Salt NZ Dividend Appreciation Fund Fact Sheet – March 2023

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 March 2023

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$114 million
Inception Date	31 December 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 March 2023

Application	1.6425
Redemption	1.6358

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 March 2023

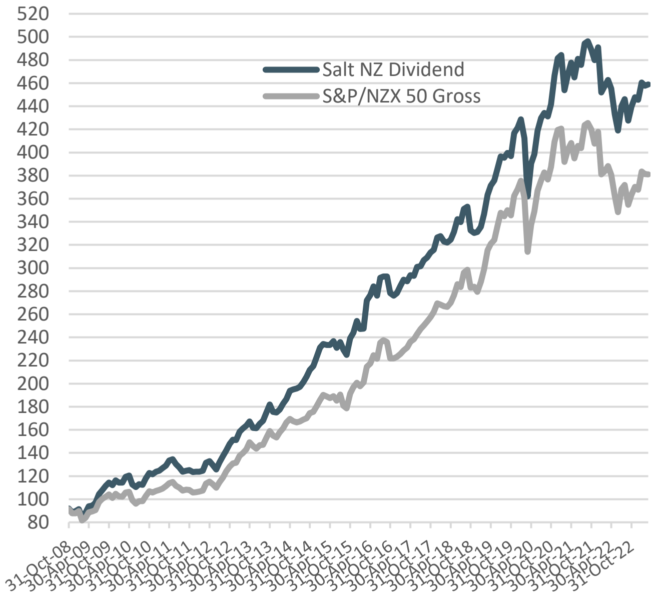
NZ shares	97.92%
Cash	2.08%

Fund Performance to 31 March 2023

Period	Fund Return*	Benchmark Return
1 month	0.23%	-0.08%
3 months	2.93%	3.58%
6 months	7.31%	7.40%
1 year	-0.87%	-1.86%
2-year p.a.	-0.96%	-2.73%
3 years p.a.	8.23%	6.65%
5 years p.a.	7.31%	7.39%
7 years p.a.	7.75%	8.41%
10 years p.a.	10.85%	10.39%
Inception p.a.	11.07%	9.74%

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

Cumulative Fund Performance to 31 March 2023*



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	Meridian Energy
Marsden Maritime Holdings	A2 Milk Company
Spark NZ	Mercury Energy
Argosy	Chorus Networks

Equities Market Commentary

Global growth generally surprised to the upside in 1Q23 enabled by lower energy prices and reflected in upbeat purchasing manager indices in Europe and the USA. Lower oil prices saw headline inflation rates ease but core inflation remains stickier, so central banks continued to tighten. Global equity markets were strong, with the MSIC World Index advancing +7.7% although it was down -7.0% over the year.

The collapse of Silicon Valley Bank and Signature Bank in March drove a swift response from policy makers amidst a brief bout of financial sector volatility. We see these issues as due to idiosyncratic factors relevant to each institution, where they made an ill-fated reach for long duration yield funded by callable deposits. It does show the lags between monetary policy actions and their impact being felt is just as relevant to the finance sector as it is to the real economy.

The US labour market remained resilient although the unemployment rate ticked higher and wage growth is moderating. The Federal Reserve hiked 25bp in March to a target range of 4.75%-5.00% but left the projected terminal rate at 5.1%. Similarly, the ECB hiked its deposit rate by 50bp, with the next move data dependent. The abandonment of China's Covid-zero policy led to a sharp rebound in economic activity, while inflation has remained surprisingly in check. 2023 is the first time in four years that economic, regulatory and Covid policies have been aligned in a pro-growth manner.

Recent Australian data has been mixed with GDP surprising to the downside, but the labour market continuing to surprise on the upside. The RBA hiked interest rates by 25 bp in February but paused the hiking cycle in early-April. The RBNZ remained resolute in raising the OCR by 50bp to 4.75% in February despite the devastation wrought by Cyclone Gabrielle. December quarter 2022 GDP came in significantly weaker than expected. While possible still reflecting Covid "noise", there are clear signs in the data that tighter monetary conditions are starting to bite.

Salt NZ Dividend Fund Commentary

The Fund slightly lagged its benchmark in the March quarter, rising by +2.93% compared to the +3.58% turned in by the S&P/NZX50 Gross Index.

The largest headwind came from the large, high-yielding position in Tower (TWR, -3.7%), which suffered two major events breaching their reinsurance deductible level within the space of three weeks thanks to the major Auckland floods and Cyclone Gabrielle. These were the first events of such size since 2011. TWR's reinsurance arrangements are robust but the cost of the deductible and reinstatement of new coverage saw a downgrade to this year's guidance. Future premia will rise sharply, leaving TWR very well placed if they can ever get a quiet claims year.

The other drag of note came from our underweight in Auckland Airport (AIA, +11.4%), which saw aggressive buying at levels which defy our cashflow based valuation metrics. There appears to be a view that the upcoming review of their regulated asset component may deliver upside but we see this as delivering their cost of capital at best and being offset at the bottom-line by their ever-growing interest expense.

Tailwinds came from a large number of names but their magnitude was very small, with there not being any stand-out positives of great note. The largest was being underweight a2 Milk (ATM, -15.4%), which fell sharply following the end of its buyback and possibly in sympathy with the woes of Synlait Milk (SML, -39.7%), which was also a relative winner for the Fund. Overweights in Turners (TRA, +3.6%) and Mainfreight (MFT, +3.7%) performed solidly.

At quarter-end, we project the Fund to yield 4.5% versus 3.9% for the Index.

Matthew Goodson, CFA