Salt NZ Dividend Appreciation Fund Fact Sheet – July 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 July, 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 July 2024

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$123 million
Inception Date	31 July 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 July 2024

Application	1.7024
Redemption	1.6955

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 July 2024

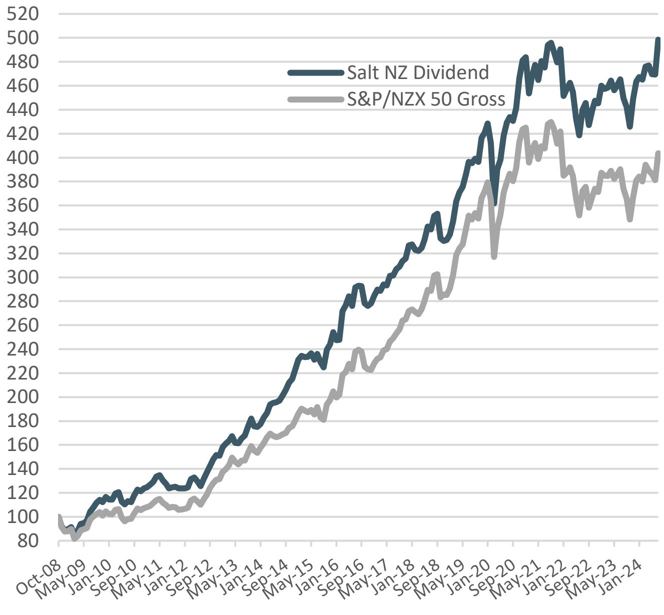
NZ shares	98.60%
Cash	1.40%

Fund Performance to 31 July 2024

Period	Fund Return*	Benchmark Return
1 month	6.18%	5.87%
3 months	4.53%	3.74%
6 months	6.69%	4.49%
1 year	7.12%	2.90%
2-year p.a.	6.49%	3.89%
3 years p.a.	1.60%	-0.51%
5 years p.a.	4.70%	2.70%
7 years p.a.	7.45%	7.06%
10 years p.a.	9.72%	9.15%
Inception p.a.	10.68%	9.18%

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 31 July 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	A2 Milk
Turners Automotive	Auckland International Airport
Heartland Group Holdings	Fisher & Paykel Healthcare
Freightways	Meridian Energy
Marsden Maritime Holdings	Chorus Networks

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Equities Market Commentary

July was a volatile month for markets, with weaker US inflation and labour market data seeing markets bring forward expectations of Fed rate cuts. Bond yields fell sharply, with the Global Aggregate Bond Index returning 2.8% (in USD).

Global equities advanced by +1.8%. This more muted advance was as investors became more sceptical about the ability of artificial intelligence stocks and the “Magnificent 7” to continue to drive markets higher.

The US July labour market report showed slowing employment growth, a higher unemployment rate and moderating wage growth. GDP data came in stronger than expected at an annualised 2.8% in Q2, but higher frequency data points to a slowdown ahead. June CPI data came in under expectations, and just a few hours later the Fed opened the door to a September rate cut.

The Bank of Japan continued its gradual normalisation of monetary policy in July, raising its policy rate 15 basis points from 0.10% to 0.25% and signalling a more hawkish stance ahead. This impacted markets sharply after month-end. In China, ongoing property sector problems continued to weigh on the broader economy. Private consumption remains particularly weak. The authorities continued their reactive and gradual approach to monetary easing.

In Australia the focus was on inflation and whether the RBA would resume rate hikes. The June quarter CPI outcome which was released at month-end, with the core being a little below market expectations and not sufficiently bad for the RBA to hike in August. NZ saw a dovish pivot from the RBNZ only six weeks after their surprisingly hawkish statement in May. The change in tone clearly reflects weak recent activity data and business survey evidence that firms’ pricing power is very weak. The debate now is whether the RBNZ will begin easing tight monetary conditions in August or wait until later in the year.

Salt NZ Dividend Fund Commentary

In an exceptionally strong month for the NZ equity market, the Fund pleasingly outperformed in July, returning +6.35% compared to the +5.90% advance by the S&P/NZX50 Gross Index (including imputation credits). Strong stock selection outweighed the normally low beta nature of the Fund.

The stand-out positive was once again our long-standing position in Tower (TWR, +27.3%). There was not actually any new news behind this sharp move but there appeared to be a broader based recognition by investors of our long-held thesis that they are very cheap, that their guidance is potentially conservative and that they have windfall potential upside from their large events allowance. If there are no major calamities before end-September, NPAT will lift by a further $32m – very large in the context of their market cap which has grown to $410m. TWR appears to be certain to enter the S&P/NZX50 Index in either September or December.

A second major tailwind came from our long-held Turners (TRA, +15.3%) position. It was one of a group of “quality cyclicals” that did well during the month on hopes of future RBNZ rate cuts. Aside from the general impact on their business, they are a rapid beneficiary as half of their finance book is funded via floating rates. We had been concerned as to whether their market share gains would be sufficient to offset broader market weakness but a convincing piece of web-scraped data from one of the key NZ brokers suggests that this is indeed the case. One final positive has been the sudden sharp reversal of the NZDJPY, which will lift the cost for competitors to import used Japanese cars. Other cyclical overweights such as Freightways (FRW, +18.2%), Heartland Group (HGH, +8.1%) and NZME (NZM, +14.1%) also assisted.

The largest headwind was somewhat unlucky in that we had no position in the takeover candidate Arvida, (ARV +74.2%), which is being bid for by a US private equity investor at a moderate discount to NTA. We were obviously surprised by this and view the NTA as just being a number that is unsupported by market transactions or free cashflow generation. This also hurt the Fund a little further by sparking the broader sector into life, with Ryman (RYM, +27.3%) and Oceania Healthcare (OCA, +47.2%).

The other key detractor was our good-sized underweight in a2 Milk (ATM, +11.7%), which we view as being overpriced unless one has very aggressive assumptions regarding Chinese market share gains and what would be a near miraculous rebound in the Chinese birth-rate. The broader consumption and retail sales backdrop in that country is also very tough at present.

At month-end, we project the Fund to yield 4.5% versus 3.8% for the Index.

Matthew Goodson, CFA