Salt NZ Dividend Appreciation Fund Fact Sheet – January 2025

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 2025

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$103 million
Inception Date	31 July 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 January 2025

Application	1.7757
Redemption	1.7685

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 2025

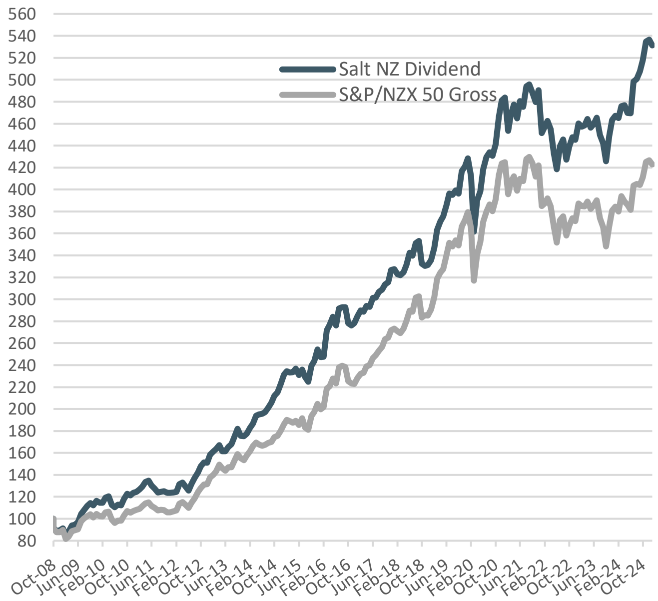
NZ shares	99.20%
Cash	0.80%

Fund Performance to 31 January 2025

Period	Fund Return*	Benchmark Return
1 month	-0.96%	-0.88%
3 months	2.62%	2.82%
6 months	6.60%	4.75%
1 year	13.74%	9.46%
2-year p.a.	7.48%	4.20%
3 years p.a.	5.58%	3.00%
5 years p.a.	4.40%	2.09%
7 years p.a.	7.16%	6.35%
10 years p.a.	8.68%	8.51%
Inception p.a.	10.77%	9.19%

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 2025*



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	Chorus Networks
Heartland Group Holdings	Goodman Property Trust
Marsden Maritime Holdings	Meridian Energy
Genesis Energy	Fisher & Paykel Healthcare

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Equities Market Commentary

Led by Europe, developed market equities rose +3.6% (in USD) in January. Bond yields were volatile, with the global aggregate index eking out a +0.6% return (in USD) on tighter credit spreads

The return of Donald Trump and his "America First" agenda was positive for US equities, but the policy detail of tax cuts, immigration curbs and tariffs fuelled expectations of higher inflation, pushing up sovereign yields. The emergence of the Chinese AI company Deepseek challenged the stretched valuations of US technology stocks. Market concentration in the US tech sector is at record levels and is vulnerable to disruption or earnings disappointment.

Europe's strong performance over the month was aided by better economic data with the composite PMI nudging into positive territory at 50.2. The market was also helped by its lower exposure to technology. The ECB cut the deposit rate 25bp to 2.75% at month's end. The BoJ raised rates by 25bp to 0.5%, reflecting growing confidence of sustained increases in wages and core inflation. Further rate hikes appear likely. Better economic news in China suggested past stimulus measures are having an impact. However, front-loading of exports to the US ahead of tariffs may not be sustainable. Indications are that tariffs on China may be less aggressive than suggested pre-election.

Better than expected inflation data has opened the door to the first interest rate cut by the RBA in February. However, ongoing labour market tightness means the easing cycle may be short and shallow. NZ activity data was mixed but on balance supportive of a bottoming out in the cycle. Developments have been broadly in line with RBNZ projections, so we should see the previously flagged 50bp OCR cut occur at the next meeting in February.

Salt NZ Dividend Fund Commentary

The Fund performed largely in line with the market in January, returning -0.96% compared to the -0.88% decline by the S&P/NZX50 Gross Index. Momentum style factors continued to dominate markets globally but NZ was largely left out of this party.

There was only one stand-out contributor of note, that being the solid overweight we have built up in Heartland Group (HGH, +9.1%) in recent months. A key theme for this year is a gradual recovery in the economy as easier monetary policy gradually feeds through and HGH is an obvious beneficiary from this.

Historically, HGH was a key underweight. They were a second-tier bank with a higher cost of funding than the majors, which meant they had to charge more for their loans. Unsurprisingly, this led to negative adverse selection in their book. This was invisible when the economy was fine but bad loans crept out of every nook and cranny when the recession arrived. The risk to our investment is that further provisions may be needed but we see this as ancient history and any further such losses should be on a PE of 1x. Looking forward, HGH now has three good businesses in reverse mortgages, rural lending and car lending. In Australia, they are now funded by cheaper deposits from their new Australian bank licence. HGH has stopped over-paying its dividend and it just has to work through the detritus of the last downturn before this becomes apparent. That is the risk. They are on a consensus forward PE of 10.0x going to 7.4x and then 6.7x.

There were few detractors worthy of major note but the largest was the modest overweight in Infratil (IFT, -11.0%) which retreated on a combination of fear about what Trump's policies will mean for their US renewables business, Longroad and what Deepseek might mean in the future for data centre businesses generally. Other minor headwinds came from underweights in Oceania Healthcare (OCA, +12.3%) and Goodman Property (GMT, +3.7%).

At month-end, we project the Fund to yield 4.0% versus 3.8% for the Index.

Matthew Goodson, CFA