Salt NZ Dividend Appreciation Fund Fact Sheet – May 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 May 2023

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$111 million
Inception Date	31 December 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 May 2023

Application	1.6091
Redemption	1.6025

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 May 2023

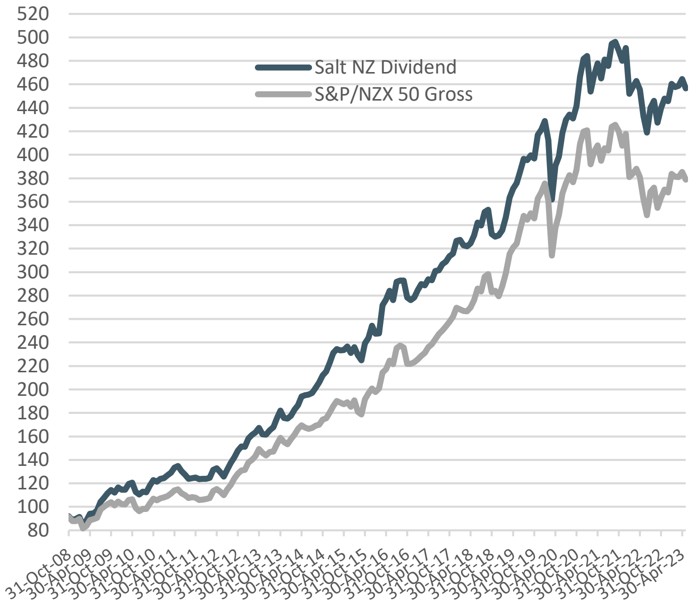
NZ shares	98.91%
Cash	1.09%

Fund Performance to 31 May 2023

Period	Fund Return*	Benchmark Return
1 month	-1.72%	-1.72%
3 months	-0.23%	-0.69%
6 months	1.95%	2.26%
1 year	5.45%	4.46%
2-year p.a.	-0.91%	-2.08%
3 years p.a.	4.64%	2.77%
5 years p.a.	6.61%	6.41%
7 years p.a.	7.00%	7.67%
10 years p.a.	10.93%	10.10%
Inception p.a.	10.90%	9.58%

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 May 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
Tower	Auckland International Airport
Turners Automotive	Meridian Energy
Marsden Maritime Holdings	Precinct Properties NZ
Spark NZ	Chorus Networks
Argosy	Mercury Energy

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

Equities Market Commentary

US debt ceiling negotiations drove volatility in May, with a deal in early June being welcomed. The MSCI World Index fell by -1.0% but the S&P500 defied this weakness with a +3.7% advance. However, this was very narrow and dominated by mega-cap technology stocks on excitement about the generative AI thematic following a huge positive surprise from Nvidia. NZ equities declined -1.7% and the Australian benchmark fell -2.5%, despite the Information Technology segment catching the AI buzz and charging ahead +11.6%.

The Fed hiked 25bp, but in a slight but significant change to their wording, signalled they would likely pause in June. However, a drop in the unemployment rate to 3.4% in April and continued strength in core inflation data suggest that a pause may be temporary. With core inflation still at 5.6%, the ECB tightened again but by a lesser 25bp. The transmission of past rate hikes into tighter conditions explained the slower pace. Markets are currently pricing two further 25bp hikes for a terminal rate of 3.75%. The end of post-Covid bounce in China saw macro data for April display a renewed slowdown. Factory activity readings slipped onto contraction and the service sector activity expanded at its weakest pace in four months.

Higher-than-expected monthly inflation in Australia raised concerns re the RBA coming off pause, which they did both during the month and after month-end. Renewed inflation pressure from housing rentals as well as higher award wages may keep core rates of inflation above target for some time.

In NZ, the 2023 Budget was more stimulatory than expected with a significantly higher debt issuance program. The RBNZ hiked 25bp, as was widely expected, but surprised the market by calling time on the rate hiking cycle and looking past the initial fiscal impulse from the Budget to focus on outer year contraction which does however rely on improbably tight spending settings. Data developments will determine if this pause can be maintained.

Salt NZ Dividend Fund Commentary

The Fund performed in line with the S&P/NZX50 Gross Index for the month of May, both declining by -1.72%. It was another month of quite concentrated returns, with few relative contributors of major note.

The strongest tailwind was the overweight in Turners (TRA, +7.1%). They delivered a rock-solid result despite strong economic headwinds. They are being held back by only hedging 50% of their finance book's funding in a rising rate environment but this will turn into a tailwind when the RBNZ eventually starts easing. They are taking significant share in the NZ used car market and we expect their debt collection business will revive after some quiet years. The PE of 9x and dividend yield of circa 9% are compelling in our view.

Smaller positives came from underweights in Fisher & Paykel Healthcare (FPH, -16%), Sky City (SKC, -8.3%) Tourism Holdings (THL, -8.6%) and Chorus (CNU, -5.3%).

The largest detractor was the overweight in Tower (TWR, -5.5%). They downgraded guidance on the back of the large NZ events and a larger than expected impact from cyclones in Vanuatu. This also incorporated reinsurance reinstatement costs. In what has been an annus horribilis, they are still actually guiding to a full-year NPAT of $8m-$13m, incorporating $16m of assumed large events in the September half. This speaks to how strongly the underlying business is performing and we see the market as dramatically under-estimating their earnings power in a normal or light claims year. Bring on El Nino.

Other detractors were underweights in Oceania (OCA, +21.7%) and Arvida (ARV, +15.4%) which bounced sharply from their lows but still have difficult retirement sector outlooks. Not owning the small travel software company Serko (SKO, ++45.7%) also weighed a little.

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

Matthew Goodson, CFA