Salt NZ Dividend Appreciation Fund Fact Sheet – February 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 28 February 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 28 February 2023

Application	1.6386
Redemption	1.632

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 28 February 2023

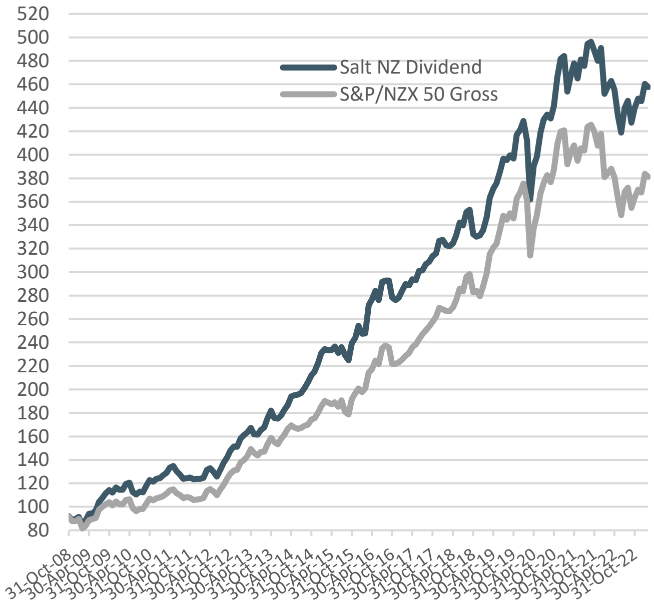
NZ shares	98.70%
Cash	1.30%

Fund Performance to 28 February 2023

Period	Fund Return*	Benchmark Return
1 month	-0.59%	-0.61%
3 months	2.18%	2.97%
6 months	2.62%	2.53%
1 year	-0.03%	-0.69%
2-year p.a.	0.42%	-1.37%
3 years p.a.	3.53%	1.84%
5 years p.a.	7.21%	7.27%
7 years p.a.	9.16%	9.68%
10 years p.a.	10.99%	10.66%
Inception p.a.	11.12%	9.80%

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 28 February 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	Chorus Networks
Mainfreight	Vital Healthcare Property Trust

Equities Market Commentary

After a strong start to the year, resilient economic data saw markets to give back some gains in February. Good news is bad news as it indicates central banks have more work to do and that rate cuts are distant. Developed market equities fell -2.4% (in USD), while the global bond index fell -3.3% (USD).

Central banks in the US, UK, Europe, Australia and NZ all hiked as expected during the month. They all signalled with varying degrees of nuance that they weren't done yet as inflation remains too high. The US January jobs report, retail sales and the CPI were all stronger than expected. This followed Fed Chair Powell's comments earlier in the month that the process of disinflation still has some way to go and that further rate hikes are likely needed.

In China, the end of Covid-zero and the swift re-opening of the economy is feeding a strong growth rebound. Excess savings accumulated during the lockdown will fuel forward consumption. Despite this, Chinese stocks were flat over the month on escalating geo-political tensions.

In Australia, the release of the RBA's February meeting minutes confirmed its hawkish tilt. This was followed by weaker than expected labour market data, suggesting the unemployment rate may have troughed but likely continued wage pressure means this is unlikely to alter the RBA's hawkish shift.

In NZ, Cyclone Gabrielle caused considerable devastation on the east coast of the North Island. Early indications are the repair bill may be in the order of NZ$13 billion. At its February meeting, the RBNZ raised the OCR a further 50bp to 4.75%. They said they would "look through" the near-term impacts of the cyclone on activity and inflation but expect both to be stronger over the medium-term as the rebuild gets underway.

NZ earnings season was a little weaker than expected across many companies although this was not uniformly the case. Similarly, the Australian earnings season was more bifurcated than normal, with 43% of companies missing (33% normally) and 38% beating (35% normally). We expect this may set the tone for 2023, with earnings rather than bond yields being the key risk from here.

Salt NZ Dividend Fund Commentary

The S&P/NZX50 Gross Index declined by -0.61% in February, which was actually a relatively solid performance given a rather mixed reporting season and 10-year bond yields rising from 4.18% to 4.64%. The Fund performed largely in line with this, posting a decline of -0.59%.

There were few major standouts during the month but one of the two positions which did distinguish itself was the underweight in Ryman Healthcare (RYM, -19.0%) which we have had for a considerable period. We have long viewed their free cashflow generation as being insufficient to fund their large development pipeline and their modest dividend. We also feared their vulnerability as a slowing housing market is impacting the speed at which capital is recycled from empty units. This came to a head with a heavily discounted $900m equity raising, which we supported to a degree to lessen some of the underweight position.

The large RYM raising also naturally weighed on the rest of the retirement sector, where we were underweight Oceania Healthcare (OCA, -12.4%) and Arvida (ARV, -12.9%). Our one slight overweight there is in the higher quality Summerset (SUM, -5.8%) whose result was solid and whose balance sheet is adequately positioned.

The devastating impact of Cyclone Gabrielle had a moderately negative impact on the Fund. There is no holding in Scales (SCL, -18.6%) but this was only a partial offset to the large overweight in Tower (TWR, -7.5%) which weighed to some degree. Their 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. Note that the two major events within the span of three weeks were the first such events hitting their reinsurance level since the Christchurch earthquakes of 2011.

A key index event during the month was the addition of Ebos (EBO, +3.2%) to the main MSCI Index. The modest move spoke to how this was well pre-positioned and it did not have a large relative impact on the Fund. We did use Argosy Property's (ARG, -3.0%) departure from the MSCI Small Cap Index to aggressively lift our holding at favourable prices.

The two largest headwinds were relatively small. One was the Spark (SPK, -3.9%) overweight, where result was disappointing with the exception of their strongly performing cellular operation. Our underweight in Auckland Airport (AIA, +2.8%) 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.

At month-end, we project the Fund to yield 4.6% versus 4.0% for the Index.

Matthew Goodson, CFA