

SALT

Salt Core NZ Shares Fund Fact Sheet – October 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 Core NZ Shares Fund targets a portfolio of shares of New Zealand companies that may, in our opinion, provide a high total return. The Fund may also invest opportunistically in shares of Australian companies.

The Fund's investment process has been designed to facilitate selection of stocks such that the overall portfolio generates an above market total return after each stock is qualified through a number of quality and sustainability screens generated by Salt's disciplined research effort.

Fund Facts at 31 October 2022

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	\$44 million
Inception Date	1 December 2020
Portfolio Manager	Paul Harrison

Unit Price at 31 October 2022

Application	0.9133
Redemption	0.9096

Investment Guidelines

The guidelines for the Salt Core NZ Shares Fund are shown below:

NZ shares	50% – 100%
Australian Shares	0% – 50%
Unlisted securities	0% – 3%
Cash or cash equivalents	0% - 20%

Target investment Mix

The target investment mix for the Salt Core NZ Shares Fund is:

Australasian Equities	100%
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Fund Allocation at 31 October 2022

NZ shares	97.67%
Australian Shares	0.75%
Cash or cash equivalents	1.58%

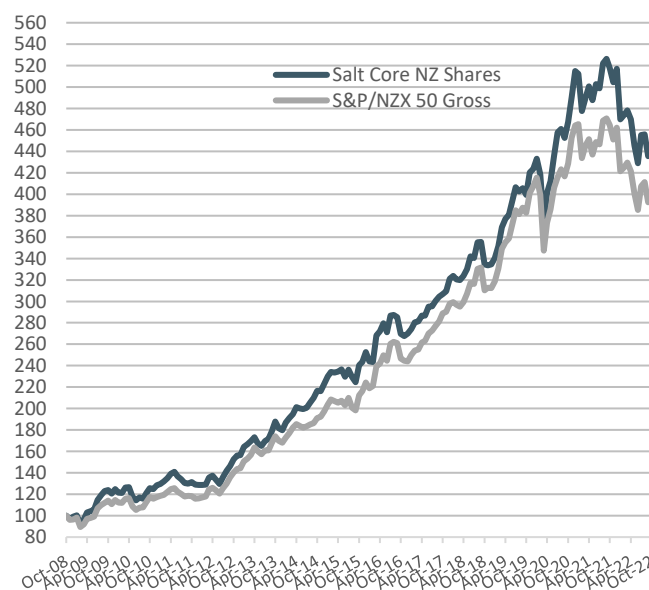
Fund Performance to 31 October 2022

Period	Fund Return*	Benchmark Return
1 month	2.35%	2.46%
3 months	-2.05%	-1.34%
6 months	-5.10%	-4.59%
1-year p.a.	-13.90%	-13.45%
2 years p.a.	-2.36%	-3.14%
3 years p.a.	3.75%	1.67%
5 years p.a.	7.76%	6.84%
7 years p.a.	9.22%	9.55%
10 years p.a.	11.31%	11.10%
Inception p.a.	10.53%	9.67%

Performance is after all fees and does not include imputation credits or PIE tax.

*From 1 November 2009 to 30 December 2020, performance is from a fund with the same strategy and the same portfolio manager.

Cumulative Fund Performance to 31 October 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
Mainfreight	Ryman Healthcare
Infratil	Genesis Energy
Spark NZ	Chorus Networks
Summerset	Goodman Property Trust
Pacific Edge	Auckland International Airport

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

After a rough start, developed market equities rose 7% in October although emerging markets ended 3% lower, dragged down by weakness in China. Bond yields made new cyclical peaks of 4.2% in the US, 2.4% in Germany and 4.7% in NZ, prior to rallying near month-end. Inflation, central banks, recession risk and geopolitical tensions all weighed, with some good news as supply chain constraints are clearly easing.

High inflation and tight labour markets saw further aggressive action from central banks, with the ECB hiking by 75bp and the US Fed and the BoE did likewise in early November. The RBNZ delivered a hawkish 50bp hike.

The US economy showed signs of softening, particularly in the housing market as higher mortgage rates started to bite. Flash PMIs were soft, with all forward-looking components weak. However, inflation came in stronger than expected and the labour market remains tight. Europe announced further plans to address the energy crisis, including a proposed price cap and a common purchase system. PMI data moved into recessionary territory. The ECB is continuing to prioritise inflation over growth and is expected to continue tightening, though probably at a slower pace. Growth in China rebounded in Q3, though continued Covid lockdowns has seen a softening in higher frequency activity data. As expected, President Xi was reappointed at 20th Party Congress.

Australian activity data continues to slow. However, a higher-than-expected inflation print for the September quarter is at odds with the RBA reducing the pace of interest rate increases to 25bp moves. This risks them needing to become more aggressive later and causing a sharper downturn. Activity data continues to slow in NZ, while September quarter inflation came in higher than expected. The labour market is tight with very strong wage growth. Market pricing expects the RBNZ to lift its forecast terminal OCR rate at its November meeting and deliver a 75bp hike.

Salt Core NZ Shares Fund Commentary

The NZ50 Gross Index staged a last-minute rally at the very end of the month to record a return of +2.46% for the month of October. The Fund almost kept pace with a return of +2.35%.

Volumes in the market were very light outside of passive index flows which dominated the month end. Chorus (+9.3%), which had largely done nothing over the month, suddenly came to life in the last two days, apparently due to the arrival of a passive index ETF as a buyer. CNU rallied over 4.0% in the last two hours of trade. Also on the 31st of October, one of the Fund's holding's, Pushpay (+13.6%) announced that they had entered into a scheme implementation

agreement which would see it acquired by its two largest shareholders.

October is another important month for profit results and annual shareholder meetings for some major cyclical companies. ANZ (+7.7%) reported a better-than-expected result, and Westpac (+12.5%) released their second half "notable items" report which the market interpreted as showing stronger than expected net interest margins. Fletcher Building (+6.2%), Freightways (+5.6%), and Auckland Airport (+6.9%) all gave stronger than expected updates at their meetings. Mainfreight (+12.8%) also rallied hard after the Company gave a positive update at their investor day. There was positive news for Air New Zealand (+9.1%) which released some strong operating numbers and Tourism Holdings (+31.8%) which bounced on news the ACCC had cleared the merger with Apollo.

The gentailers all provided solid updates at their shareholder meetings, with Genesis (+3.3%) reporting the strongest outlook versus expectations. The other gentailers, Meridian (+1.7%), Mercury (+2.4%) and Contact (+0.9%) underperformed slightly.

During the month, Real Estate (-1.7%) and Retirement sector stocks slid on concerns that the property sectors will bear the brunt of the RBNZ's OCR interest rate hikes. The Fund is underweight both of these sectors but holds an overweight position in Summerset Group (-10.2%) which was very weak.

Fisher & Paykel (+5.8%) recovered much of the September quarter's -7.4% slide as investors tried to predict US flu season and Covid related hospital admissions using some very early data. The Manager had rebuilt an overweight position in this stock at lower levels. Pacific Edge (-14.0%) was not so fortunate, and despite releasing a good quarterly growth in its test volumes, investors appear to have become impatient for a decision on cxblander's CMS reimbursement inclusion methodology proposed by Novitas.

During the month, the Manager took the opportunity to sell some stocks into strength such as Fisher & Paykel Healthcare, and Fletcher Building. The Fund was a buyer of Contact Energy and Air New Zealand.



Paul Harrison, MBA, CA