Salt NZ Dividend Appreciation Fund Fact Sheet – October 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 October 2021

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$101.3 million
Inception Date	30 September 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 October 2021

Application	1.8439
Redemption	1.8365

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 2021

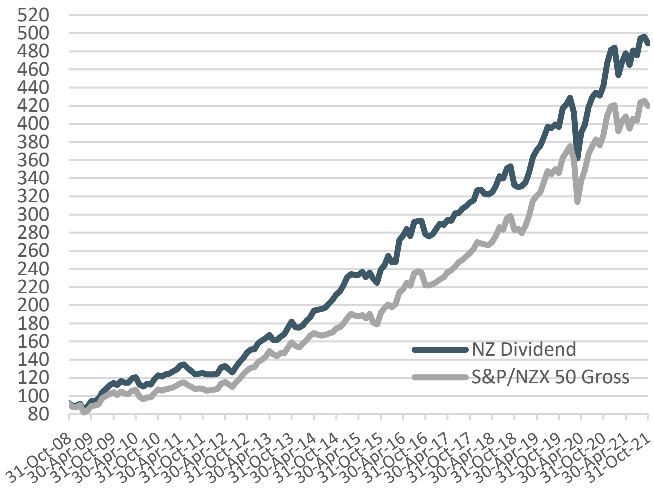
NZ shares	97.27%
Cash	2.73%

Fund Performance to 31 October 2021

Period	Fund Return*	Benchmark Return
1 month	-1.52%	-1.33%
3 months	2.72%	4.01%
6 months	2.27%	2.90%
1 year	10.63%	8.40%
2-year p.a.	10.98%	10.20%
3 years p.a.	13.66%	14.39%
5 years p.a.	11.90%	13.48%
7 years p.a.	12.66%	13.53%
10 years p.a.	14.59%	14.67%
Inception p.a.	12.88%	11.67%

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

Cumulative Fund Performance to 31 October 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
Tower	Ryman Healthcare
Turners Automotive	Auckland International Airport
Marsden Maritime Holdings	Goodman Property Trust
Spark NZ	Fisher & Paykel Healthcare
Meridian	Property For Industry

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Monthly Equities Market Commentary

Global stock markets regained momentum during October with many indices making new highs. The key catalyst was a solid start to the US earning season and high frequency economic data improved in many countries over the month. Progress in vaccination campaigns reduced the risk of a return to widespread economic and social restrictions. China is the main exception as it continues to implement a Covid elimination strategy. The MSCI World index rose 5.6% (in USD terms) over the month to be up 38.5% over the year.

Fixed income markets were volatile and ended weaker as increased signs of persistent inflation pressure saw markets price in expectations of an earlier and faster pace of monetary policy tightening by key central banks. Volatile energy prices also added to this.

US Q3 GDP came in at only 2% annualised, with supply chain issues and labour shortages constraining activity. The CPI printed at 5.4% y/y with core inflation at 4.0% y/y. This saw heightened expectation of an imminent tapering of the Fed's QE program and the pricing of higher interest rates from late 2022. The S&P 500 hit fresh all-time highs during the month, ending +6.9% and +40.8% for the year. The 10-year yields ended the month at 1.56%, up from 1.53% at the end of the September but down from the intra-month high of 1.67%.

In Europe, the ECB continues to argue the transitory nature of current inflation pressures and pushed back on escalating expectations of higher interest rates. The FTSE Europe ex-UK index rose 4.9% (in EUR) over the month and 39.1% over the year. The Japanese TOPIX index returned -1.4% over the month and is +26.7% over the year.

Evidence of a sharp slowdown in the Australian economy mounted as the key states of NSW and Victoria remained under Covid-related restrictions for most of the period. Re-opening activity levels will be a key test. The evident slowdown in the Chinese economy continues to cloud the outlook. Late month, a higher-than-expected underlying inflation reading saw the RBA abandon yield curve control but push back hard on market expectations of any early interest rate increases. The S&P/ASX200 fell -0.1% over the month and was +23.6% over the year.

The NZ economy is in the midst of a sharp slowdown on the back of renewed Covid restrictions implemented in August. At the same time, inflation continues to rise, the labour market remains tight and the RBNZ delivered the first interest rate hike of this cycle during the month. New Zealand 10-year yields rose sharply from 1.97% to 2.61%. The NZX50 fell -1.3% and is +8.4% over the year.

Salt NZ Dividend Fund Commentary

The Fund performed almost in line with the benchmark during the month of October, returning -1.52% compared to -1.33% for the S&P/NZX50 Gross Index. The month was unusually quiet in terms of market turnover and individual return dispersion. A sharp rise in NZ 10-year bond yields from 1.97% to 2.61% weighed on income-generating names to some degree.

The largest contributor by was the underweight in Ryman Healthcare (RYM, -4.3%). Retirement village stocks lagged the market as it is becoming increasingly apparent that inflationary pressures will force the RBNZ to tighten a number of times in the period ahead. This may weigh on the housing market and thence the retirement sector. We are also concerned that wage pressure may be exceeding funding growth in the care component of these companies' businesses. An equity raising by Arvida to purchase the Arena Living assets also weighed.

Other positive contributors were the overweight in Marsden Maritime (MMH, +3.8%) and underweights in Pacific Edge Biotechnology (PEB, -3.9%), Vital Healthcare Property (VHP, -4.2%) and Fisher & Paykel Healthcare (FPH, -3.2%).

The largest headwind came from the overweight in the high-yielding Spark (SPK, -4.5%) which drifted off as bond yields rose. Tower (TWR, -2.3%) was again a slight laggard but it has a very high yield, a fortress balance sheet, positive exposure to rising interest rates and will soon put a very tough claims year behind it. A final hit came from a small holding in Vital Limited (VTL, -17.4%) which surprisingly missed out on a government contract to roll out a digital radio network.

At month-end, we estimate the Fund has a forward gross dividend yield of circa 3.3%, which compares to our estimate of 2.7% for the benchmark.

Matthew Goodson, CFA