
# Salt Core NZ Shares Fund Fact Sheet – March 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 March 2022

| | |
|---|---|
| Benchmark | S&P/NZX 50 Gross Index |
| Fund Assets | $45.2 million |
| Inception Date | 1 December 2020 |
| Portfolio Manager | Paul Harrison |

## Unit Price at 31 March 2022

| | |
|---|---|
| Application | 0.9691 |
| Redemption | 0.9651 |

## 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 March 2022

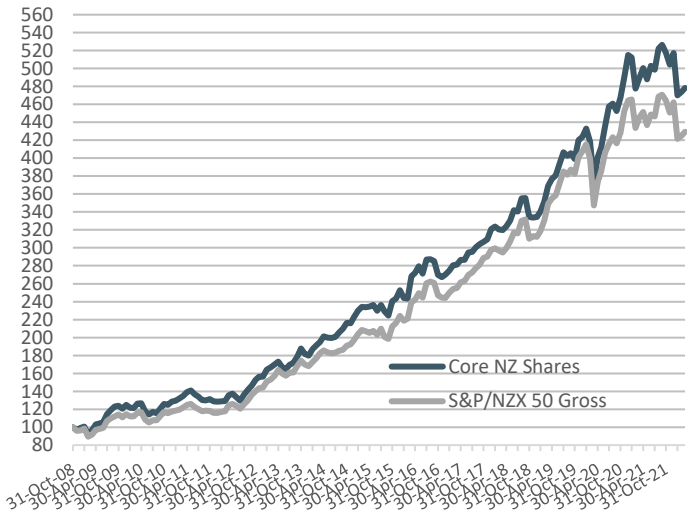
| | |
|---|---|
| NZ shares | 95.61% |
| Australian Shares | 1.80% |
| Cash or cash equivalents | 2.59% |

## Fund Performance to 31 March 2022

| Period | Fund Return* | Benchmark Return |
|---|---|---|
| 1 month | 0.96% | 1.11% |
| 3 months | -7.51% | -7.09% |
| 6 months | -9.13% | -8.78% |
| 1-year p.a. | -2.29% | -3.59% |
| 2 years p.a. | 13.26% | 11.18% |
| 3 years p.a. | 9.02% | 7.15% |
| 5 years p.a. | 11.19% | 10.97% |
| 10 years p.a. | 10.78% | 11.00% |
| Inception p.a. | 13.44% | 13.18% |

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 March 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 | Z Energy |
| Mainfreight | Goodman Property Trust |
| Infratil | Contact Energy |
| Summerset | Genesis Energy |

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## Quarterly Market Commentary

**The first quarter of 2022 was challenging for markets. Concerns over the need for a faster pace of interest rate hikes to combat higher inflation, along with the economic implications of Russia's invasion of Ukraine, weighed on both equity and bond markets. Russia is a major energy and commodity producer, with the invasion exacerbating both the current surge in inflation and already constrained global supply chains, posing risks to global growth.**

Central banks became gradually more hawkish as the transitory inflation narrative was overtaken by rising core inflation, higher inflation expectations and stronger wage inflation. As central banks became more hawkish, bond yields rose rapidly as the market feared they are now seriously behind the curve.

Even the European Central Bank was more hawkish than expected and indicated the end of its asset purchase program was likely some time in Q3 2022, and declined to push back on expectations of rate increases before the end of the year. The US Federal Reserve hiked the Fed funds rate for the first time this cycle in March.

The flattening of the US yield curve and, at times, inversion of certain parts of the curve has generated a degree of consternation about the prospect of recession in the US. An important consideration is that through history there has been an average 19-month lag between the inversion of the yield curve and the onset of recession. We don't dismiss the prospect of future recession but it's important to not get too negative too soon.

**The RBNZ hiked the OCR by 25bp for a third time in February. A more hawkish than expected statement sets the scene for more aggressive hikes in the next few months. This fits well with our view that the RBNZ needs to get the OCR to neutral as fast as possible which argues for 50bp hikes in both April and May.**

## Salt Core NZ Shares Fund Commentary

**Following January's dramatic fall of almost 9%, the NZX50Gross Index attempted to recompose itself over February and March. But despite a solid profit reporting season, the market still swung wildly and finished the March quarter down -7.09%. The Fund underperformed with a return of -7.51%.**

The Fund did benefit from some good relative performances from Spark (+5.2%), Meridian (+5.7%), Infratil (+3.3%), and Ebos (+1.9%) which all reported impressive profit results and are viewed by investors as being resilient to inflationary pressures.

Cyclical stock, Fletcher Building (-9.6%) impacted the Fund as it dropped on the potential for a slowdown in housing activity and the retirement village names were hit by the view that house prices could start to soften. The Fund benefited from lower holdings in Ryman (-23.4%) and Oceania Healthcare (-21.6%) and whilst its main holdings of Summerset (-13.5%) and Arvida (-12.7%) performed better, they underperformed the overall market.

The main fall felt by the Fund over the quarter was from Pacific Edge (-27.8%) as the last of the "fast money" who were encouraged to participate in an oversized capital raise, fled in the risk off flight of the market. The prospect for Pacific Edge remains and offers one of the best potential valuation upside opportunities in the NZ market. However, this upside does come with occasional higher share price volatility, but the Manager believes the position has been correctly sized in the portfolio to give investors enough exposure without undue risk to the overall portfolio.

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. This has seen a number of high-quality names tossed out on the basis that things have been as good as it gets and profits from here will tail off. Fisher & Paykel Healthcare (-25.7%) is a case in point. The Fund has slowly reduced its underweight to Fisher & Paykel, carefully buying on the weakest of days. The big fall in the Fisher & Paykel share price means it is now showing up on our valuation screens as being relatively attractive. The Fund does hold an overweight position in Mainfreight (-10.2%) which also fell on the view that its outlook will eventually sour. The Manager has a different view to this and remains confident that the covid disruption of supply chains will be extended and the need for a service provider like Mainfreight will continue to be valued.

The Fund did not hold several names that performed badly over the quarter. This included NZX (-17.1%) which fell on what investors viewed as an unnecessary capital raise, Eroad (-15.3%) as investors turned away from tech, and The Warehouse (-17.0%).

The Fund had relatively low exposure to a strong Australian share market which was buoyed by large returns from its commodity related companies on the back of supply issues related to the Russian invasion of the Ukraine. As an aside, it is estimated that 75% of the CO2 emissions associated with the ASX, come from ten stocks. These large polluters were some of the best performers over the March quarter, with companies such as AGL, RIO, Origin, BHP, S32, Woodside and Santos surging between 21% and 53%.

At the very end of the quarter, Air New Zealand (-14.6%) released the details of its recapitalisation in the form of a heavily discounted rights issue.

During the quarter the Manger reduced exposure to a2Milk and Brambles. Conversely the weakness in the Ryman, Fisher & Paykel Healthcare and Mainfreight share prices provided some attractive buying opportunities.

Paul Harrison, MBA, CA