Salt NZ Dividend Appreciation Fund Fact Sheet – December 2023

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 2023

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$115 million
Inception Date	30 June 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 December 2023

Application	1.6046
Redemption	1.5981

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 2023

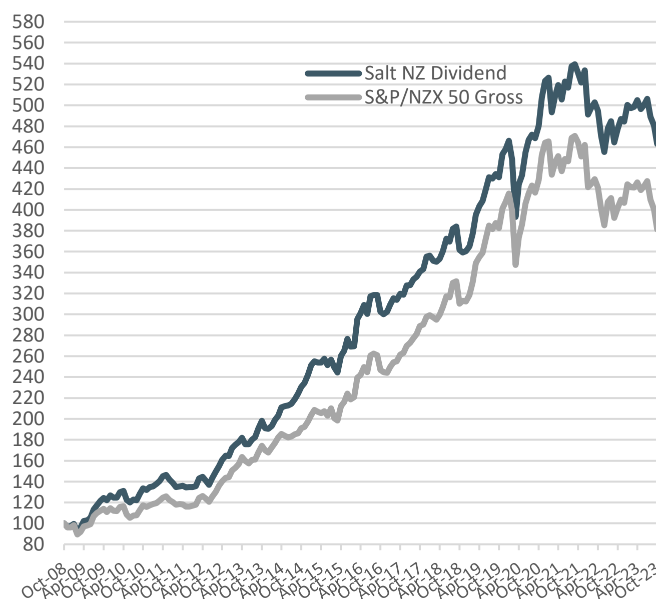
NZ shares	97.59%
Cash	2.41%

Fund Performance to 31 December 2023

Period	Fund Return*	Benchmark Return
1 month	3.29%	3.89%
3 months	4.83%	4.20%
6 months	0.77%	-1.22%
1 year	4.06%	2.58%
2-year p.a.	-2.80%	-4.98%
3 years p.a.	-1.25%	-3.49%
5 years p.a.	6.95%	5.96%
7 years p.a.	7.56%	7.97%
10 years p.a.	10.22%	9.53%
Inception p.a.	10.58%	9.17%

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 2023*



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
Turners Automotive	Auckland International Airport
Tower	Goodman Property Trust
Marsden Maritime Holdings	Sky City
Freightways	A2 Milk
NZX	Meridian Energy

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Equities Market Commentary

After a tough Q3, the December quarter saw strong returns across nearly all asset classes. Progress on inflation saw markets anticipate earlier rate cuts leading to an 11.5% (USD) rally in developed market equities and an 8.1% return from the global bond index. Asset classes that had struggled most under the interest rate mantra of "higher for longer" such as REITs had some of the highest returns. Global REITs rallied 15% over the quarter.

Softer than expected inflation prints in the US and Europe had markets bringing forward rate cut expectations. Fuel was poured on the fire by a dovish December Fed statement, which removed the final hike from prior projections and added an extra cut in 2024. By the end of the quarter, US markets were pricing six 25-basis point cuts in 2024, an expectation we think will ultimately be disappointed.

Activity data in Japan remained somewhat sluggish. The BoJ left monetary policy unchanged at its December meeting, though we expect they may end their Yield Curve Control and Negative Interest Rate policies as early as their January meeting. This is based on our view that such moves are as much about policy normalisation as concerns about inflation. Mediocre December PMI readings out of China suggest that fourth-quarter GDP will likely slip further. Some rebound in the manufacturing PMI in January 2024 is likely as pass-through of the Rmb1trn additional fiscal support to infrastructure projects flows through. However, its sustainability still bears watching. China's reflation journey will remain bumpy and gradual.

As we expected, the RBA resumed rate hikes in November following a run of stronger-than-expected activity, labour market and inflation data. The 25bp hike took the cash rate to 4.35%. They left rates unchanged at the December meeting, though we continue to expect one further hike to 4.6%, most likely at the February meeting.

NZ saw labour market pressures ease with a decline in employment and a rise in the unemployment rate from 3.6% to 3.9% over the September quarter. Wage growth also moderated. The biggest surprise was weaker-than-expected Q3 GDP growth, accompanied by significant downward revisions to prior data. This seems to put the nail in the coffin of the one further hike included in the RBNZ's November interest rate projections. However, it does not necessarily bring forward rate cuts. That will depend on whether the weaker growth data will be followed by soft inflation readings, particularly non-tradeable inflation.

Salt NZ Dividend Fund Commentary

The Fund pleasingly outperformed the bullish market upswing in the December quarter, rising by +4.83% compared with the +4.20% advance by the S&P/NZX50 Gross Index.

This was very much due to individual pieces of stock selection rather than style factors. The Fund's relatively low beta nature means that it has historically tended to add value in weak and choppy markets but struggle to keep up a little in strong bull markets. That did play out to some degree but the absolute impact of most contributors and detractors was quite small. However, there was one stand-out positive exception thanks to the Fund's sizeable long-held position in Turners (TRA, +24.3%).

TRA produced a strong result for the September half, highlighted by very strong car retailing performance more than offsetting the headwinds from their partially hedged finance book. As rates stop rising and then eventually start falling, this will turn into a tailwind. Meanwhile, we see them continuing to inexorably take market share as undercapitalised competitors exit. Looking forward, 2024 may see finance pick up the earnings torch from retail. TRA is a classic example of what this Fund searches for – it generates strong free cashflows, has good growth opportunities to reinvest and uses a growing free cash flow stream to pay generous and gradually growing dividends. Their performance was also aided by being added to the S&P/NZX50 index in December. We used this opportunity to lighten what had become a very large position thanks to the rising share price but this will continue to be a core name for the Fund.

Other contributors were far smaller. They were led by a moderate overweight that we built on weakness in Scales (SCL, +14.6%), which seems to have fallen off investors' radar somewhat. The share price is still some 40% below its former highs. SCL has a strong balance sheet, a stable pet food ingredients business and their apple orchards appear to have come through the cyclone and flooding damage of last year with far less damage than had been feared. The other name of note was our exit from Air NZ (AIR, -9.8%), for whom numerous storm clouds are gathering in this most classic of cyclicals.

Headwinds were led by our underweight in Auckland Airport (AIA, +11.8%) which surged in the last two months of the quarter as a reaction to sharp falls in bond yields and a somewhat favourable regulatory decision on that portion of their asset base. We view their balance sheet as stretched, their business as having a degree of lasting damage from Covid and they are materially overpriced on any sensible assessment of future free cashflows, with their valuation multiples being well above pre-Covid levels.

Other headwinds came from a tiny holding in Comvita (CVT, -29.2%) which we had hoped might return to a period of consistent growth but which warned due to cyclically weak demand from Chinese consumers. The Fund has been underweight property stocks for quite some time as we have struggled to find value and dividend safety amidst the sharp bond yield-driven weakness. This hurt a touch in the quarter, with the sector's 6.5% return outperforming somewhat. Goodman Property (GMT, +8.5%) and Precinct Property (PCT, +11.5%) particularly weighed.

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

Matthew Goodson, CFA

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