Salt NZ Dividend Appreciation Fund Fact Sheet – October 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 31 October 2020

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$97.0 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 October 2020

Application	1.7047
Redemption	1.6978

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 October 2020

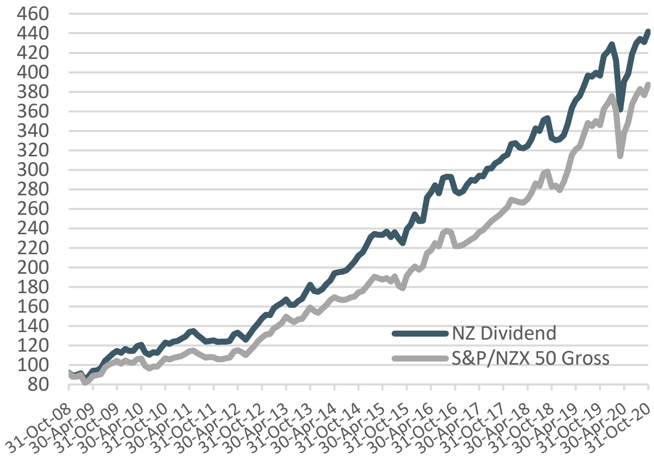
NZ shares	99.03%
Cash	0.97%

Fund Performance to 31 October 2020

Period	Fund Return*	Benchmark Return
1 month	2.47%	2.87%
3 months	2.78%	3.04%
6 months	13.09%	14.73%
1 year	11.33%	12.02%
2-year p.a.	15.21%	17.50%
3 years p.a.	12.08%	14.05%
5 years p.a.	13.01%	15.08%
7 years p.a.	13.48%	13.73%
10 years p.a.	13.65%	13.84%
Inception p.a.	13.07%	11.95%

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 31 October 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
Spark NZ	Ports of Tauranga
Marsden Maritime Holdings	Genesis Energy
Oceania	Ryman Healthcare

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NZ Market Commentary

Global equity markets retraced in October, reversing gains from earlier in the year by 3.1% as measured by the MSCI World Accumulation Index. This pulled the year-to-date return down to -1.4% in local currency terms.

European markets were hit hard over the month as weak economic data, surging Covid-19 cases and a return to curfews and lockdowns saw Germany's DAX falling 9.4%, France's CAC was down -4.4% and the UK's FTSE fell -4.7%. The ugly cocktail means year to date returns in those markets fell to -12.8%, -21.5%, and -24% respectively.

US markets had to contend with surging Covid-19 cases and the build up to the Presidential election, where the market feared a possible Democratic sweep leading to higher taxes and aggressive fiscal stimulus. Whilst the market started off with strong momentum it quickly snapped mid-month as it saw a weakening global macro backdrop and a deadlock on stimulus reducing short-term confidence and risk appetite. The S&P500 fell -2.7% over the month reducing the year to date return to +2.8%. The tech heavy Nasdaq fell -2.2% but year to date remain a remarkable +35%.

Australian equities (SP&P/ASX200) gained +1.9% on a view that the reopening of Victoria and further monetary stimulus would outweigh the weaker global backdrop. This somewhat improved the year to date return to -9.1%.

In New Zealand, the S&P/NZX50 Gross rose +2.9% in the month, raising the year to date return to +5.2%. The key winners were Oceania Healthcare and Summerset (OCA +18%, SUM +16%) supported by a rapidly rebounding housing market, Mainfreight (MFT +17%) following a strong market update, while Vista (VGL -8%) is confronted by a strong second wave of Covid-19, which also weighed on Kathmandu (KMD -6%) and Sky City (SKC -6%).

Salt NZ Dividend Fund Commentary

The Fund slightly underperformed its benchmark in the month of October, advancing by +2.47% compared to the +2.87% turned in by the S&P/NZX50 Gross Index. There were few major stand-outs in either direction amongst the Fund's holdings, with there being a few more modest headwinds than there were tailwinds.

The largest laggard was the overweight in Tower (TWR, -5.0%) which fell for no fundamental reason that we could pin-point. The Lake Ohau fires were unhelpful in removing potential upside from the Sept21 year outlook but everyone models it as hitting their reinsurance limit in any case. In this world it is rare to find a business on a forward PE of 7.2x, which has growth thereafter, which has a strongly capitalised balance sheet and which is through its investment hump. We expect a high dividend yield to be sustainable when the RBNZ lifts its caution on financial sector companies paying dividends – it is odd that this has also been applied to the general insurance sector.

Other headwinds were moderate in nature and came from underweights in Goodman Property Trust (GMT, +5.5%), Property For Industry (PFI, +8.2%) and a small relative underweight in Mainfreight (MFT, +17.2%). Our overweight in Spark (SPK, -4.5%) was the main drag from that side of the ledger but we view its gross yield of circa 7.5% as being very attractive relative to other opportunities in this financially repressed world.

The largest positive was the overweight in Oceania Healthcare (OCA, +18.4%) which ran hard with the rest of the retirement sector as ultra-low mortgage rates are driving a sharp move higher in the seemingly unstoppable NZ housing market. The Fund is relatively neutral to the sector. While we are wary of its lack of free cash generation and low yields, the leverage to booming house prices and volumes cannot be underestimated.

The other standout was our long-held position in Turners (TRA, +6.0%) which continued its steady advance in recent months. The post Covid-19 period has seen an industry-wide shortage of used cars and an unusual expansion in prices and margins that TRA is well placed to benefit from. We remain attracted to the strength of TRA's market position, the multi-year growth opportunity as they roll out more branches and a gross dividend yield that is still around 9.0%. At month-end, we estimate the Fund to have a year-ahead yield of circa 3.5% versus 3.0% for the Index.

Matthew Goodson, CFA

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