Salt NZ Dividend Appreciation Fund Fact Sheet – February 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 29 February 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 29 February 2024

Application	1.6101
Redemption	1.6036

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 29 February 2024

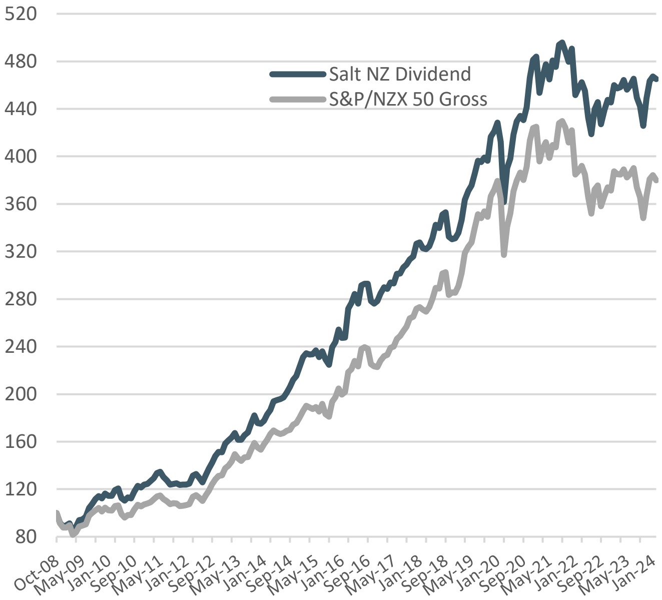
NZ shares	99.24%
Cash	0.76%

Fund Performance to 29 February 2024

Period	Fund Return*	Benchmark Return
1 month	-0.47%	-1.10%
3 months	3.65%	3.63%
6 months	3.45%	1.62%
1 year	1.69%	-1.30%
2-year p.a.	0.83%	-1.00%
3 years p.a.	0.84%	-1.35%
5 years p.a.	6.06%	4.71%
7 years p.a.	6.99%	7.30%
10 years p.a.	9.78%	8.93%
Inception p.a.	10.48%	9.05%

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 29 February 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
Marsden Maritime Holdings	Sky City
Freightways	Goodman Property Trust
Scales Corporation	Mercury Energy

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Equities Market Commentary

The MSCI World Index rose +4.2% in February reflecting generally resilient economic data and solid earnings reports. Stronger economic data saw an ongoing pullback in rate cut expectations, both in quantum and timing. US 10-year bond yields rose from 4.01% to 4.28% and the global aggregate bond index fell -1.3% (in USD).

US economic data was strong. The PMI remained in expansion territory in February, and the economy added 353,000 jobs in January. The unemployment rate has been unchanged for 3 months at 3.7%. The core PCE just after month-end was as expected at a high +0.4% but services inflation was nearly +0.6%. The Europe PMI rose more than expected to 48.9. While still in contraction, the worst of the downturn may be over. January inflation came in at 2.8%, still above the ECB's 2% target.

Japan’s TOPIX rose a healthy +4.9% despite a weaker-than-expected GDP print for the December quarter of -0.1%, placing the economy in a technical recession although this follows a strong first half following reopening. The Chinese share market rose by +8.1% on the back of a range of supportive administrative measures. Data over the Lunar New Year improved a little while the authorities announced several stimulus measures, including a larger-than-expected cut to the 5-year loan prime rate.

The RBA kept rates on hold and softened its tightening bias, but by less than expected. While risks are viewed as balanced, there is still concern about resilient inflation, especially in services. We think the RBA will be one of the last central banks to start cutting interest rates.

NZ labour market data saw the unemployment rate rise from 3.9% to 4.0% over the quarter, but this was less than the 4.2% forecast by the RBNZ. This saw a significant change in market expectations of the next move in interest rates from a cut to further hikes. In the end, sense prevailed and the RBNZ left interest rates unchanged at the February Monetary Policy Statement. They also flagged less probability of future hikes.

Salt NZ Dividend Fund Commentary

The Fund outperformed again in the month of February, declining by -0.47% compared with the -1.10% retracement by the S&P/NZX50 Gross Index.

The stand-out positive contributor was our old friend Tower (TWR, +19.0%). There was no news on their strategic review but they upgraded this year’s guidance to at/above the top end of their range on the basis of strong GWP growth, some early signs of improving motor loss experience and strong cost controls. There have been no large claims but the full $45m reinsurance deductible is still being assumed. More importantly, TWR gave initial NPAT targets of $40-60m for Sep25 and $60-80m for Sep26, post all large event deductibles. At their mid-points, these put TWR on a PE of 5.3x in Sep25 and 3.8x Sep26. Clearly, no one believes them except us. We almost hope their strategic review doesn’t lead to a change in control.

The other notable tailwind was our underweight in Ryman Healthcare (RYM, -18.6%) which delivered disappointing profit guidance as they struggle to sell units against a backdrop of a weak housing market. In our view, their balance sheet is not entirely out of the woods should these conditions persist.

By far the largest headwind came from our underweight in a2 Milk (ATM, +20.4%) which rose on a better than feared result. We still believe that the market is being far too optimistic on the Chinese birth outlook and on the margins that ATM will achieve in a highly competitive environment. An underweight in Gentrack (GTK, +20.8%) and an overweight in NZX Limited (NZX, -6.5%) also detracted.

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

Matthew Goodson, CFA