

SALT

Salt Core NZ Shares Fund Fact Sheet – July 2022

Manager Profile

Salt Funds Management is a boutique investment management firm wholly owned by its employees which specialises in managing NZ/Australian equity and listed property mandates for wholesale and retail clients.

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 July 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 July 2022

Application	0.9119
Redemption	0.9082

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 July 2022

NZ shares	95.38%
Australian Shares	0.77%
Cash or cash equivalents	3.84%

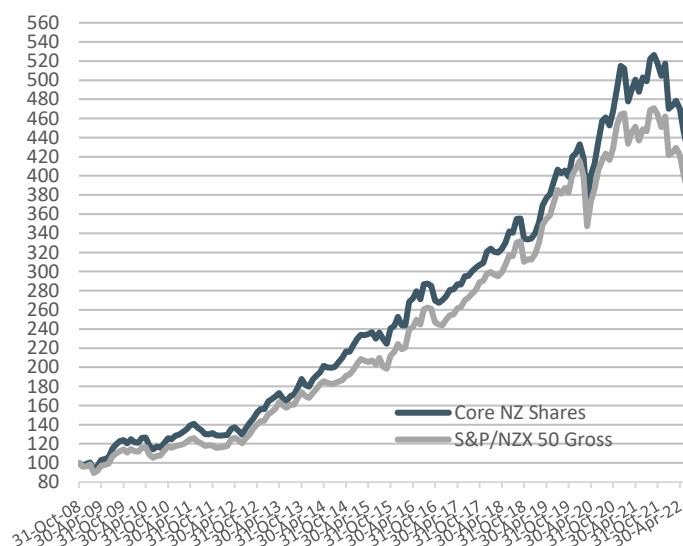
Fund Performance to 31 July 2022

Period	Fund Return*	Benchmark Return
1 month	6.09%	5.74%
3 months	-3.11%	-3.29%
6 months	-3.16%	-3.34%
1-year p.a.	-8.77%	-8.75%
2 years p.a.	-0.26%	-1.01%
3 years p.a.	3.83%	1.91%
5 years p.a.	9.02%	8.36%
7 years p.a.	9.82%	9.94%
10 years p.a.	12.81%	12.48%
Inception p.a.	10.90%	9.96%

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 July 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
Pacific Edge	Ryman Healthcare
Spark NZ	Goodman Property Trust
Mainfreight	Auckland International Airport
Infratil	Genesis Energy
Fisher & Paykel Healthcare	Vital Healthcare Property Trust

SALT FUNDS MANAGEMENT

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Market Commentary

July saw global growth slow further while inflation hit new highs. Labour markets remained strong, but strong wage growth points to ongoing core inflation pressure. Weaker growth search for a dovish pivot by central banks, particularly in the US. This drove a “risk on” tone in both equity and bond markets, which is premature in our view. Despite the difficult economic data, global equity markets rallied, with the MSCI World Index +7.9%.

The US Fed again tightened by 75bp, taking the Fed funds rate to 2.5%, or around the Committee’s estimate of the long run (neutral) rate. The European Central Bank began its hiking cycle with a larger than expected 50bp move. At the same time, the economy remains on the brink of recession given concerns about the security of gas supplies from Russia. Chinese data generally bounced although authorities continue to grapple with Omicron outbreak amidst its stringent Covid-zero policy. There have been some minor easing steps but a more fulsome relaxation is unlikely until after the upcoming Communist Party Congress.

The Reserve Bank of Australia continued its newly aggressive hikes with a 50bp move in July, with expectations of more to come. This is supported by labour market data showing Australia’s unemployment rate hit a fresh 48-year low of 3.5% in June. NZ Inflation hit a fresh high of 7.3% in the year to June, above all expectations. All key core measures of inflation pushed higher also, confirming the RBNZ still has work to do, especially considering the tightness in the labour market.



Paul Harrison, MBA, CA

Salt Core NZ Shares Fund Commentary

New Zealand equity market followed the rebound in global share markets in July and finished the month +5.74% higher (including imputation credits). The change in investor sentiment after Central Banks aggressively raised interest rates to control inflation resulted in the NZ 10yr bonds rallying to 3.5%. This saw the some of the pressure come off the cyclical and longer-term valuation growth stocks. The Fund outperformed its benchmark as it recorded a return of 6.09% (including imputation credits) for the month.

The best performers for the Fund were healthcare stocks Pacific Edge (+14.7%) which reported good quarterly growth numbers (it should be noted though the Company also has recently highlighted the potential for them to lose CMS coverage in the US), Fisher & Paykel Healthcare (+6.1%) and CSL (+7.7%), transport sector stocks Freightways (+12.8%), Port of Tauranga (+12.2%), and Mainfreight (+11.9%), plus Infratil (+9.1%) and Spark (+6.3%) which both had announcements on mobile phone towers. The other performance of note was Summerset (+11.5%) which significantly outperformed its peer group with RYM (+4.3%), Oceania (+1.1%) and Arvida (+1.4%) rising more modestly.

The Fund avoided the impact of Restaurant Brands (no holding, -11.1%) after it issued a profit warning due to rising costs, and Sky City (underweight, -4.8%) which is subject to a regulatory review in South Australia.

The announcement that Tiwai was seeking to negotiate an extension to its electricity supply saw the gentailer sector outperform but it was the least impacted Genesis (+8.7%) and Mercury (+7.4%) that rose the fastest compared with Meridian (+6.2% and Contact Energy (+5.1%). The fund is underweight this sector with its main exposure via its holding in Meridian.

With a busy month of profit reporting and Annual Meetings ahead, investors are all attempting to predict where the positive and negative updates will come from. The key question will be whether the current profitability can continue or are some companies beginning to see a shift in demand or an inability to pass on cost increases.

During the month the Manager was a small buyer of Pushpay and Sky City on weakness and a seller into the strength of Freightways, Meridian, Synlait, and Spark.