Salt NZ Dividend Appreciation Fund Fact Sheet – August 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 August 2024

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$122 million
Inception Date	31 July 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 August 2024

Application	1.7101
Redemption	1.7032

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 August 2024

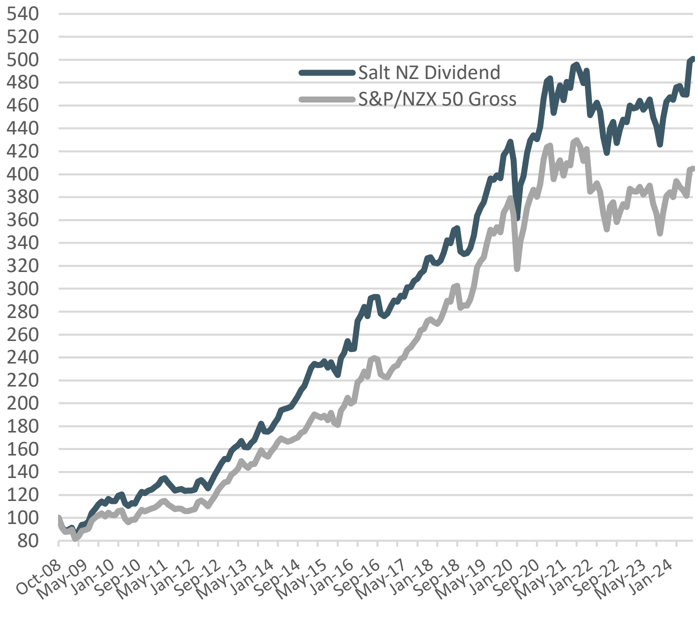
NZ shares	99.08%
Cash	0.92%

Fund Performance to 31 August 2024

Period	Fund Return*	Benchmark Return
1 month	0.45%	0.34%
3 months	6.60%	4.89%
6 months	7.68%	6.01%
1 year	11.39%	7.73%
2-year p.a.	6.00%	3.58%
3 years p.a.	0.45%	-1.99%
5 years p.a.	4.85%	2.96%
7 years p.a.	7.25%	6.87%
10 years p.a.	9.54%	9.07%
Inception p.a.	10.65%	9.15%

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

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Equities Market Commentary

July's market volatility continued into the early part of August. Weak US labour markets combined with a Bank of Japan rate hike saw a sharp sell-off in global equities. Order was restored later in the month as markets began to price in more aggressive easing by the Fed and solid earnings results assuaged recession concerns. Developed market equities ended +2.7% higher, while the global aggregate bond index rose +2.8%. Interest rate sensitive asset classes did well with the global REITs index +6.2%.

The US July jobs report showed the smallest payrolls gain (+144k) in over three years, while a stronger participation rate saw the unemployment rate rise to 4.3%. Recession fears were further fuelled by a weak ISM manufacturing index. This led to market pricing in over 100bp of policy easing by the Fed. The Bank of Japan's decision to increase its policy rate by 25bp combined with the hawkish tone of Governor Ueda led to an abrupt unwinding of carry trade positions.

Property market problems in China continue to weigh on the broader economy and consumption growth remains anaemic. Policy support remains modest and reactive. The Reserve Bank of Australia delivered a hawkish message at its August meeting, again "not ruling anything in or out". Governor Bullock pushed back on continued market pricing of early rate cuts, saying that "doesn't align with the Board's current thinking".

NZ data continued to point to the dire state of the economy. Retail sales contracted sharply in the June quarter and the unemployment rate rose to 4.6%, despite a surprise lift in employment that was at odds with other measures of labour market activity. The RBNZ cut the OCR by 25bp to 5.25% and signalled further cuts to come in the months ahead.

Salt NZ Dividend Fund Commentary

The Fund slightly outperformed in August, returning +0.45% compared to the +0.34% advance by the S&P/NZX50 Gross Index.

The stand-out positive was our relatively large underweight in a2 Milk (ATM-23.3%), which had hurt us in the previous months. The position came right in one fell swoop when their weak year-ahead guidance reflected the harsh realities of China's difficult infant formula market – something that we felt the "growth" and "momentum" investors who had been aggressively pushing the name were overlooking.

Our large, long-standing position in Tower (TWR, +2.8%) position ground a little higher and if there are no calamities by end-September, they will pocket a cool $32m post-tax from what they would have otherwise paid in reinsurance deductibles. The market doesn't value this due to the lack of certainty but cold, hard cash is most certainly worth its face value, especially if it gets repeated in the future when there are quiet years for major claims. TWR appears highly likely to enter the S&P/NZX50 Index in December.

The largest detractor was our Turners (TRA, -6.8%) position which had helped us in the previous month but turned down on no new news that we could discern. It is a rapid beneficiary of RBNZ rate cuts as half of their finance book is funded via floating rates. The used car market is weak but we believe they are continuing to win market share as an offset. Other headwinds came from underweights in Fisher & Paykel Healthcare (FPH, +10.1%) which rose on a modest earnings upgrade, Chorus (CNU, +8.1%) on a higher dividend that isn't cash earnings covered and Vista Group (VGL, +24.1%) on a surge in interest from momentum-type investors.

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

Matthew Goodson, CFA