Salt NZ Dividend Appreciation Fund Fact Sheet – August 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 31 August 2022

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$112 million
Inception Date	30 September 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 August 2022

Application	1.6268
Redemption	1.6202

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 August 2022

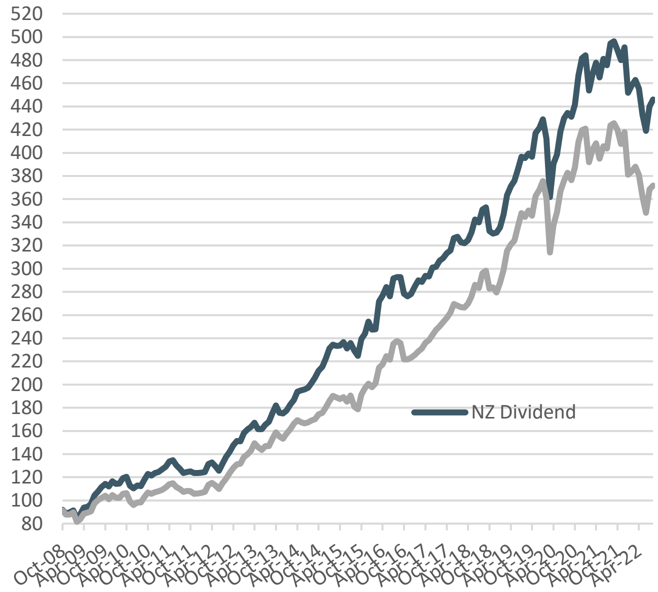
NZ shares	98.27%
Cash	1.73%

Fund Performance to 31 August 2022

Period	Fund Return*	Benchmark Return
1 month	1.38%	0.94%
3 months	2.99%	2.59%
6 months	-2.58%	-3.14%
1 year	-9.78%	-12.24%
2-year p.a.	1.34%	-1.42%
3 years p.a.	4.08%	2.55%
5 years p.a.	7.76%	8.21%
7 years p.a.	9.96%	10.81%
10 years p.a.	12.48%	12.21%
Inception p.a.	11.34%	9.97%

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 August 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
Mainfreight	Mercury Energy

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Equities Market Commentary

After entertaining brief thoughts of a central bank pivot, equity markets fell and bond yields rose in August as central banks renewed their commitments to bring inflation under control, despite the growing risks to the outlook for economic activity. The MSCI World Index fell -4.2% and US 10-year bond yields rose from 2.70% to 3.13%.

Global growth concerns remain high, especially in Europe as energy supply risks intensify. US GDP declined for a second quarter in June, meeting the definition of a technical recession. However, given the narrowness of the weakness and the strength of other data, particularly the labour market, this is unlikely to be classified as an economic recession.

US headline inflation appears to be past its peak; however, core inflation will remain more difficult to get under control, especially as the labour market remains strong. This saw Fed Chair Jerome Powell deliver a hawkish commentary at Jackson Hole, including the possibility of a third consecutive 75bp hike at its September meeting.

The Chinese economy is struggling on ongoing Covid disruptions and emerging issues in their over-extended property market. July activity data was weak, with the service sector also losing momentum. Monetary and fiscal policy was eased in response.

The unemployment rate in Australia fell sharply to 3.5%. Headline CPI inflation for the second quarter in rose by 6.1% y/y while the core rate came in at 4.6%. The RBA hiked a further 50bp in August, signalling more to come.

There are increasing signs of a slowdown in growth in the NZ economy. June quarter retail sales volume growth came in far weaker than expected and employment growth has clearly stalled, though the labour market remains tight overall. The RBNZ hiked 50bp in August to take the OCR to 3.0%. We expect a further 50bp hike in October. However, with monetary conditions now tight and given the emerging weakness in some activity data, we are fast approaching the point at which the RBNZ's next move is not immediately obvious.

Salt NZ Dividend Fund Commentary

The Fund moderately outperformed in the month of August, returning +1.38% compared to the +0.94% turned in by the S&P/NZX50 Index.

The largest contributor was having no holding in Pacific Edge Biotechnology (PEB, -42.3%), which suffered a bolt from the blue when the consultant who interfaces with Medicare issuing a draft recommendation that their group of tests should no longer be reimbursed. The company believes that this is extremely unlikely to hold up in the final review and that a future strengthening of the wording re the use of CxBladder in the treatment guidelines will ultimately make this moot in any case.

The second key tailwind came from having no holding at the beginning of the month in Heartland Group (HGH, -9.3%). Despite its high yields. we had been concerned that it may need equity to fund its organic and inorganic growth and it duly carried out a material equity raising that we used to cover off the position. Other modest positives came from overweights in Fletcher Building (FBU, +8.5%) and a tiny historic Vital Networks (VTL, +35.7%) holding, which has seen positive Board change and delivered a solid update relative to fears.

Headwinds were led by having a modest underweight in a2 Milk (ATM, +24.8%) whose result comfortably surpassed much downgraded 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. The large Tower (TWR, -1.6%) holding was a modest detractor as the Nelson floods make it highly likely they will get hit on their full large event reinsurance deductible.

Matthew Goodson, CFA