Salt NZ Dividend Appreciation Fund Fact Sheet – September 2020

Manager Profile

Salt Funds Management is a boutique investment management firm wholly owned by its employees which specialises in managing NZ/Australian equity and listed property mandates for wholesale and retail clients.

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 2020

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 September 2020

Application	1.6636
Redemption	1.6569

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 2020

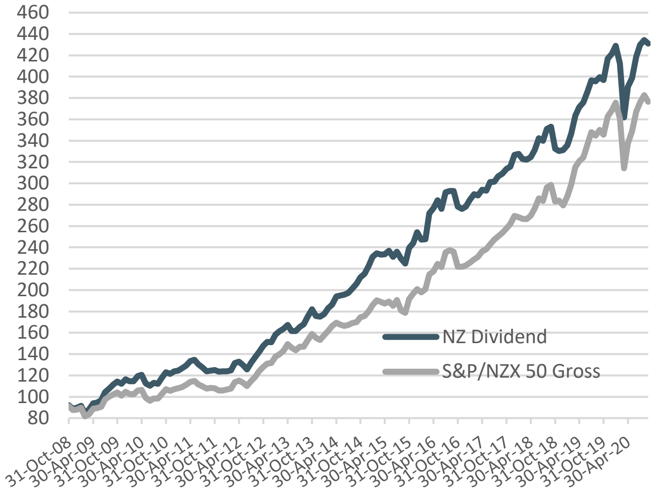
NZ shares	98.49%
Cash	1.51%

Fund Performance to 30 September 2020

Period	Fund Return*	Benchmark Return
1 month	-0.75%	-1.59%
3 months	2.95%	2.59%
6 months	19.11%	19.91%
1 year	7.90%	7.52%
2-year p.a.	10.45%	12.08%
3 years p.a.	11.71%	13.99%
5 years p.a.	13.89%	16.00%
7 years p.a.	13.69%	13.86%
10 years p.a.	13.82%	13.97%
Inception p.a.	12.94%	11.77%

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 September 2020*



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	Goodman Property Trust
Marsden Maritime Holdings	Ports of Tauranga
Spark NZ	Ryman Healthcare
Investore Property	Genesis Energy

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NZ Market Commentary

Global markets continued to rally as central bank balance sheets swelled, broad fiscal stimulus was promised or implemented and confidence rose re a future Covid-19 vaccine. The MSCI World Accumulation Index surged +7.9% bringing the year to date performance into positive territory at +1.9%. Central banks acted quickly to avert a financial meltdown in March, leading to over 40% growth in the assets held at the Federal Reserve, European Central Bank and the Bank of Japan to more than $21 trillion. Expectations are high that one of the 260 vaccines being developed globally will be approved and widely distributed. Credit Suisse believes that of the 5 most promising vaccines in development, we will see early phase 3 trial data during the last quarter of 2020, Assuming one or more get the green light, large quantities can be produced and widely distributed by the end of 2021. Having said that, the emergence of a Covid-19 "second wave" through the latter part of the quarter in many countries dimmed hopes of a speedy economic recovery, given risks of further lockdowns.

US markets were led by tech stocks as long bond yields fell even further and investors sought long duration cashflow assets coupled with the fact many tech companies saw user numbers and revenue surge as people and enterprises were forced to work from home. This saw a dramatic pull forward of demand into cloud-based services and e-commerce whilst significant tranches of the market that rely on free movement of people (restaurants, travel, hotels etc) around the economy were moribund. The NASDAQ ended the quarter up 11.0% and 24.5% year to date, while the S&P500 rose 8.9% to be up 5.6% year to date.

Asian markets were mixed with China's Shanghai Composite up 5.5% in the quarter (+7.8% year to date) on signs stimulus is working as the economy re-opened quickly. Japan's Nikkei was up 4% but remains -2% year to date. Hong Kong fell 4% and is down 18% year to date in a tumultuous year of civil unrest and quasi-integration into China.

The Australian market traded fell -0.4% in the quarter and remains down -10.8% year to date. Over the quarter, the strongest sectors were technology (+12.6%), consumer discretionary (+8.7%) and A-REITS (+7%) while banks (-6%), utilities (-8.1%) and energy (-14.1%) wee laggards. Victoria has battled a strong second wave of Covid-19 cases and strict quarantine measures to bring it under control.

In New Zealand, the S&P/NZX50G index rose by +2.6% over the quarter to be +2.2% year to date. A key detractor was heavy-weight a2 Milk (-24%) on daigou sales disruptions, dragging down Synlait (-23%) whilst Sanford fell (-9%) on a weak update. The key outperformers in the quarter were Summerset (+40%) on stronger house prices and sales volumes, Skellerup (+37%) on a good result and Serko (+37%) on the re-opening trade and confidence in the Booking.com rollout.

Salt NZ Dividend Fund Commentary

The Fund outperformed the benchmark in the September quarter, rising by +2.95% compared to the +2.59% turned in by the S&P/NZX50 Gross Index. The period witnessed an easier background environment for the Fund in that it was a slightly choppier quarter for the market compared to the rampant bull performances turned in for much of the last several years.

Our largest headwind was more of a moderate zephyr in the form of an underweight in Goodman Property Trust (GMT, +16.5%). We are a little bemused that NZ industrial property names continue to grind higher and are now at 30%+ premia to their geared NTA's. The latest evidence is that industrial rents have peaked, with incentives starting to rise. Stories of ultra-tight cap rates are perhaps to blame but that's simply saying that if someone else pays a 4.5% cap rate for a 30-year-old shed with a leaky roof, then I will too. GMT is now on a gross dividend yield of a mere 3.2%, whereas the likes of Spark is on 7.2%.

Other laggards were led by our large underweight in Auckland Airport (AIA, +10.9%), which massively outperformed Sydney Airport and whose enterprise value is now well and truly above where it was pre-Covid-19. Our overweight in Marsden Maritime (MMH, -8.6%) fell for no obvious reason. Their result was solid and they have a strong outlook from several attractive property developments and the commitment from all key parties to move the dry-dock there. Our overweight in Tower (TWR, -4%) also dragged but in our view, the business is performing well and this should be reflected in their result in November and guidance for 2021.

The strongest positive contributor was our overweight in Turners (TRA, +22.3%), which delivered a solid AGM update in August, including guidance for the Mar21 year that was well above broker expectations. Strength in used car prices and limited finance book arrears are certainly two surprises that we wouldn't dared to have dreamed of six months ago. We remain attracted to the strength of TRA's market position and the multi-year growth opportunity ahead of them, from a starting point of an attractive valuation, which still delivers a gross yield above 9%.

The second stand-out was our long-standing overweight in Investore Property (IPL, +21.3%). In a world of remarkably low bond yields, IPL is very much flavour of the month due to its combination of relatively dependable top-line revenues, together with a lease duration that is far longer than its debt duration. Other notable positives came from our overweight in Oceania Healthcare (OCA, +28.2%) which rose strongly as NZ house prices rebounded, while the final stand-out was a well-timed overweight in Sky City (SKC, +24.7%) which we have since largely neutralised.

Matthew Goodson, CFA