
# Salt NZ Dividend Appreciation Fund Fact Sheet – June 2022

## 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 30 June 2022

| | |
|---|---|
| **Benchmark** | S&P/NZX 50 Gross Index |
| **Fund Assets** | $107 million |
| **Inception Date** | 30 September 2015 |
| **Portfolio Manager** | Matthew Goodson, CFA |

## Unit Price at 30 June 2022

| | |
|---|---|
| **Application** | 1.528 |
| **Redemption** | 1.5218 |

## 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 30 June 2022

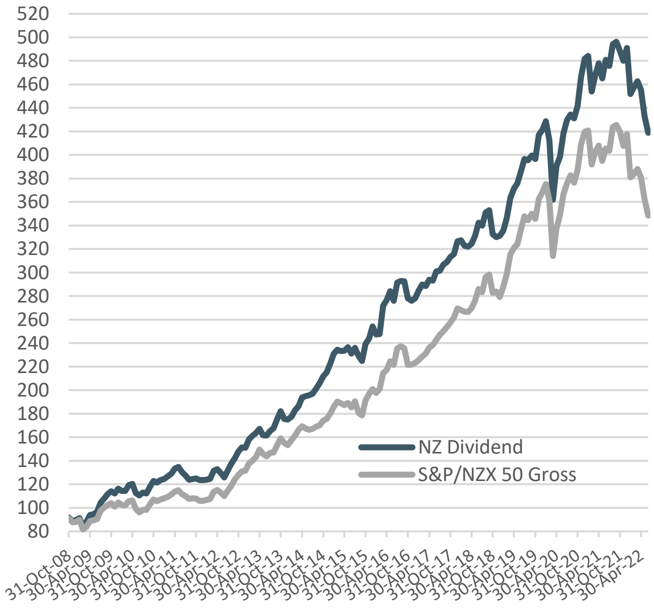
| | |
|---|---|
| **NZ shares** | 98.03% |
| **Cash** | 1.97% |

## Fund Performance to 30 June 2022

| Period | Fund Return* | Benchmark Return |
|---|---|---|
| **1 month** | -3.26% | -3.89% |
| **3 months** | -9.48% | -10.25% |
| **6 months** | -14.67% | -16.61% |
| **1 year** | -12.91% | -14.12% |
| **2-year p.a.** | 0.03% | -2.58% |
| **3 years p.a.** | 2.77% | 1.15% |
| **5 years p.a.** | 6.81% | 7.38% |
| **7 years p.a.** | 8.86% | 9.58% |
| **10 years p.a.** | 12.78% | 12.32% |
| **Inception p.a.** | 10.97% | 9.58% |

Performance is after all fees and does not include imputation credits or PIE tax.
*From 1 November 2008 to 30 September 2015, performance is from a fund with the same strategy and the same portfolio manager.

## Cumulative Fund Performance to 30 June 2022*




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 | Ryman Healthcare |
| Marsden Maritime Holdings | Goodman Property Trust |
| Fletcher Building | Contact Energy |
| Freightways | Vital Healthcare Property Trust |

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## Equities Market Commentary

**It was another tough quarter for markets globally, marking the worst first half for developed market equities in 50 years. To make matters worse, bond prices have also fallen significantly, failing to give investors the protection they usually seek from this asset class. Global listed infrastructure did perform more strongly given its inherent inflation protection characteristics.**

Bond markets have priced in ever more aggressive action from central banks to tame inflation. This has heightened recession risks as household budgets are squeezed by the higher prices of key commodities (food and energy) and higher borrowing costs. The US Federal Reserve displayed a clear intention to tame inflation by signalling interest rates will need to rise to 3.8%. Despite unemployment being low and wages increasing, consumer confidence has slumped, contributing to recession concerns. Consumer confidence has also slumped in Europe, with a stagflation risk from lower gas supplies from Russia. Prices have risen sharply, and some form of rationing may have to be implemented.

The Chinese authorities continue to adopt a Covid-zero strategy, though there has been some easing in quarantine restrictions, seeing recent economic data improve. The Reserve Bank of Australia has accelerated its rate hikes, raising the cash rate 50bp in June following the initial 25bp hike in May.

**Signs are already emerging that the increase in rates impacting consumer behaviour. Further 50bp hikes are likely. The NZ economy contracted in the March quarter, in line with weak business and consumer confidence and the "virtual" Covid lockdown over the early months of the year. While reopening borders will help, weak business and consumer confidence levels point to soft underlying growth.**

## Salt NZ Dividend Fund Commentary

**The Fund outperformed in the June quarter, declining by -9.48% compared to -10.26% for the S&P/NZX50 Index. This was pleasing given that higher yield stocks generally tended to underperform somewhat as 10-year bond yields rose from 3.22% to 3.88% over the period.**

Key headwinds came from three of the Fund's more cyclical holdings in Freightways (FRE, -25.9%), Fletcher Building (-21.0%) and Turners (TRA, -6.2%). They were weak due to their actual and perceived operating leverage to a weaker or even recessionary economic outlook. FBU and TRA actually delivered solid updates during the period which limited their downside to a degree.

**Unsurprisingly in such a negative quarter, the main tailwinds all came from what we were underweight or didn't own. Goodman Property (GMT, -14.6%) led the way here, with the market reassessing the sustainability of industrial cap rates below 4% in a rising yield environment. ERoad (ERD, -67.6%) fell sharply due to management upheaval and weak operating performance. Vital Healthcare Property (VHP, -15.8%), Pacific Edge Biotechnology (PEB, -29.2%) and Heartland Bank (HGH, -15.6%) also fell further than the benchmark. Overall, the Fund experienced positive contributions from 36 names while there were only 16 detractors.**

Matthew Goodson, CFA