Salt NZ Dividend Appreciation Fund Fact Sheet – August 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 August 2023

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$109 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 August 2023

Application	1.5852
Redemption	1.5788

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 2023

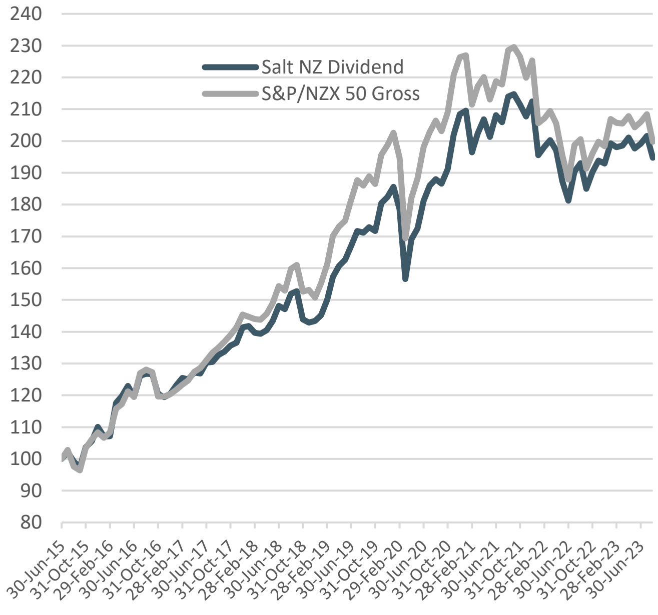
NZ shares	98.07%
Cash	1.93%

Fund Performance to 31 August 2023

Period	Fund Return*	Benchmark Return
1 month	-3.40%	-4.16%
3 months	-1.48%	-2.20%
6 months	-1.70%	-2.87%
1 year	0.87%	-0.41%
2-year p.a.	-4.60%	-6.51%
3 years p.a.	1.18%	-1.09%
5 years p.a.	5.07%	4.40%
7 years p.a.	6.31%	6.57%
10 years p.a.	10.35%	9.79%
Inception p.a.	10.60%	9.24%

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 August 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	Goodman Property Trust
Freightways	Sky City
Spark NZ	Vital Healthcare Property Trust

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Equities Market Commentary

Volatility returned in August reflecting a mixed reporting season in many countries and a rise in concerns re the health of the Chinese economy and property market. Developed market equities declined -2.4% (in USD) over the month while the Bloomberg Global Aggregate bond index fell -1.4% (USD).

Fitch downgraded the US sovereign credit rating from AAA to AA+, citing unsustainable fiscal settings and increasing political dysfunction. The move was largely dismissed by US politicians and economists alike but it highlights that the fiscal settings of several key developed economies are on an unsustainable path. US data remained solid, keeping markets anticipating the possibility of one final interest rate hike from the FOMC. Core inflation fell slightly, but at 4.7% YoY, it remains too high for comfort. Eurozone GDP data surpassed expectations and the labour market remains tight with the unemployment rate at its lowest ever level. The outlook remains uncertain, however, with the August composite PMI falling to 47.

Japan grew +6.0% q/q annualised in the second quarter, the core CPI rose to 4.3% in July and the spring (Shunto) wage negotiations saw the biggest wage increase in three decades. Markets need to be alert to further tweaks to Japan’s monetary policy settings. Chinese data was much weaker than expected including retail sales and private investment, particularly in real estate. Inflation turned negative in July. The PBoC cuts rates twice in the month and China’s troubles may weigh on markets for some time.

Australian data provided little reason for the RBA to shift from its current “wait and see” approach. The NZ labour market continued to ease, but only gradually, with unemployment rate at 3.6% in June, off the lows of 3.2%. We expect sharper increases in unemployment over the remainder of this year. Retail spending came in weaker than expected for the quarter, failing to deliver the expected “bump” from the FIFA women’s world cup and strong population growth. As expected, the RBNZ left interest rates unchanged at the August Monetary Policy Statement.

Salt NZ Dividend Fund Commentary

The Fund outperformed solidly in the month of August, declining by -3.40% compared to the sharp -4.16% retracement recorded by the S&P/NZX50 Gross Index. This is consistent with the Fund’s history of generally adding value when markets decline and makes sense given its relatively low beta nature. There was only moderate dispersion across the Fund’s array of holdings, with the outperformance coming from many modest positives and no large negatives.

The most notable positive was the good sized underweight in Auckland Airport (AIA, -7.0%). We believe it is fundamentally expensive, traffic is taking time to return to pre-Covid levels, the regulatory backdrop is more challenging than they portray and the Auckland Council stake was an overhang (resolved post month-end).

Other tailwinds were all quite modest and came from a series of underweights in a2 Milk (ATM, -9.4%), Meridian Energy (MEL, -5.0%), Precinct Property (PCT, -8.6%), Chorus (CNU, -6.7%), Investore Property (IPL, -16.1%) and Vista (VGL, -15.8%). Our larger overweights such as Tower (TWR, -0.8%) and Turners (TRA, +1.4%) did notably better than the market, with the latter providing a surprisingly strong update at its ASM.

Detractors were very limited, with the largest being not owning Sky City (SKC, +4.8%) but which fell hard in early September on renewed regulatory risks. We do not own SKC for ESG reasons. The only other slight headwind came from not owning Tourism Holdings (THL, +9.3%), with the market reacting positively to their result.

At month-end, we project the Fund to yield 4.7% versus 4.0% for the Index.

Matthew Goodson, CFA