commentary

The Fund performed almost in line with the market in November, returning +1.90% compared to the +1.88% turned in by the S&P/NZX50 Index. This index-like return was far from passive under the hood, with there being two notable contributors and detractors.

The largest positive was our large overweight in Tower Limited (TWR, +7.6%) after a solid result which the market responded to positively. TWR is a rare beneficiary of rising interest rates as their insurance float will move from earning nothing to be a material profit stream. TWR is now largely through the worst of the claims cost cycle, where it takes a year for policies to turn over and be re-priced. A major swing factor from here is large events. TWR has had $20-$23m in the last 2 years and assumes $30m in this year's guidance. There have been none so far and there have been a number of sub-$10m years in the past. Analysts are running with the full $30m impost and this is a hugely material swing factor in the context of their $27m-$32m guided NPAT range.

The second key tailwind was our long-held underweight in Ryman Healthcare (RYM, -20.6%). Their result was a little weak but what really spooked the market was a blow-out in their debt to concerning levels. This has occurred while new sales and resales have held up moderately well in the housing downturn. The balance sheet pressure will only grow from here as prospective residents find it hard to sell their own home to move into a retirement unit.

The largest drag came from being moderately underweight the low-yielding Fisher & Paykel Healthcare (FPH, +20.5%) whose result suggested that they may have reached bottom as they recover from hospitals over-ordering during Covid. From here, the market has a wide range of views as to how quickly FPH can grow but their heavy R&D is indisputable, with the key question being the returns it will generate.

The other drag of note came from our moderate long-standing holding in Marsden Maritime (MMH, -7.3%). Their ASM generated no new information and if anything highlighted the strong growth opportunities that MMH has, although these do come with some questions around funding. The pullback was perhaps a degree of catch-up with weakness in the other listed ports.

At month-end, we estimate the forward dividend yield for the Fund to be 4.7% versus 4.1% for the index.

Matthew Goodson, CFA