Salt NZ Dividend Appreciation Fund Fact Sheet – June 2021

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 30 June 2021

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$93 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 June 2021

Application	1.8151
Redemption	1.8078

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 30 June 2021

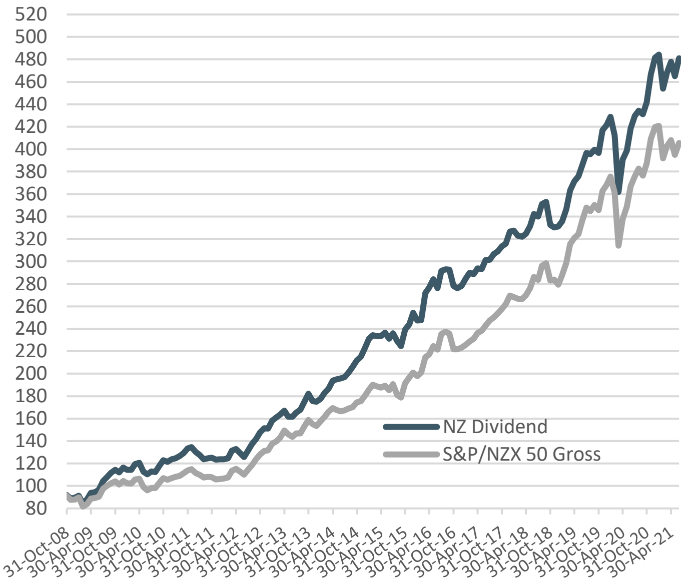
NZ shares	98.36%
Cash	1.64%

Fund Performance to 30 June 2021

Period	Fund Return*	Benchmark Return
1 month	3.43%	2.71%
3 months	2.84%	0.75%
6 months	-0.13%	-3.34%
1 year	14.89%	10.51%
2-year p.a.	11.64%	9.78%
3 years p.a.	11.98%	12.27%
5 years p.a.	11.72%	12.90%
7 years p.a.	13.69%	13.73%
10 years p.a.	13.93%	13.88%
Inception p.a.	13.10%	11.69%

Performance is after all fees and does not include imputation credits or PIE tax.
*From 1 November 2008 to 30 June 2015, performance is from a fund with the same strategy and the same portfolio manager.

Cumulative Fund Performance to 30 June 2021*



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
Turners Automotive	Ryman Healthcare
Tower	Ports of Tauranga
Spark NZ	Auckland International Airport
Marsden Maritime Holdings	Goodman Property Trust
Sky City	Fisher & Paykel Healthcare

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Quarterly Equities Market Commentary

Global equities made strong gains over the June quarter, supported by the accelerating deployment of the various Covid-19 vaccines around the world and aided by aggressive monetary and fiscal support. The MSCI World Index rose 7.7% in USD terms over the quarter to be up 39.0% over the year.

US March GDP printed at a +6.4% annualized pace with strong consumption activity but also the continuation of the nascent upward trend in business investment. Inflation data received most market attention as the annual rate of CPI inflation reached 5% in the year to May. The more closely watched core inflation came in at +3.8%.

The US Fed left policy settings unchanged, though the projections indicated two rate increases in 2023, where none had been indicated before. This caused some volatility in markets which quickly settled down once Fed Chairman Jay Powell encouraged markets to take the projections with “a big grain of salt”. The S&P 500 rose 8.6% in USD terms over the quarter to be 40.8% higher than year ago levels. 10-year bond yields declined from 1.74% to 1.47%, still around 80 basis points higher than year ago levels.

Economic data was also strong in Europe and Eurozone shares rose +7.4% (FTSE Europe ex-UK). The composite PMI rose in June to its highest level since June 2006. Eurozone inflation is also rising but at an annual rate of 1.9% is not experiencing the same rate of increase as the US. Of the major central banks, the European Central Bank is expected to be one of the last to tighten.

The Australian economy continues to perform well. A surprisingly large gain in employment in the May month saw the unemployment rate drop to 5.1%, lower than pre- pandemic. Despite some renewed Covid restrictions, the strong data raised expectations of a change in monetary settings at the RBA’s July meeting. The S&P/ASX200 rose 7.7% over the quarter and 23.9% over the year in AUD terms.

Despite a similarly strong economic performance, the NZ share market struggled. The S&P/NZX50 index rose 0.8% in the quarter and +10.5% for the year. It is - 6.7% from its peak in January, which coincided with the low in interest rates. Defensive high-dividend companies, which tend to dominate the NZ index, have underperformed those benefitting from the cyclical improvement in the economy.

The RBNZ reiterated their belief in the transitory nature of current inflationary pressure, something we are less sanguine about. Since then, we have seen an exceptionally strong March quarter GDP result which has effectively consumed all the RBNZ’s assumed spare capacity in the economy. Market pricing has brought the expected start of the interest rate tightening cycle to late 2021. We expect the RBNZ will soon start preparing the market up for an imminent tightening.

Salt NZ Dividend Fund Commentary

The Fund delivered a strong quarter of relative performance in June, advancing by +2.84% compared to the +0.75% advance by the S&P/NZX50 Gross Index.

By far the strongest contributor to the outperformance was the large, long-standing overweight in Turners (TRA, +31.9%). TRA delivered a very strong result and stated that Q1 trading is running well ahead of the pre-Covid comparative period. TRA’s vehicle sourcing advantages relative to their fragmented competitors have positioned them well in the current unusual period of car shortage, while their finance book is enjoying unusually low bad debts. This won’t last forever but when normality returns, TRA will have offsetting upside from greater car sales seeing greater attachment of finance and insurance sales. In addition, their debt collection business will hopefully move out of the doldrums. Meanwhile, TRA is generating strong free cashflow and investing part of that for growth, while using the remainder to pay a high and growing dividend yield.

The second stand-out was our large underweight in Ryman Healthcare (RYM, -13.3%). They delivered an underwhelming result which featured a potentially concerning lift in debt levels. While RYM do not see any issue at this point, we worry that they could be vulnerable in the event of future interest rate hikes driving a slowdown in house prices and sales. Within an overall sector underweight, we are neutral Summerset (SUM, +10.5%) and overweight Oceania Healthcare (OCA, +18.1%) but slowly looking to trim these exposures into strength.,

Other noteworthy performance contributors included overweights in Spark (SPK, +7.1%) and Contact Energy (CEN, +18.1%), and underweights in Pushpay (PPH, -13.5%), Ports Of Tauranga (POT, -8.8%) and Auckland Airport (AIA, -7.3%).

The largest headwind was a moderate drag from our overweight in Tower (TWR, -6.7%). They downgraded profit forecasts due to an unusual number of house fires and a claims cost inflation cycle getting under way. The former accords with data showing house fires to be volatile from period to period and should have a PE of 1x attached to it. The latter is more concerning as it takes time for TWR to re-price its policies as they mature over the year ahead. The basic attraction of TWR is a balance sheet awash with capital which should allow them to enjoy strong operating leverage as they grow inorganically and organically.

Other detractors were relatively modest and were led by zero-weights in Arvida (ARV, +24.6%), Heartland Group (HGH, +18.3%) and Pacific Edge Biotechnology (PEB, +21.8%).

At quarter-end, we estimate the Fund has a forward gross dividend yield of circa 3.9%, which compares to our estimate of 3.0% for the benchmark.

Matthew Goodson, CFA