Salt NZ Dividend Appreciation Fund Fact Sheet – February 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 28 February 2025

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$101.7 million
Inception Date	31 July 2015
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 28 February 2025

Application	1.7502
Redemption	1.7431

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 28 February 2025

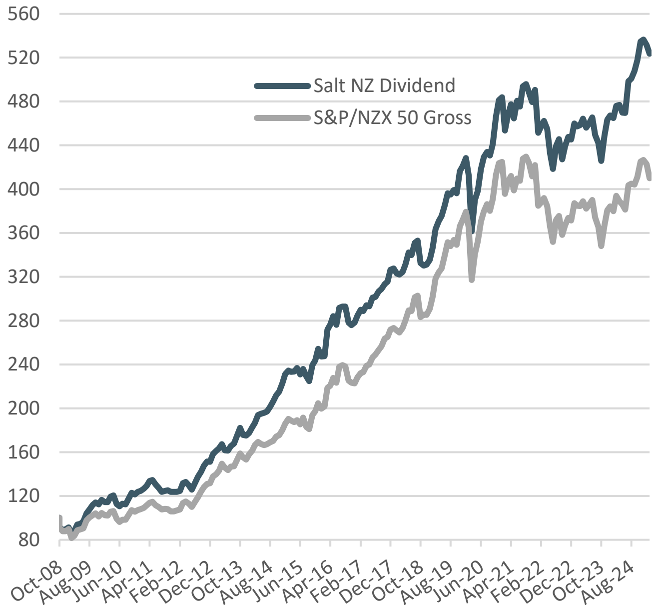
NZ shares	99.42%
Cash	0.57%

Fund Performance to February 2025

Period	Fund Return*	Benchmark Return
1 month	-1.44%	-3.03%
3 months	-2.06%	-3.56%
6 months	4.60%	1.23%
1 year	12.63%	7.32%
2-year p.a.	7.02%	2.92%
3 years p.a.	4.62%	1.70%
5 years p.a.	4.91%	2.27%
7 years p.a.	7.16%	6.01%
10 years p.a.	8.37%	7.92%
Inception p.a.	10.61%	8.94%

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 28 February 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	A2 Milk
Marsden Maritime Holdings	Meridian Energy
Genesis Energy	Goodman Property Trust

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
Email: info@saltfunds.co.nz | www.saltfunds.co.nz

Equities Market Commentary

Equity markets lost their momentum in February due to uncertainty about the Trump policy agenda and re-emergent concerns about US growth. The weak US market drove developed market equities down -0.7% over the month (in USD).

Global bonds benefitted from the weaker growth sentiment despite the concern that tariffs would lead to higher inflation. There was also a geo-political "flight to safety" element. The global aggregate bond index returned +1.4% (in USD).

US consumer confidence saw its biggest decline since August 2021 as inflation expectations spiked sharply higher. Weak business PMI data has raised the risk of firms delaying hiring and investments, pointing to risks of stagflation. European equities reacted positively to the possibility of a ceasefire in Ukraine. Defence stocks benefitted from a renewed focus on defence spending. Weak growth and favourable inflation data points to further easing ahead.

Japan grew at +2.8% annualised in the December quarter, significantly exceeding expectations. Rising inflation makes further rate hikes likely. Activity data in China improved although this may be exporters front-running US tariffs. We believe that further consumption-focussed stimulus is required.

The RBA cut rates for the first time in February, reducing the cash rate 25bp to 4.1%. However, their hawkish statement pushed back on expectations of more to come. While inflation has fallen faster than expected, the labour market remains very tight, so at most we will see a short, shallow easing cycle. NZ data suggested a stabilisation in activity following the weak June and September quarters. The RBNZ cut the Official Cash Rate 50bps to 3.75% and signalled 2-3 more cuts at a more subdued 25bp pace in the months ahead.

Salt NZ Dividend Fund Commentary

The Fund significantly outperformed the market in February, declining by -1.44% compared to the sharp -3.03% decline by the S&P/NZX50 Gross Index. This reflected strong results from stock selection and the general propensity of this Fund to outperform when markets are negative.

The stand-out contributor by a significant distance was the medium-sized overweight in Marsden Maritime (MMH, +61.0%). It felt like waiting for Godot but long-awaited corporate activity finally arrived. MMH has enormous long-term growth opportunities from their deep-water port that is half a day closer to China than Auckland. At some stage, the Devonport dry-dock should move there and Northport will benefit from improved connections to the road and rail network. They own significant land which will become far more valuable as the whole port develops. The issue was funding this growth but the joint takeover by Port of Tauranga, the local council and local iwi solves this. We think the bid is highly likely to complete.

Our old friend Tower (TWR, +10.6%) worked well again. They continued with their long run of profit upgrades, lifting the Sep25 year NPAT from $50-60m to $60-70m. We wouldn't be at all surprised if they were running above the top end of that upgraded guidance, but they are rightly being cautious in the event of a run of house fires or other events. This still assumes the full $50m pre-tax hit from large event retention, of which there has only been $3m year-to-date. We still argue that the sell-side fundamentally undervalues TWR by using both a high cost of capital and assuming the full $50m of large event retention every year – it should be one or the other, not both.

Other positives came from our large, long-held position in Turners (TRA, +7.5%), which upgraded guidance yet again; our underweight in Spark (SPK, -22.0%), which had a very poor result; and our underweight in Auckland Airport (AIA, -5.3%).

There were only two detractors of any note but both of these were quite large. Heartland Group (HGH, -21.3%) surprised with the extent of the bad debt skeletons hiding in the closet from their chequered history of lowish quality lending. While at face, HGH's new provisions should have a PE of 1x, and may have an element of deck-clearing, the extent of ongoing cost increases from the core business also surprised. HGH's forward PE path of 9.9x for Jun26 and 7.6x for Jun27 is perhaps somewhat cheap but not compelling until they put runs on the board.

The other large headwind came from the underweight in a2 Milk (ATM, +37.3%) which surprised the market with a profit upgrade. They have done an excellent job growing share in the very difficult Chinese infant formula market, but this will not get any easier as demographics continue to gradually turn the screw. While it includes some cash and a loss-making business, the forward PE path of 33x Jun25 and 29x Jun26 is aggressive for a shrinking market prize. This cross-checks with our DCF valuation.

At month-end, we project the Fund to yield 4.1% versus 3.9% for the Index.

Matthew Goodson, Portfolio Manager, CFA

Disclaimer: The information in this publication has been prepared from sources believed to be reliable and accurate at the time of preparation but Salt Funds Management Limited, its officers, directors, agents, and employees make no representation or warranty as to the accuracy, completeness, or currency of any of the information contained within, and disclaim any liability for loss which may be incurred by any person relying on this publication. All analysis, opinions and views reflect a judgment at the date of publication and are subject to change without notice. This publication is provided for general information purposes only. The information in this publication should not be regarded as personalised advice and does not take into account an individual investor's financial situation or goals. An individual investor should, before making any investment decisions, seek professional advice. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.