Salt Core NZ Shares Fund Fact Sheet – February 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 28 February 2022

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	$44.7 million
Inception Date	1 December 2020
Portfolio Manager	Paul Harrison

Unit Price at 28 February 2022

Application	0.9599
Redemption	0.9559

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%

Fund Allocation at 28 February 2022

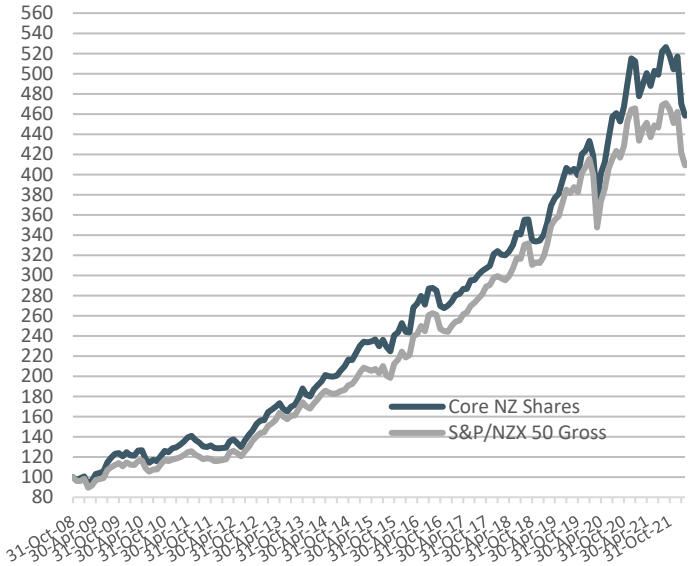
NZ shares	95.61%
Australian Shares	1.80%
Cash or cash equivalents	2.59%

Fund Performance to 28 February 2022

Period	Fund Return*	Benchmark Return
1 month	0.80%	0.74%
3 months	-6.08%	-5.83%
6 months	-9.29%	-9.39%
1-year p.a.	-0.83%	-2.04%
2 years p.a.	6.40%	3.13%
3 years p.a.	10.45%	8.70%
5 years p.a.	11.04%	10.82%
10 years p.a.	10.60%	10.70%
Inception p.a.	13.88%	13.68%

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 28 February 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
Spark NZ	Ryman Healthcare
Pacific Edge	Goodman Property Trust
Brambles	Auckland International Airport
Mainfreight	Z Energy
Infratil	Contact Energy

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Monthly Market Commentary

Equity and bond markets experienced a difficult month as rising geo-political tensions culminated in Russia launching a large-scale invasion of Ukraine on February 24th. The first half of the month had been dominated by increasing expectations of more rate hikes by the major central banks in 2022, most notably the US Federal Reserve, and that growth would suffer consequently. As Ukraine tensions grew, rate hike expectations were reassessed downwards, but growth concerns intensified.

There is a high degree of uncertainty as to how the Russia-Ukraine conflict will play out. Right now, the clearest economic impact appears likely to be via energy and food prices. This will intensify concerns of stagflation, particularly in Europe. European activity actually improved, with PMI results pointing to increasing momentum. Headline inflation reached 5.1% y/y, with more than half of that increase already coming from higher energy prices. The ECB signalled a gradual approach to withdrawing stimulus, which seems even more appropriate now.

The US saw a strong January retail sales report showing that consumers had simply delayed spending due to Omicron. The headline CPI reached 7.5% y/y and the payrolls report was stronger than expected with nominal wage growth reaching 5.7% y/y. Interest rate markets priced in as much as six Fed rate hikes in 2022 but this ebbed following the Ukraine invasion.

The RBA halted its QE program but repeated its somewhat sanguine inflation outlook despite raising its forecasts. Their interest rate guidance was less hawkish than market participants had expected but said a rate hike in 2022 was "plausible".

The RBNZ delivered a hawkish Monetary Policy Statement but continued the cautious approach to rate hikes, increasing the Official Cash Rate (OCR) by 25bps to 1.0%. We continue to see a series of rate increases from the RBNZ with a terminal OCR of 3.0%, around which the risks are evenly balanced.

Following January's dramatic 9% fall, the NZX50Gross Index recomposed itself to rise rose by 0.75% (including imputation credits) over the month of February. A solid profit reporting season provided some encouragement for investors, but the market still swung wildly. Turnover volumes were mostly light indicating that investors had little conviction about the direction of the equity market. Macro-economic issues were the dominant driver as investors had to grapple with the implications of inflation appearing to become more entrenched and what that would mean for central bank policy around the globe. Russia's invasion of Ukraine in the last week of February added to the uncertainty.

Salt Core NZ Shares Fund Commentary

The Fund performed in line with the market over the month as it rose +0.80% benefiting from some strong performances from holdings such as Spark (+4.0%), Fletcher Building (+4.0%), a2 Milk (+6.6%), and Infratil (+5.0%) which all had good updates. The was some rotation of the market back towards the Gentailers. Meridian (+14.6%), Contact (+3.7%), Genesis (+3.2%) and Mercury (+3.0%) all outperformed, and the Fund gained from its larger holding in Meridian. Better rainfall in February has put hydro lakes into a good position ahead of winter and the surging oil and gas prices around the world has given investors an incentive to own renewable energy generators. The Healthcare sector was somewhat lacklustre with Fisher & Paykel Healthcare (-0.9%) continuing to drift lower and CSL (+0.1%) and Ebos (+0.2%) largely unchanged.

Conversely, with news of house prices appearing to have peaked, there was rotation away from the retirement sector Summerset (-3.2%), Oceania (-11.0%), and Arvida (-5.9%) all fell. Ryman (+1.0%), which had previously been under pressure due to concerns around its balance sheet and capex profile, managed a small gain over the month.

It was the transport sector along with the software/IT companies that bore the brunt of investor selling. Mainfreight (-4.9%) slid as investors decided that profit growth was close to peaking and that the Company's margins were likely to begin to fall once the "one off" covid disruption benefit wore off. The Manager is expecting some normalisation to margins in the future but believes the market may have been too negative on the profit outlook for Mainfreight. In the IT/Software sector there were large falls in Eroad (-17.9%), Pushpay (-13.9%), Gentrack (-10.0%) and Serko (-8.9%) as investors struggled with the sector's growth profile given the disruption being seen to the global economy.

During the month the Manger took advantage of the strength in the a2 Milk price to reduce its exposure and did the same in Brambles which was subject to press speculation of a potential takeover. The Fund was also a seller of Mercury Energy and Sky City. Weakness in the Ryman, Auckland Airport, and Mainfreight share prices also provided some attractive buying opportunities

Paul Harrison, MBA, CA