Salt Core NZ Shares Fund Fact Sheet – August 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 August 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 August 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%

Fund Allocation at 31 August 2022

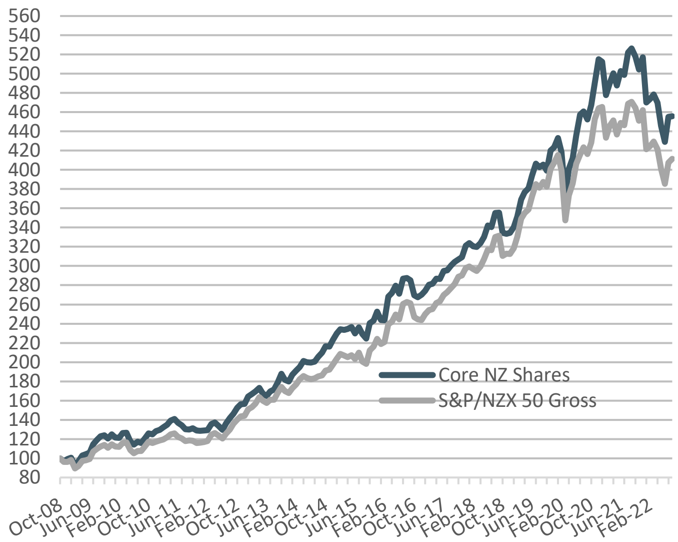
NZ shares	95.82%
Australian Shares	0.78%
Cash or cash equivalents	3.40%

Fund Performance to 31 August 2022

Period	Fund Return*	Benchmark Return
1 month	0.15%	0.94%
3 months	2.27%	2.59%
6 months	-3.79%	-3.14%
1-year p.a.	-12.73%	-12.24%
2 years p.a.	-0.56%	-1.42%
3 years p.a.	4.21%	2.55%
5 years p.a.	8.69%	8.22%
7 years p.a.	10.31%	10.81%
10 years p.a.	12.39%	12.21%
Inception p.a.	10.84%	9.97%

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 August 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	Goodman Property Trust
Summerset	Auckland International Airport
Spark NZ	Genesis Energy
Pacific Edge	Chorus Network

Market Commentary

After entertaining brief thoughts of a central bank pivot, equity markets fell and bond yields rose in August as central banks renewed their commitments to bring inflation under control, despite the growing risks to the outlook for economic activity. The MSCI World Index fell -4.2% and US 10-year bond yields rose from 2.70% to 3.13%.

Global growth concerns remain high, especially in Europe as energy supply risks intensify. US GDP declined for a second quarter in June, meeting the definition of a technical recession. However, given the narrowness of the weakness and the strength of other data, particularly the labour market, this is unlikely to be classified as an economic recession.

US headline inflation appears to be past its peak; however, core inflation will remain more difficult to get under control, especially as the labour market remains strong. This saw the Fed deliver hawkish commentary, including the possibility of a third consecutive 75bp hike at its September meeting.

The Chinese economy is struggling with ongoing Covid disruptions and emerging issues in their over-extended property market. July activity data was weak, with the service sector also losing momentum. Monetary and fiscal policy was eased in response. The unemployment rate in Australia fell sharply to 3.5%. Headline CPI inflation for the second quarter in rose by 6.1% y/y while the core rate came in at 4.6%. The RBA hiked a further 50bp in August, signalling more to come.

There are increasing signs of a slowdown in growth in the NZ economy. June quarter retail sales volume growth came in far weaker than expected and employment growth has clearly stalled, though the labour market remains tight overall. The RBNZ hiked 50bp in August to take the OCR to 3.0%. We expect a further 50bp hike in October. However, with monetary conditions now tight and given the emerging weakness in some activity data, we are fast approaching the point at which the RBNZ's next move is not immediately obvious.

Salt Core NZ Shares Fund Commentary

August is always a tricky month for the New Zealand and Australian share markets as a large percentage of companies report their earnings for the period ending 30 June. Overall, the reporting season was satisfactory with most companies reporting as expected. There was a mix of outlook commentaries, but most were cautious given the actions of central banks around the world to slow demand.

The NZ50 Gross Index edged up 0.9% for the month of August but there were wild variations in performance underlying this. a2Milk (+24.9%) rose dramatically after it announced a solid result that was ahead of expectations and there was a sharp reversal in opinions of some investors who had been short the stock hoping that the result was going to be a disaster. The Fund held a position that is close to the market weight in a2 as the risks to upside and downside are evenly balanced. On the flip side Pacific Edge (-42.3%) came under pressure from a weak biotech sector in the US but more so from an unexpected, last minute, proposal to change the inclusion methodology for Centre for Medicare & Medicaid (CMS) reimbursement by the Medicare Administrative Contractor (MAC) Novitas Solutions which covers the Pennsylvania area where Pacific Edge is based. These changes would see cxbladder dropped from being reimbursed by CMS until the bladder cancer test is part of the cancer care guidelines. There was a high level of shock value in this announcement but ultimately cxbladder is expected to be included in guidelines, but this delay is unhelpful for investor sentiment. The long-term valuation nature of Pacific Edge means the valuation impact is modest. Pacific Edge management continue to advise the market that they believe the proposed methodology change is unlikely to occur.

The Fund had many tailwinds in August. Strong performances from Infratil (+8.0%), Fletcher Building (+8.5%), Spark (+6.3%), and Summerset (+3.3%) were all positive for the Fund's performance. The relative performance of the Fund benefited from the weakness in Heartland Bank (-9.3%) due to a heavily discounted capital raise, EROAD (-30.2%) falling hard and Mercury Energy (-4.5%) underperforming.

Some of the Fund's key holdings gave back a little of their recent outperformance with Mainfreight (-3.3%), Fisher & Paykel (-7.4% and Port of Tauranga (-3.7%) all underperforming the market.

As a result, the Fund slightly underperformed over August with a return of 0.15% (after fees). The Manager continues to closely monitor all of the Fund's positions and ensure that the size of the investment positions correspond with the risk reward offered by each stock. Accordingly, the Manager took the opportunity to sell some stocks into strength such as Arvida, Oceania Healthcare, Fletcher Building, and a2Milk whilst carefully accumulating more Ebos and Contact Energy. The Fund also participated in the Heartland Bank capital raise during August.

Paul Harrison, MBA, CA