Salt NZ Dividend Appreciation Fund Fact Sheet – August 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 31 August 2021

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$97.9 million
Inception Date	31 August 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 August 2021

Application	1.8656
Redemption	1.858

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 2021

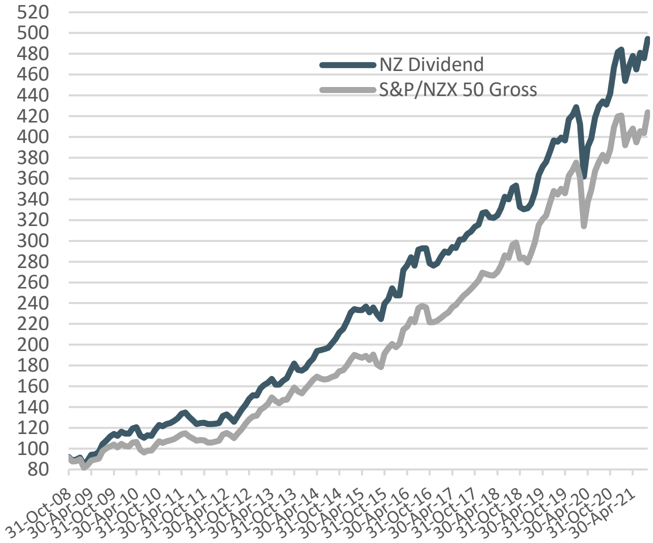
NZ shares	98.30%
Cash	1.70%

Fund Performance to 31 August 2021

Period	Fund Return*	Benchmark Return
1 month	3.93%	4.96%
3 months	6.30%	7.29%
6 months	8.92%	8.11%
1 year	13.83%	10.73%
2-year p.a.	11.80%	10.85%
3 years p.a.	12.05%	12.38%
5 years p.a.	11.02%	12.31%
7 years p.a.	13.68%	14.19%
10 years p.a.	14.84%	14.81%
Inception p.a.	13.16%	11.91%

Performance is after all fees and does not include imputation credits or PIE tax.
*From 1 November 2008 to 31 August 2015, performance is from a fund with the same strategy and the same portfolio manager.

Cumulative Fund Performance to 31 August 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	Ports of Tauranga
Sky City	Property For Industry

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

SALT

Monthly Equities Market Commentary

The global economic reopening continued in August with several key developed economies further lifting restrictions. Data was generally solid though it appears most economies are either close to, at, or just past the peak in the economic recovery. Global equities returned 2.5% (MSCI World index in USD) in the August month and 29.8% over the year.

The Delta variant continued to spread with a rise in daily case numbers globally. Our base case remains that economic reopening will occur as vaccination rates rise. Any ongoing economic impact from Delta will have most effect on the supply side of the economy as monetary and fiscal stimulus support demand. Central banks will need to face the inflationary implications soon.

US data showed an economy that continues to run hot, though is probably past the peak. Headline CPI hit 5.4% for the year to August and the labour market continued to improve. Fed Chairman Jay Powell's speech at Jackson Hole suggested an announcement on tapering the bank's asset purchase program was imminent, but that markets should not assume interest rate increases would automatically follow. The S&P 500 hit fresh all-time highs during the month, ending 3.0% higher and up 28.9% over the year. The 10-year US Treasury yield ended the month at 1.31%, up from 1.23% at the end of the July.

August data was strong in Europe. The economy started reopening slightly later than the US and the UK so the economy is likely now at its peak growth rate. Europe has fully vaccinated 70% of its population, so while case numbers are rising again, hospitalisation rates remain low. The FTSE Europe ex-UK index rose 2.2% (in EUR) over the month and 33.0% over the year. In the UK, the FTSE All-Share index was up 2.0% over the month (in GBP) and 22.0% over the year.

The Australian economy is suffering under renewed economic and social restrictions as new virus cases emerge, particularly in New South Wales. The S&P/ASX200 rose 1.9% (in AUD) over the month and 24.1% over the year.

The NZ economy has been performing very strongly and the labour market has been tightening. However, despite clearly wanting to pull the trigger, the RB NZ was prevented from hiking at its August meeting by an outbreak of the Delta variant which forced the economy into a new lockdown. We expect this is only a temporary delay. NZ 10-year yields rose from 1.51% over the month to 1.74%. The NZX50 rose 5.0% (in NZD) over the month to be up 9.3% over the year.

Salt NZ Dividend Fund Commentary

The Fund lagged its benchmark during the month of August, returning +3.93% compared to +4.96% for the S&P/NZX50 Gross Index.

It was a somewhat strange month for market performance in that the benchmark rose sharply despite earnings season and the impact of Covid-19 lockdowns seeing year-ahead earnings downgraded, while NZ 10-year bond yields rose sharply from 1.51% to 1.72%.

The largest drag was the underweight in Ryman Healthcare (RYM, +17.5%) 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 month.

The second key headwind was being underweight Z Energy (ZEL, +19.0%) which received a bid from Ampol Australia. With Ampol owning Gull NZ, NZ Commerce Commission will be far from straight-forward and would likely require the sale of Gull to a credible party.

Other drags came from being underweight the very expensive Goodman Property (GMT, +7.2%) which ran hard as ever-contracting property cap rates defy rising bond yields; not owning Heartland Group (HGH, +16.4%) and not owning the non-income producing Pacific Edge Biotechnology (PEB, +14.5%).

There were a number of tailwinds amongst our large cap overweights but these were generally of lesser magnitude. These included Contact Energy (CEN, +3.1%), Ebos (EBO, +15.9%), Mainfreight (MFT, +14.6%) and Summerset (SUM, +17.1%).

At month-end, we estimate the Fund has a forward gross dividend yield of circa 3.2%, which compares to our estimate of 2.6% for the benchmark.

Matthew Goodson, CFA