SALT

Salt NZ Dividend Appreciation Fund Fact Sheet – September 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 September 2022

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$108 million
Inception Date	30 September 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 September 2022

Application	1.5593
Redemption	1.553

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 2022

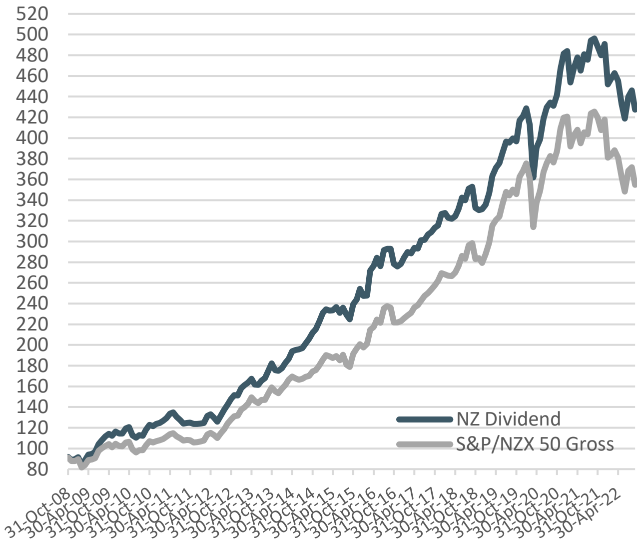
NZ shares	98.51%
Cash	1.49%

Fund Performance to 30 September 2022

Period	Fund Return*	Benchmark Return
1 month	-4.15%	-4.61%
3 months	2.05%	1.81%
6 months	-7.62%	-8.62%
1 year	-13.85%	-16.65%
2-year p.a.	-0.41%	-2.95%
3 years p.a.	2.29%	0.42%
5 years p.a.	6.70%	6.89%
7 years p.a.	9.61%	10.24%
10 years p.a.	11.63%	11.18%
Inception p.a.	10.93%	9.54%

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 30 September 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	Ryman Healthcare
Turners Automotive	Auckland International Airport
Marsden Maritime Holdings	Goodman Property Trust
Fletcher Building	Vital Healthcare Property Trust
T&G Global	Mercury Energy

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Equities Market Commentary

After a strong initial rally, equity and bond markets sold off sharply in August and September. In USD terms, developed market equities ended the quarter -6%, while global bonds fell -7%.

August saw the Fed dash prior hopes of a pivot as they renewed their commitment to prioritise returning inflation to target over supporting growth. Most key global central banks raised interest rates over the quarter, by 1.5% (in the US) and 1.25% (in the eurozone). Markets priced in significantly higher terminal rates as the quarter progressed. Headline inflation moderated but core inflation remains well in excess of central bank targets, supporting further tightening.

The global growth outlook continues to weaken and the odds of a "soft landing" are diminishing in several countries. Despite a technical recession in 1H22, the US economy remains resilient, with a 3.7% unemployment rate and wage growth above 5%. The energy crisis continues to dominate the headlines in Europe as Russia halted all gas flows through the Nord Stream 1 pipeline. Activity data weakened and recession now appears the most likely outcome. However, with inflation still stubbornly high, the ECB will continue to hike. China remains fragile as it confronts a number of headwinds including its zero-Covid policy, weather-related disruptions and weakness in the housing market. Fiscal policy was the hot topic in the UK towards the end of the quarter. The announcement of significant unfunded tax cuts by the new Chancellor brought a severe negative bond market reaction which imperilled some pension funds and forced BoE intervention.

NZ Q2 GDP data came in stronger than expected but the underlying detail was soft as consumer spending dropped sharply. The RBNZ raised the Official Cash rate 100bps over the quarter to 3.0% and flagged a terminal rate of 4.1% at the August Monetary Policy Statement. We expect growth conditions will continue to deteriorate as central banks continue to tighten with terminal rate likely to be met in late 2022 or early 2023.

Salt NZ Dividend Fund Commentary

The Fund outperformed in the September quarter, returning +2.05% compared to the +1.81% turned in by the S&P/NZX50 Index.

There were no major stand-out stocks from either side of the ledger but the largest contributor was the moderate overweight in the small cap Marsden Maritime (MMH, +8.2%). They reported a solid result and the market perhaps started to price in the possibility of a future step-change in their business if Wayne Brown becomes the Mayor of Auckland. A modest overweight in Freightways (FRE, +9.7%) assisted following a stronger result than the market had feared in the face of a slowing economy and fuel/labour cost pressures. The market also reacted well to the major expansion of their Australian footprint with the purchase of Allied Express.

Other positives were having no holdings in Pacific Edge Biotechnology (PEB, -26.5%) or Restaurant Brands (RBD, -29.2%). RBD is retracing from very expensive levels, it is facing sizeable cost pressures and it saw the resignation of their successful CEO and CFO. PEB suffered a surprise setback from a draft recommendation that Medicare no longer reimburse their tests. PEB believes that this is extremely unlikely to hold up in the final review and that a future strengthening of CxBladder in the treatment guidelines will ultimately make this moot in any case.

Headwinds were led by having a modest underweight in a2 Milk (ATM, +24.1%) whose result comfortably surpassed expectations. This has always been a difficult stock for the Fund, in that it has a large index weight but only offers a meagre future dividend yield several years out. A small underweight in Contact Energy (CEN, +6.5%) detracted as did modest overweights in Mainfreight (MFT, -1.9%) and Kiwi Property (KPG, -4.5%). However, the Fund was underweight property stocks overall which assisted.

At month-end, we estimate the forward dividend yield for the Fund to be 4.8% versus 4.2% for the index.

Matthew Goodson, CFA