


# Salt NZ Dividend Appreciation Fund Fact Sheet – July 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 July 2023

| | |
|---|---|
| **Benchmark** | S&P/NZX 50 Gross Index |
| **Fund Assets** | $113 million |
| **Inception Date** | 30 June 2015 |
| **Portfolio Manager** | Matthew Goodson, CFA |

## Unit Price at 31 July 2023

| | |
|---|---|
| **Application** | 1.6411 |
| **Redemption** | 1.6344 |

## 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 July 2023

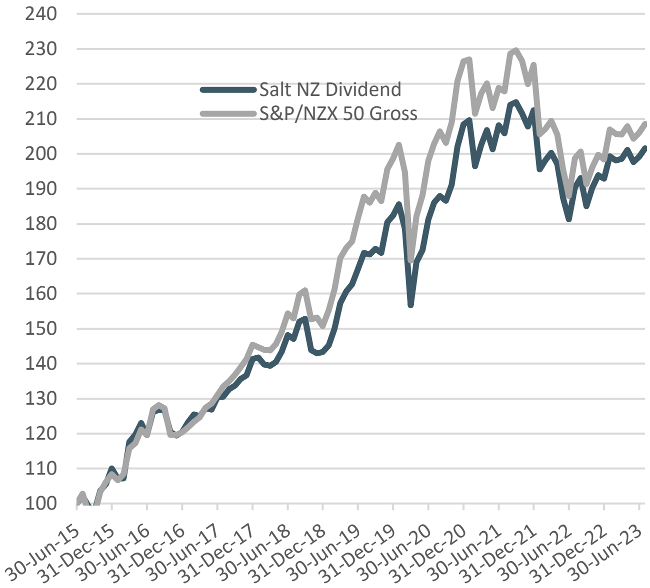
| | |
|---|---|
| **NZ shares** | 95.74% |
| **Cash** | 4.26% |

## Fund Performance to 31 July 2023

| Period | Fund Return* | Benchmark Return |
|---|---|---|
| **1 month** | 1.19% | 1.17% |
| **3 months** | 0.24% | 0.29% |
| **6 months** | 1.16% | 0.73% |
| **1 year** | 5.87% | 4.89% |
| **2-year p.a.** | -1.05% | -2.17% |
| **3 years p.a.** | 2.72% | 0.92% |
| **5 years p.a.** | 6.49% | 6.20% |
| **7 years p.a.** | 6.91% | 7.33% |
| **10 years p.a.** | 10.90% | 10.26% |
| **Inception p.a.** | 10.92% | 9.61% |

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 July 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 | Goodman Property Trust |
| Spark NZ | Vital Healthcare Property Trust |
| Freightways | Sky City |

## Equities Market Commentary

Market sentiment remained positive in July as inflation continued to ebb and activity proved resilient. This supported a positive soft-landing narrative. Global stocks performed well, with the MSCI World delivering a 3.4% return (in USD).

US data saw the June CPI came in below expectations at 3.0% y/y, though core inflation remained sticky at 4.8% y/y. GDP growth surprised to the upside at 2.4% (q/q annualised), though the weakest part of the cycle is yet to come. The Federal Reserve raised its key policy rate by 25bp to 5.25-5.50% during the month, with markets signalling this as the likely peak in rates.

The ECB likewise raised their key deposit rate 25bp, taking it to 3.75%. However, the messaging was dovish, reflecting lower inflation and weakening activity data. Japanese inflation remained strong in June, with CPI ex fresh food and energy +4.2% y/y. The BoJ further tweaked its Yield Curve Control policy by shifting from a rigid 0.5% upper limit on 10-year government bonds to a “reference point” of 1%. Given its importance to funding the “carry trade”, Japan will be important to watch.

Australia has an ongoing battle between inflation that is slowing, but still too high, and the still tight labour market. The June quarter CPI came in below expectations at 6.0% y/y for the headline rate and 5.9% y/y for core (trimmed mean). The unemployment rate was 3.5% in June and slightly stronger than anticipated. This is now 0.4%pts lower than when the RBA began to hike rates. However, the RBA paused on rate hikes at its July meeting and in early August.

NZ headline inflation came in at 6.0% y/y in the June quarter, down from 6.7% y/y in March but the more problematic non-tradeable measure came in at 6.6% y/y. The economy has already seen a technical recession, with the weakest point in the cycle yet to come. We think the RBNZ has tightened enough, but Q2 labour market data due in early August will be critical to that view.

## Salt NZ Dividend Fund Commentary

The Fund performed almost in line with the benchmark in July, advancing by +1.19% compared to the +1.17% recorded by the S&P/NZX50 Gross Index. It was an extremely quiet month for relative performance, with there being very little dispersion across the Fund’s holdings.

Listed property stocks continued their recent return to form, with the property benchmark surging ahead by +4.4%. The Fund has been underweight this sector due to sharp increases in interest rates driving sizeable cap rate expansion and the weak economy seeing a mixed demand outlook. This positioning created a modest headwind, but within that, our Argosy Property overweight (ARG, +9.4%) was actually the single largest contributor.

Other tailwinds were all very slight and would normally barely merit a mention. Small overweights in Comvita (CVT, +9.6%), ANZ Bank (ANZ, +7.7%) and Scales (SCL, +5.1%) all assisted, as did underweights in Tourism Holdings (THL, -8.5%) and Auckland Airport (AIA, -1.8%).

The largest detractor was our moderate overweight in Marsden Maritime (MMH, -3.0%), which along with the other port stocks has been weak in recent months. Other headwinds came from being underweight Property For Industry (PFI, +4.9%), Precinct Property (PCT, +4.3%) and Channel Infrastructure (CHI, +11.6%), while the overweight in Tower (TWR, -0.8%) was a fractional laggard. TWR delivered a guidance downgrade due to claims cost inflation but saw the potential spectre of corporate activity raised by an associate company of Hollard Insurance moving over the 5% substantial shareholder threshold.

At month-end, we project the Fund to yield 4.5% versus 3.8% for the Index.

Matthew Goodson, CFA