Salt NZ Dividend Appreciation Fund Fact Sheet – July 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 July 2022

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$111 million
Inception Date	30 September 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 July 2022

Application	1.6046
Redemption	1.5981

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 July 2022

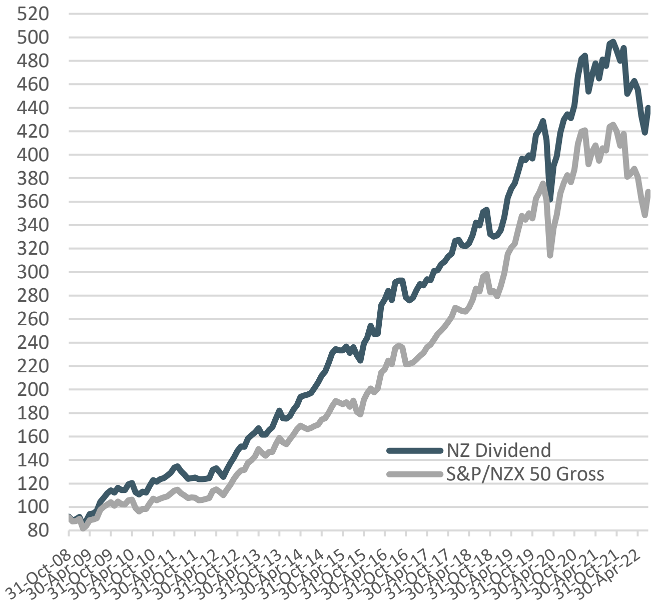
NZ shares	98.34%
Cash	1.66%

Fund Performance to 31 July 2022

Period	Fund Return*	Benchmark Return
1 month	5.01%	5.74%
3 months	-3.39%	-3.29%
6 months	-2.65%	-3.34%
1 year	-7.52%	-8.75%
2-year p.a.	1.18%	-1.01%
3 years p.a.	3.51%	1.91%
5 years p.a.	7.83%	8.35%
7 years p.a.	9.29%	9.94%
10 years p.a.	12.80%	12.48%
Inception p.a.	11.30%	9.96%

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 July 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

July saw global growth slow further while inflation hit new highs. Labour markets remained strong, but strong wage growth points to ongoing core inflation pressure. Weaker growth search for a dovish pivot by central banks, particularly in the US. This drove a "risk on" tone in both equity and bond markets, which is premature in our view. Despite the difficult economic data, global equity markets rallied, with the MSCI World Index +7.9%.

The US Fed again tightened by 75bp, taking the Fed funds rate to 2.5%, or around the Committee's estimate of the long run (neutral) rate. The European Central Bank began its hiking cycle with a larger than expected 50bp move. At the same time, the economy remains on the brink of recession given concerns about the security of gas supplies from Russia. Chinese data generally bounced although authorities continue to grapple with Omicron outbreak amidst its stringent Covid-zero policy. There have been some minor easing steps but a more fulsome relaxation is unlikely until after the upcoming Communist Party Congress.

The Reserve Bank of Australia continued its newly aggressive hikes with a 50bp move in July, with expectations of more to come. This is supported by labour market data showing Australia's unemployment rate hit a fresh 48-year low of 3.5% in June. NZ Inflation hit a fresh high of 7.3% in the year to June, above all expectations. All key core measures of inflation pushed higher also, confirming the RBNZ still has work to do, especially considering the tightness in the labour market.

Salt NZ Dividend Fund Commentary

The Fund slightly lagged the sharp market rebound in the month of July, returning +5.01% compared to the +5.74% turned in by the S&P/NZX50 Index. This reversed the earlier outperformance during weak markets and is what one would expect given the low beta nature of the Fund. There were no stand-out detractors.

Key tailwinds came from a reversal in those names which had previously lagged during the very weak June quarter. Moderate overweights in cyclicals such as Freightways (FRE, +12.8%) and Mainfreight (MFT, +12.1%) stood out here.

The largest headwind came from an underweight in the low-yielding Goodman Property (GMT, +9.0%) which bounced hard on lower bond yields following earlier months of sharp underperformance. Overall, the Fund has a moderate underweight in property stocks but this sector performed in line with the broader index in July. While inflation will drive rental growth, higher interest costs, wider cap rates, higher opex expenses and higher vacancies all seem likely to weigh.

Other headwinds were led by the long-held overweight in the high yielding Tower (TWR, -3.9%) which drifted lower on no new news. We remain attracted to TWR's cheap valuation, strong balance sheet, reasonable growth outlook and rare positive exposure to higher interest rates from its insurance float. Other headwinds came from underweights in Heartland Bank, (HGH, +9.5%) and Mercury Energy (MCY, +7.4%).

Matthew Goodson, CFA