

SALT

Salt Core NZ Shares Fund Fact Sheet – August 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 August 2021

Benchmark	S&P/NZX 50 Gross Index
Fund Assets	\$33.2 million
Inception Date	1 December 2020
Portfolio Manager	Paul Harrison

Unit Price at 31 August 2021

Application	1.0683
Redemption	1.0639

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 August 2021

NZ shares	96.10%
Australian Shares	0.53%
Cash or cash equivalents	3.37%

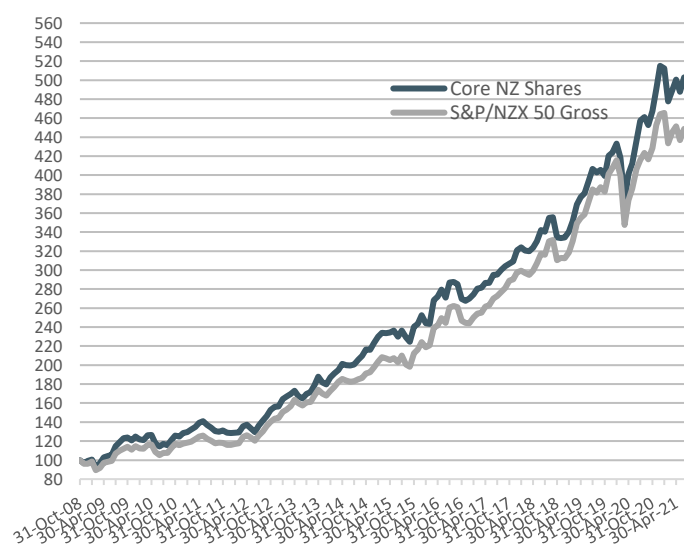
Fund Performance to 31 August 2021

Period	Fund Return*	Benchmark Return
1 month	4.69%	4.96%
3 months	7.06%	7.29%
6 months	9.33%	8.11%
1-year p.a.	13.30%	10.73%
2 years p.a.	13.88%	10.86%
3 years p.a.	13.72%	12.38%
5 years p.a.	12.68%	12.31%
10 years p.a.	14.25%	14.18%
Inception p.a.	14.89%	14.81%

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 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
Spark NZ	Ryman Healthcare
Pacific Edge	Goodman Property Trust
Mainfreight	Genesis Energy
Infratil	Z Energy
Sky City	Property For Industry

SALT FUNDS MANAGEMENT

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Monthly Market Commentary

The global economic reopening continued in August with several key developed economies further lifting restrictions. Data was generally solid though it appears most economies are either close to, at, or just past the peak in the economic recovery. Global equities returned 2.5% (MSCI World index in USD) in the August month and 29.8% over the year.

The Delta variant continued to spread with a rise in daily case numbers globally. Our base case remains that economic reopening will occur as vaccination rates rise. Any ongoing economic impact from Delta will have most effect on the supply side of the economy as monetary and fiscal stimulus support demand. Central banks will need to face the inflationary implications soon.

US data showed an economy that continues to run hot, though is probably past the peak. Headline CPI hit 5.4% for the year to August and the labour market continued to improve. Fed Chairman Jay Powell's speech at Jackson Hole suggested an announcement on tapering the bank's asset purchase program was imminent, but that markets should not assume interest rate increases would automatically follow. The S&P 500 hit fresh all-time highs during the month, ending 3.0% higher and up 28.9% over the year. The 10-year US Treasury yield ended the month at 1.31%, up from 1.23% at the end of the July.

August data was strong in Europe. The economy started reopening slightly later than the US and the UK so the economy is likely now at its peak growth rate. Europe has fully vaccinated 70% of its population, so while case numbers are rising again, hospitalisation rates remain low. The FTSE Europe ex-UK index rose 2.2% (in EUR) over the month and 33.0% over the year. In the UK, the FTSE All-Share index was up 2.0% over the month (in GBP) and 22.0% over the year.

The Australian economy is suffering under renewed economic and social restrictions as new virus cases emerge, particularly in New South Wales. The S&P/ASX200 rose 1.9% (in AUD) over the month and 24.1% over the year.

The NZ economy has been performing very strongly and the labour market has been tightening. However, despite clearly wanting to pull the trigger, the RB NZ was prevented from hiking at its August meeting by an outbreak of the Delta variant which forced the economy into a new lockdown. We expect this is only a temporary delay. NZ 10-year yields rose from 1.51% over the month to 1.74%. The NZX50 rose 5.0% (in NZD) over the month to be up 9.3% over the year.

Salt Core NZ Shares Fund Commentary

The S&P/NZX50 Gross surged 4.94% through a solid reporting season despite rising yields and NZ being thrown back into lockdowns. The Fund slightly underperformed the benchmark, returning 4.69%.

Reporting season saw ~57% of the market cap of the NZ50 report with average revenue growth of +8% as expected whilst EBITDA and EPS was strongly higher versus consensus expectations and revisions for 2022/2023 were modestly net positive (source: Forsyth Barr). The 10-year Govt bond yield reversed most of the fall observed in July, rising 20bps from 1.52% to 1.72% as the RBNZ all but confirmed its intentions to start tightening in due course.

The country went into a full lockdown for all non-essential activities on the 17th of August on the emergence of community transmission of the delta variant of Covid-19. The silver lining appears that the lockdown strategy is working as case rates fall and vaccinations rates look likely to get NZ into the mid-70% level. Given the short duration and one-off nature the market appears willing to look through it.

The main headwind for the Fund was from a possible takeover of Z-Energy (+19.0%). The next headwind came from net positioning in the retirement sector. The Fund prefers Summerset (+17.0%) due to strong management, attractive growth runway at a favourable valuation, which rallied on a strong result and build rate upgrade. Ryman (+17.5%) also performed on a pair of broker upgrades, but owing to the Funds relative positioning the net result from this pair detracted from performance. Smaller headwinds came in the form of Chorus (+14.1%) despite the Commerce Commission confirming its Regulatory Asset Base will be slightly lower than market expectations, and Heartland (+16.4%) on a strong net interest margin result and guidance as investors bid for dividend yield. The A2 (-3.1%) result was negative as expected however the flow on ramifications were more negative for Synlait (-11.5%) which both provided a minor headwind for the Fund.

On the positive side of the ledger the significant overweight in Pacific Edge (+14.5%) on news of an ASX dual listing, Mainfreight (14.6%) as investors bought ahead of an MSCI index inclusion, and EBOS (+15.9%) on a strong result, accretive medical devices M&A and pet food expansion. A positive result from Spark (+3%), Infratil (+2.3%) and underweight in Sanford (-10.8%) which fell on a weak result, also contributed.

The Manager remains comfortable with the Fund's positioning with a view to taking advantage of strong ongoing economic growth but being careful of the potential implications from inflationary shocks.

During the month, the Fund was an opportunistic "backfoot" buyer of Meridian, Summerset, Arvida and Mainfreight. Sales included Chorus, Contact Energy, EBOS and Ryman.



Paul Harrison, MBA, CA