
# Salt NZ Dividend Appreciation Fund Fact Sheet – December 2022

## 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 December 2022

| | |
|---|---|
| Benchmark | S&P/NZX 50 Gross Index |
| Fund Assets | $114 million |
| Inception Date | 31 December 2015 |
| Portfolio Manager | Matthew Goodson, CFA |

## Unit Price at 31 December 2022

| | |
|---|---|
| Application | 1.5958 |
| Redemption | 1.5893 |

## 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 December 2022

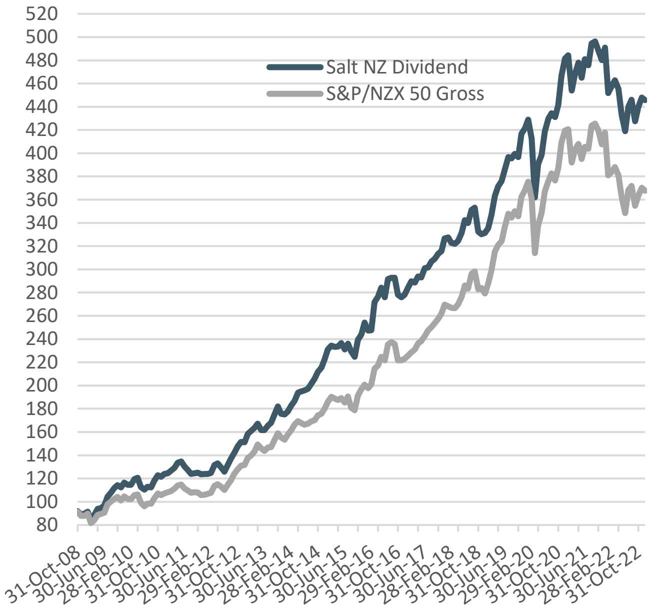
| | |
|---|---|
| NZ shares | 97.79% |
| Cash | 2.21% |

## Fund Performance to 31 December 2022

| Period | Fund Return* | Benchmark Return |
|---|---|---|
| 1 month | -0.49% | -0.68% |
| 3 months | 4.26% | 3.68% |
| 6 months | 6.40% | 5.56% |
| 1 year | -9.21% | -11.98% |
| 2-year p.a. | -3.80% | -6.39% |
| 3 years p.a. | 1.89% | -0.06% |
| 5 years p.a. | 6.40% | 6.44% |
| 7 years p.a. | 8.33% | 8.88% |
| 10 years p.a. | 11.41% | 10.93% |
| Inception p.a. | 11.05% | 9.64% |

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 December 2022*




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 | Ryman Healthcare |
| Marsden Maritime Holdings | Vital Healthcare Property Trust |
| Mainfreight | A2 Milk Company |
| T&G Global | Skellerup Holdings |

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## Equities Market Commentary

The rally in global equity markets lost some momentum in the final weeks but the gain for the December quarter was an impressive +9.8% in USD terms. The gains reflected a growing confidence that the worst of the inflation surge was now behind the world's major economies. This optimism was tempered late in the quarter by central banks which, despite reducing the magnitude of rate hikes, signalled they still had more tightening work to do, exceeding markets' views of the various terminal rates.

The market was caught off guard by the surprise move from the Bank of Japan to adjust its Yield Curve Control policy by allowing a widening of the trading band around 10-year JGBs from 0.25% to 0.5%. This was seen as a de facto tightening in monetary policy.

In the face of widespread social unrest, China moved swiftly to unwind still-stringent Covid restrictions. We had expected such a move following the conclusion of the 20th National Congress of the CCP, but the pace of this move surprised us and does not come without risks.

In Australia, the economy is showing signs of slowing and will weaken further in 2023 but is expected to avoid recession. House price growth is likely to turn negative in 2023, fuelling local expectations that the RBA will not have to be as aggressive as other central banks.

In NZ, the RBNZ delivered its largest ever interest rate increase of 75bps during the quarter, taking the OCR to 4.25%. Cementing the hawkishness even further, was the admission the Bank had considered a 100bp hike. The projected terminal rate of the OCR was lifted from 4.1% to 5.5%, higher than was expected by the market.

## Salt NZ Dividend Fund Commentary

The Fund delivered a quarter of solid outperformance, returning +4.26% compared to the +3.68% turned in by the S&P/NZX50 Gross Index. The quarter was quite unusual in that only 14 out of the 50 stocks in the index outperformed.

The strongest positive was our large overweight in Tower Limited (TWR, +13.3%). They delivered a solid result, and after a long period where we felt like a plaintive voice in the wilderness, the market is now beginning to recognise that TWR is a rare beneficiary of rising interest rates as their insurance float will move from earning nothing to be a material profit stream. TWR is now also largely through the worst of the claims cost cycle, where it takes a year for policies to turn over and be re-priced. At the risk of jinxing the rest of the year, we also highlight that TWR is yet to field any large event claims after three months and the market bakes in their very conservative $30m guidance.

The second key tailwind was our long-held underweight in Ryman Healthcare (RYM, -36.6%). Their result was a little weak but what really spooked the market was a blow-out in their debt to concerning levels. This has occurred while new sales and resales have held up moderately well in the housing downturn. The balance sheet pressure will only grow from here as prospective residents find it hard to sell their own home to move into a retirement unit.

Detractors were of a far smaller magnitude, with there being no major issues at all. Minor headwinds came from overweights in Turners (TRA, -5.4%), Marsden Maritime (MMH, 7.6%) and being modestly underweight Fisher & Paykel Healthcare (FPH, +23.5%) and Auckland Airport (AIA, +8.5%).

At month-end, we estimate the forward dividend yield for the Fund to be 4.6% versus 4.0% for the index.

Matthew Goodson, CFA