Salt NZ Dividend Appreciation Fund Fact Sheet – September 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 September 2021

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$104.2 million
Inception Date	30 September 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 September 2021

Application	1.8725
Redemption	1.8649

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 September 2021

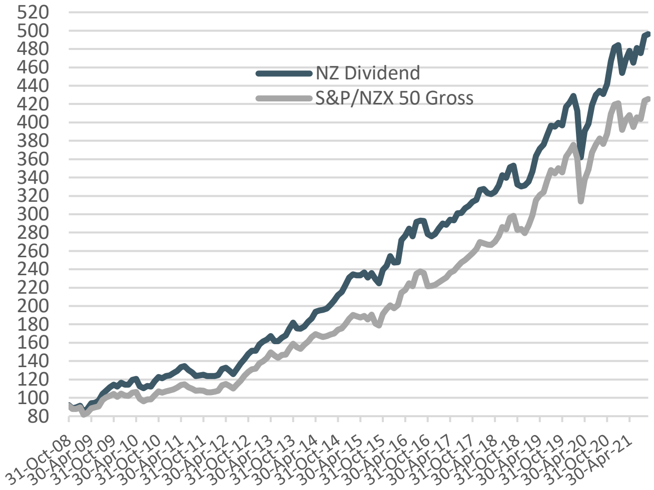
NZ shares	97.45%
Cash	2.55%

Fund Performance to 30 September 2021

Period	Fund Return*	Benchmark Return
1 month	0.37%	0.43%
3 months	3.16%	4.91%
6 months	6.09%	5.70%
1 year	15.12%	13.01%
2-year p.a.	11.45%	10.23%
3 years p.a.	11.99%	12.39%
5 years p.a.	11.11%	12.52%
7 years p.a.	13.37%	14.16%
10 years p.a.	14.82%	14.79%
Inception p.a.	13.11%	11.87%

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

Monthly Equities Market Commentary

The global economic reopening continued in the September quarter but supply disruptions continued to prove problematic and inflation pressures rose. As the quarter progressed, concerns emerged about the growth outlook as it appeared many economies were past the peak in the Covid-reopening recovery. Central banks became more attuned to the likely persistence of above target inflation and the Norges Bank in Norway became the first developed central bank to hike. Bond yields rallied strongly early in the quarter but sold off latterly.

Developed market equities were broadly flat as a modest decline in September erased earlier gains. The MSCI World Index declined 0.4% (in USD) over the quarter. The annual gain was a still healthy 27.2%.

In the USA, growth and inflation trends were strong enough for the Fed to signal it will soon start withdrawing monetary stimulus. The S&P500 was flat over the quarter, at +0.2% but was still up +28.6% over the year. US 10-year yields rose 0.08% over the quarter to 1.52% but did reach a low of 1.17%.

European data was somewhat mixed, with retail sales declining but industrial production rising. Medium term prospects look positive as an earlier spike in Covid cases has started to decline. Germany and France have reported solid gains in household disposable income which bodes well for ongoing recovery in consumer spending. The FTSE Europe ex-UK index rose 1.0% (in EUR) over the quarter and 29.8% over the year. In the United Kingdom the FTSE All-Share index was up 1.1% over the quarter (in GBP) and 22.9% over the year.

The Australian economy is struggling under continuing lockdowns in two key states. The RBA followed through with a reduction in bond purchases in September but has pushed out the time at which it would next review the program by three months to February 2022. The ASX 200 rose +0.3% over the quarter and +26.6% over the year.

The New Zealand economy is proving to be resilient during the latest lockdown, with many firms expecting a swift recovery as restrictions ease. Labour market indicators are particularly tight. We expect the RBNZ to raise interest rates in October and again in November. NZ 10-year yields rose from 1.76% over the quarter to 1.97%. The S&P/NZX50 rose +4.9% (in NZD) over the quarter to be +12.3% over the year.

Salt NZ Dividend Fund Commentary

The Fund lagged its benchmark during the September quarter, returning +3.16% compared to +4.91% for the S&P/NZX50 Gross Index. This was driven by a mix of stock selection and primarily style factors in the period, with "Growth" sharply outperforming "Defensive Yield".

The largest headwind was the overweight in the high-yielding Tower Limited (TWR, -12.2%) which delivered a moderate further earnings warning on a continuation of far higher than normal numbers of house fires. This more than offset the benefit from partial lockdowns lowering the amount of driving activity. TWR was further impacted by being on the wrong end of strong claims cost inflation. While this affects every insurer and is a classic part of the insurance cycle, it takes time to re-price policies to offset unexpected costs. Taking a medium-term view, TWR is very cheap, has an exceptionally strong balance sheet and offers a strong yield while we wait for a more favourable cyclical backdrop to emerge.

The second notable drag was the underweight in Ryman Healthcare (RYM, +15.0%) which rose sharply on overall retirement sector exuberance. Conditions are presently very strong but with the RBNZ now taking a more forthright stance against the bubbling housing sector, we are reluctant to extrapolate this strength too far into the future. Our long-held stance of being underweight Ryman and overweight several competitors had worked extremely well but reversed somewhat this quarter.

The final key negative was our underweight in Z Energy (ZEL, +24.8%) whose dividend yield rated poorly on our medium-term sustainability measures but which received a takeover bid from Ampol.

Our positive contributors all tended to be far smaller in size, with no major standouts in the period. These included small overweights in Contact Energy (CEN, +5.4%), Ebos (EBO, +10.8%), Mainfreight (MFT, +26.9%) and Summerset (SUM, +14.0%). Our larger overweight in Marsden Maritime (MMH, +4.1%) did well.

At month-end, we estimate the Fund has a forward gross dividend yield of circa 3.1%, which compares to our estimate of 2.5% for the benchmark.

Matthew Goodson, CFA