

SALT

Salt Core NZ Shares Fund Fact Sheet – October 2021

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 October 2021

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	\$47.2 million
Inception Date	1 December 2020
Portfolio Manager	Paul Harrison

Unit Price at 31 October 2021

Application	1.059
Redemption	1.0547

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 2021

NZ shares	91.12%
Australian Shares	1.29%
Cash or cash equivalents	7.59%

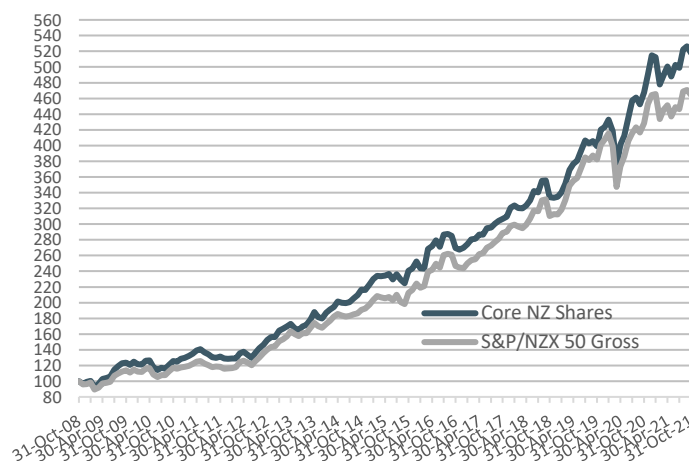
Fund Performance to 31 October 2021

Period	Fund Return*	Benchmark Return
1 month	-1.63%	-1.33%
3 months	3.79%	4.01%
6 months	3.43%	2.90%
1-year p.a.	10.73%	8.40%
2 years p.a.	13.88%	10.20%
3 years p.a.	15.68%	14.39%
5 years p.a.	13.93%	13.48%
10 years p.a.	13.27%	13.53%
Inception p.a.	14.71%	14.67%

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 2021*



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
Brambles	Goodman Property Trust
Spark NZ	Auckland International Airport
Mainfreight	Z Energy
Infratil	Fisher & Paykel Healthcare

SALT FUNDS MANAGEMENT

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Monthly Market Commentary

Global stock markets regained momentum during October with many indices making new highs. The key catalyst was a solid start to the US earning season and high frequency economic data improved in many countries over the month. Progress in vaccination campaigns reduced the risk of a return to widespread economic and social restrictions. China is the main exception as it continues to implement a Covid elimination strategy. The MSCI World index rose 5.6% (in USD terms) over the month to be up 38.5% over the year.

Fixed income markets were volatile and ended weaker as increased signs of persistent inflation pressure saw markets price in expectations of an earlier and faster pace of monetary policy tightening by key central banks. Volatile energy prices also added to this.

US Q3 GDP came in at only 2% annualised, with supply chain issues and labour shortages constraining activity. The CPI printed at 5.4% y/y with core inflation at 4.0% y/y. This saw heightened expectation of an imminent tapering of the Fed's QE program and the pricing of higher interest rates from late 2022. The S&P 500 hit fresh all-time highs during the month, ending +6.9% and +40.8% for the year. The 10-year yields ended the month at 1.56%, up from 1.53% at the end of the September but down from the intra-month high of 1.67%.

In Europe, the ECB continues to argue the transitory nature of current inflation pressures and pushed back on escalating expectations of higher interest rates. The FTSE Europe ex-UK index rose 4.9% (in EUR) over the month and 39.1% over the year. The Japanese TOPIX index returned -1.4% over the month and is +26.7% over the year.

Evidence of a sharp slowdown in the Australian economy mounted as the key states of NSW and Victoria remained under Covid-related restrictions for most of the period. Re-opening activity levels will be a key test. The evident slowdown in the Chinese economy continues to cloud the outlook. Late month, a higher-than-expected underlying inflation reading saw the RBA abandon yield curve control but push back hard on market expectations of any early interest rate increases. The S&P/ASX200 fell -0.1% over the month and was +23.6% over the year.

The NZ economy is in the midst of a sharp slowdown on the back of renewed Covid restrictions implemented in August. At the same time, inflation continues to rise, the labour market remains tight and the RBNZ delivered the first interest rate hike of this cycle during the month. New Zealand 10-year yields rose sharply from 1.97% to 2.61%. The NZX50 fell -1.3% and is +8.4% over the year.

Salt Core NZ Shares Fund Commentary

The S&P/NZX50 Gross gave back 1.33% in October in contrast to the strong performance from global markets (S&P500 +7%, France CAC 40 +4.8%, UK FTSE 100 +2.2%). The Fund fell 1.63%.

The local economy is doing rather well and despite massive lockdown disruptions with over 1/3rd of the population remains in lockdown elevated demand for goods and services for those businesses that are open has led to record low unemployment and supply-driven cost inflation. The RBNZ has slowly updated its thinking that a zero-rates policy and house prices +15% is a great sugar rush for economy but creates headaches for years to come and started a tightening cycle in rates and lending limits on banks. NZs 10-year Government yield rose sharply, as did the key wholesale funding rates for banks in the 1–5-year swaps. That has started to flow through to higher mortgage rates, with the impact yet to be seen in the housing market.

The main headwind for the fund was the overweight in Spark (-4.5%) which traded marginally lower along with most bond-yield proxies. Next were Pacific Edge (-3.9%) after the market digested the cap raise from the prior month and Mainfreight (-7.2%) as the stock took a breather after reaching all-time highs in September. Brambles fell further (-6.8%) owing to Covid related supply chain issues.

The key performers included the relatively larger underweight Ryman (-4.3%) compared to a smaller overweight Summerset (-4.5%) as investors took note of higher mortgage rates and the impact on the housing market. Infratil rose (+4%) on news of further investments in UK datacentres and NZ radiology whilst Fisher and Paykel Healthcare (-2.5%) traded slightly lower as the most recent wave of the delta variant faded as will the demand for their products in the immediate term.

During the month, the Fund was a buyer of A2 Milk, Fisher and Paykel Healthcare and Mainfreight on weakness, and participated in the Arvida capital raise.



Paul Harrison, MBA, CA