
# Salt NZ Dividend Appreciation Fund Fact Sheet – September 2024

## 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 2024

| | |
|---|---|
| **Benchmark** | S&P/NZX 50 Gross Index |
| **Fund Assets** | $125 million |
| **Inception Date** | 31 July 2015 |
| **Portfolio Manager** | Matthew Goodson, CFA |

## Unit Price at 30 September 2024

| | |
|---|---|
| **Application** | 1.7343 |
| **Redemption** | 1.7273 |

## 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 2024

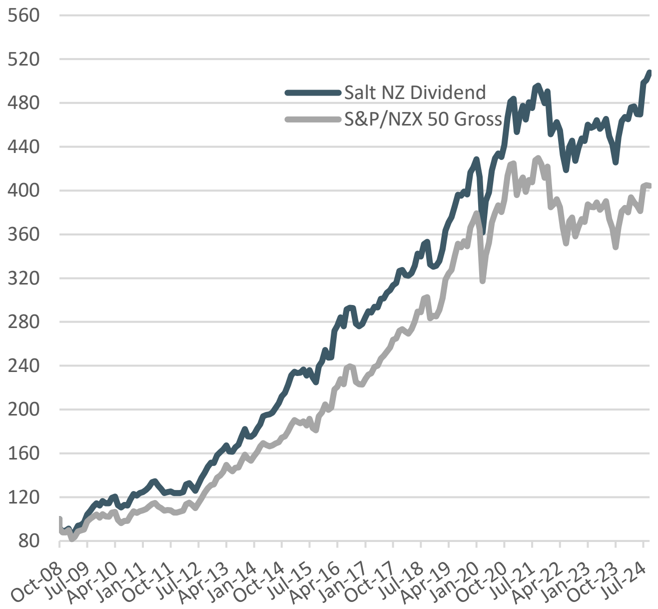
| | |
|---|---|
| **NZ shares** | 97.12% |
| **Cash** | 2.88% |

## Fund Performance to 30 September 2024

| Period | Fund Return* | Benchmark Return |
|---|---|---|
| **1 month** | 1.41% | -0.19% |
| **3 months** | 8.17% | 6.03% |
| **6 months** | 6.69% | 2.63% |
| **1 year** | 14.87% | 9.98% |
| **2-year p.a.** | 9.03% | 5.95% |
| **3 years p.a.** | 0.80% | -2.19% |
| **5 years p.a.** | 4.93% | 2.60% |
| **7 years p.a.** | 7.36% | 6.62% |
| **10 years p.a.** | 9.44% | 8.98% |
| **Inception p.a.** | 10.69% | 9.09% |

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

## Cumulative Fund Performance to 30 September 2024*




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 | Fisher & Paykel Healthcare |
| Turners Automotive | Chorus Networks |
| Heartland Group Holdings | Goodman Property Trust |
| Marsden Maritime Holdings | Kiwi Property Group |
| Freightways | Meridian Energy |

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## Equities Market Commentary

The September quarter saw solid overall returns albeit with several bouts of volatility along the way. US labour market weakness combined with a BOJ rate hike saw stocks hit hard in August. However, September saw the long-awaited US rate cuts begin, a less hawkish tone from the BoJ and a large stimulus package in China. Developed market equities rose +6.5% over the quarter, while the global aggregate bond index rose +7.0%. Global REITs advanced +16.2%.

The Fed began its easing cycle with a 50bp cut in September. While a cut had been well-telegraphed, the quantum was a moderate surprise. While 25bp cuts appear likely from here, the Fed has demonstrated a willingness to be more aggressive should the data justify it.

The ECB has been taking a "cut at every other meeting" approach, cutting in June and September. Ongoing disinflation and weak activity data may see them move to cuts at every meeting from October. In Japan, a rate hike by the BoJ along with hawkish guidance led to a sharp JPY appreciation and a sudden unwinding of "carry trades" that rely on cheap Japanese borrowing costs. Stocks fell sharply, though pared those losses as the hawkishness softened later in the quarter. The Chinese authorities announced a raft of easing measures in September. While their magnitude may be insufficient thus far, their market soared on a new "growth first" focus by the Politburo.

The RBA continues to take a hawkish tone in the face of political pressure. While some progress has been made in the disinflation process, it has been too slow and they never hiked as much to begin with. Continued labour market strength is a key watch-point. NZ economic data continued to be dire. June quarter GDP growth came in at -0.2% q/q and the unemployment rate rose to 4.6%, with further increases likely. The RBNZ reversed its earlier hawkishness and cut the OCR by 25bp to 5.25% in August and signalled further cuts to come. It is possible that the desynchronisation of monetary policy cycles between Australia and NZ could see the four-year outperformance of the latter reverse.

## Salt NZ Dividend Fund Commentary

The Fund outperformed pleasingly in the September quarter, returning +8.17% compared to the +6.03% advance by the S&P/NZX50 Gross Index. Strong stock selection was the key driver rather than any sudden move to high-beta risk in what was a strong quarter for markets.

By far the largest positive was our large long-standing holding in Tower Limited (TWR, +53.4%). There was a cavalcade of positive events. TWR upgraded guidance twice during the quarter due to GWP growth and claims trends. The RBNZ removed the old additional solvency margin of $15m. TWR proposed a $45m (11.9cps) return of capital in the upcoming March quarter. They placed their 2025 reinsurance programme on terms that were considerably better than analysts expected, which sparked a further round of upgrades. They concluded the financial year with no major calamities, resulting in a $32m NPAT benefit from reinsurance deductibles that they would otherwise have had to pay. Our view has long been that analysts are far too conservative in assuming they have to pay these deductibles every year, when history points to nothing of the sort. Finally, there is a strong prospect that they will enter the S&P/NZX50 Index in the near future.

A second notable positive was our long-term holding in Turners (TRA, +17.4%). They delivered a solid trading update at their ASM which thankfully aligned with our thesis that their strong market share gains would offset a difficult used car market. From here, we continue to see TRA as a below-the-radar compounder, which is earning returns well in excess of WACC as it invests across the NZ used car market and inexorably takes share from undercapitalised competitors. In the shorter term, they will be one of the largest winners from RBNZ rate cuts as these immediately expand margins on the finance book and then in time will lead to an upswing for used car sales and associated verticals.

Other tailwinds came from overweights in Freightways (FRW, +21.7%) and NZME (NZM, +16.3%) and an underweight in Auckland Airport (AIA, -0.9%), which undertook a massive equity raising.

The largest detractor was a piece of bad luck in the takeover bid for Arvida (ARV, +79.6%). We have a clear view that the private equity bidder will be disappointed in the returns it gets from this investment. Other headwinds were all relatively small and came from underweights in Chorus (CNU, +17.0%), where Australian investors seem to hold a view that they will be able to earn their allowed regulatory returns without losing market share; in Fisher & Paykel Healthcare (FPH, +15.5%) and in Ryman Healthcare (RYM, +20.8%) which benefitted from the Arvida bid.

At quarter-end, we project the Fund to yield 4.5% versus 4.0% for the Index.

Matthew Goodson, CFA