Salt NZ Dividend Appreciation Fund Fact Sheet – January 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 31 January 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 31 January 2024

Application	1.6177
Redemption	1.6111

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 January 2024

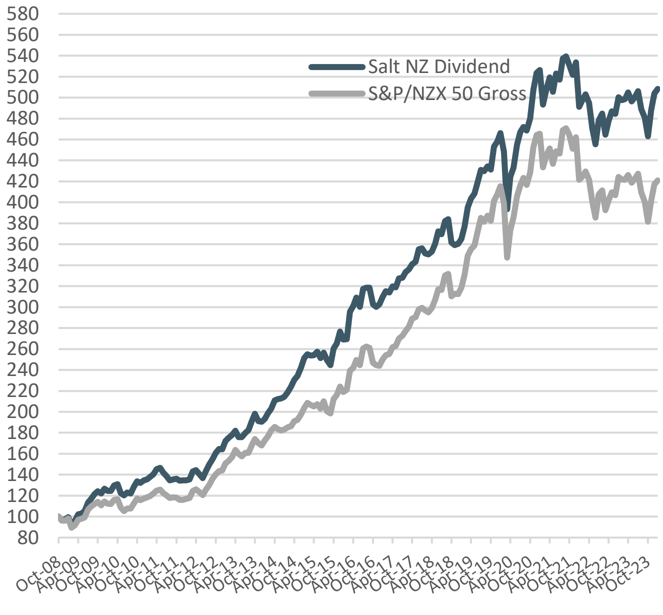
NZ shares	98.72%
Cash	1.28%

Fund Performance to 31 January 2024

Period	Fund Return*	Benchmark Return
1 month	0.81%	0.86%
3 months	9.72%	10.36%
6 months	0.40%	-1.53%
1 year	1.56%	-0.81%
2-year p.a.	1.72%	-0.08%
3 years p.a.	-1.16%	-3.30%
5 years p.a.	6.84%	5.73%
7 years p.a.	7.34%	7.73%
10 years p.a.	10.16%	9.31%
Inception p.a.	10.58%	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 January 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	Goodman Property Trust
Marsden Maritime Holdings	A2 Milk
NZX	Sky City
Scales Corporation	Precinct Properties NZ

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Equities Market Commentary

After a strong December month, markets were more circumspect in January. Strong activity data, particularly in the US, was received favourably by equity markets, but that came with push-back from central banks against early expectations of rate cuts. Developed market equities rose 1.2%, while the global aggregate bond index was down -1.4%.

In the US, data was more in line with a "no landing" than a "soft landing" scenario. December 2023 GDP data was strong (+3.3%, q/q annualised), as was the December labour market report (unemployment rate unchanged at 3.7%). The euphoria was tempered somewhat later in the month by a hawkish tone to the Fed's January statement. Mega-cap tech stocks outperformed strongly.

The European Central Bank left interest rates unchanged in January and re-iterated their data dependence. That was followed by PMI rising to 47.9 in January, its highest level in three months, but still well below the benchmark 50 that separates expansion from contraction. In Japan, the TOPIX was the best performing major equity market as the Bank of Japan left monetary policy unchanged amid speculation that we will see an end to their Negative Interest Rate Policy (NIRP) and Yield Curve Control (YCC). That now appears more likely in April.

In China, the December 2023 quarter GDP growth came in at 5.2% year on year, broadly in line with expectations but soft relative to history. Partial activity data also remained weak. The Peoples Bank of China continued to add stimulus over the month, but this remains largely reactive and somewhat timid. We expect a fiscal package to support consumption in the next few months.

In Australia, December 2023 quarter inflation came in below expectations at both the headline and core (trimmed mean) level. This followed weaker-than-expected retail sales and employment data. This combination of news means the RBA is likely done with interest rate hikes and will adopt a neutral bias at its February meeting.

NZ's December 2023 quarter inflation data came in below expectations, but all the downside surprise was in tradeables, while non-tradeable inflation came in stronger than expected. This prompted the RBNZ to push back on early rate cut expectations by stating that while progress was being made in the disinflation journey, there was still a long way to go. We do not expect an Official Cash Rate cut until November.

Salt NZ Dividend Fund Commentary

The Fund performed largely in line with the benchmark in the month of January, advancing by 0.81% compared with the +0.86% lift by the S&P/NZX50 Gross Index.

Individual contributors and detractors were relatively uneventful, with the largest headwind coming from our underweight in A2 Milk (ATM, +12.0%). Being non-yielding, this has long been an underweight for the Fund and we have viewed the market's medium-term estimates of Chinese birth rates and product margins as being too optimistic. This view has played out well but hit a temporary bump during the month on Chinese birth data that was less bad than expected. Other headwinds were minor, being led by Marsden Maritime (MMH, -5.6%) drifting lower on no news and our zero weight in Sky City (SKC, +3.9%) being a moderate outperformer.

Tailwinds were led by our underweight in Auckland Airport (AIA, -4.2%) which retraced some of its prior month's advance due to a surprisingly favourable regulatory decision. We are bemused that AIA is now appealing this. Our view is that it is very expensive, it is low-yielding and passenger traffic and associated income may take some years to return to pre-Covid levels. Other positives were our overweight in Infratil (IFT, +5.3%) and underweights in Port Of Tauranga (POT, -4.8%) and Skellerup (SKL, -5.6%).

At month-end, we project the Fund to yield 4.6% versus 3.9% for the Index.

Matthew Goodson, CFA