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

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$116 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 June 2024

Application	1.6033
Redemption	1.5968

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 June 2024

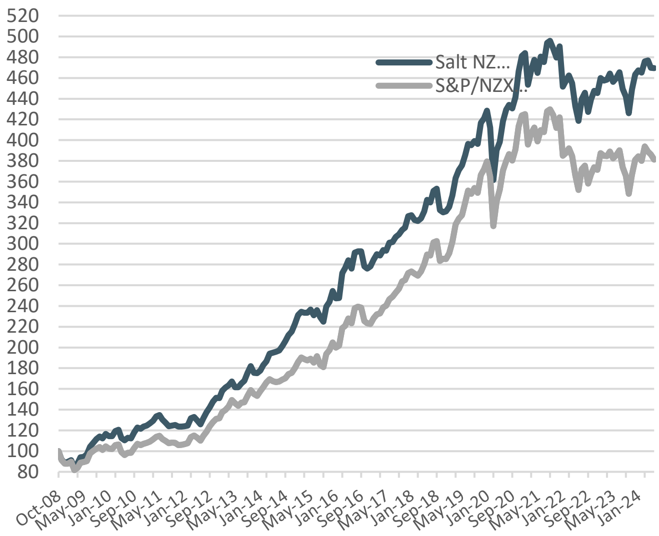
NZ shares	99.37%
Cash	0.63%

Fund Performance to 30 June 2024

Period	Fund Return*	Benchmark Return
1 month	-0.06%	-1.26%
3 months	-1.37%	-3.20%
6 months	1.30%	-0.45%
1 year	2.08%	-1.67%
2-year p.a.	5.90%	3.83%
3 years p.a.	-0.78%	-2.54%
5 years p.a.	4.01%	2.21%
7 years p.a.	6.55%	6.35%
10 years p.a.	9.14%	8.59%
Inception p.a.	10.32%	8.83%

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 June 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	Meridian Energy
Marsden Maritime Holdings	Fisher & Paykel Healthcare
Freightways	Goodman Property Trust

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Equities Market Commentary

The June quarter started poorly as overheating concerns weighed on markets but those fears abated as hopes of a soft landing were revived. Developed market equities rose +2.8%, with sharp outperformance by mega-cap technology stocks seeing the Nasdaq 100 rise +8.5%.

The flipside of resilient economic data has been stubborn services inflation which remains inconsistent with central banks' 2% inflation targets. Bonds sold off, with the global aggregate bond index returning -1.1% (in USD) over the quarter.US economic data softened later in the period but upside inflation surprises saw the Fed deliver a hawkish message in June, reducing the number of expected rate cuts in 2024 from three to one. Subsequent softer data saw markets price in two cuts this year.

The ECB became the first major central bank to cut interest rates as had been signalled well in advance. However, reflecting the uncertainty of the inflation outlook, this may be "one and done" depending on how data evolves. Activity data in China saw strong performance from exports alongside ongoing weakness in domestic demand. Problems in the real estate sector remain largely unresolved and pose a key risk to the outlook. Australian inflation data surprised sharply to the upside, with markets now pricing a 50% hike probability for the August RBA meeting. Full June quarter inflation data to be released in July will be critical.

NZ activity data has been very weak and labour market data has been softening, with forward indicators of inflation now peeling off apace. The latest ANZ Business Outlook survey saw pricing intentions fell to a net +35.3%, its lowest level since 2020. Markets now expect the RBNZ to start easing monetary policy earlier than signalled. The first full interest rate cut is priced for November this year, in line with our expectation.

Salt NZ Dividend Fund Commentary

The Fund outperformed strongly in the June quarter, declining by -1.37% compared with the -3.20% descent by the S&P/NZX50 Gross Index.

Our long-standing holding in Tower (TWR, +30.9%) was the major stand-out. They delivered two guidance upgrades for NPAT to be above $35m and then above $40m compared to the former range of $22m-$27m. Moreover, this assumes the full utilisation of their large event allowance of $45m. There are less than three months to go in the seasonally quieter September half, so TWR could potentially deliver NPAT above $72m if these are uneventful. This compares to a market cap at quarter-end of $333m. The insurance cycle has clearly turned in their favour and we still think the market is being far too conservative in projecting that they get hit by their full large event allowance each and every year in the future.

There were a number of solid positives from names that we did not own or were underweight. These were led by the economically and ESG-challenged Sky City (SKC, -29.8%). Others in these camp included Tourism Holdings (THL, -43.7%), Ryman Healthcare (RYM, -21.8%), The Warehouse Group (WHS, -32.4%) and Vulcan Steel (VSL, -22.7%). It was a quarter where dodging cyclically-challenged bullets mattered just as much as selecting a far small number of winners. On that front, the moderate overweight in Infratil (IFT, +4.2%) was also helpful and the Fund participated in their material capital raising.

The largest headwind was our large overweight in Turners (TRA, -15.7%) which weakened despite a rock-solid result and trading update in May. The NZ economy is in a deep cyclical funk but we view the used car cycle as far less volatile than new cars and TRA is somewhat shielded by their continued market share gains. They will be an early beneficiary of any rate cuts as they have partially funded their finance book with floating rates. We used the weakness to lift our holding.

Other negatives came from a moderate holding in Marsden Maritime (MMH, -17.9%) which fell on no news that we could see. We suspect it was a bit of catch-up with other port stocks and also possibly some transition-type selling. The overweight in Freightways (FRW, -13.0%) dragged as it was sold on cyclical fears. The revenue line is hardly buoyant but previous labour cost pressures have dissipated and it is a classic candidate for a bounce when the market's mind turns to future interest rate cuts. Our moderate underweight in the low-yielding Fisher & Paykel Healthcare (FPH, +18.5%) also hurt as they delivered a modest earnings upgrade and investors flocked to a quality name that doesn't have cyclical risks.

At quarter-end, we project the Fund to yield 4.7% versus 4.0% for the Index.

Matthew Goodson, CFA