

# SALT

## Salt Core NZ Shares Fund Fact Sheet – July 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 July 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 July 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 July 2021

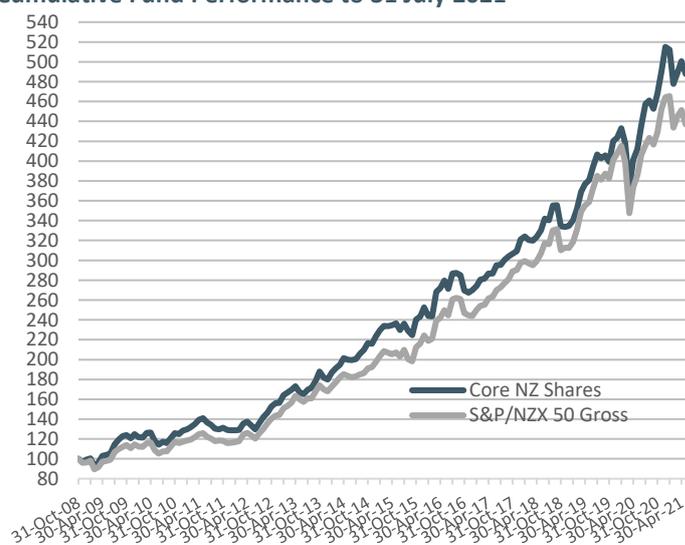
NZ shares	95.46%
Australian Shares	0.54%
Cash or cash equivalents	4.00%

### Fund Performance to 31 July 2021

Period	Fund Return*	Benchmark Return
1 month	-0.79%	-0.47%
3 months	-0.34%	-1.07%
6 months	-2.63%	-4.06%
1-year p.a.	9.04%	7.39%
2 years p.a.	6.48%	7.70%
3 years p.a.	12.81%	12.18%
5 years p.a.	12.20%	11.38%
10 years p.a.	14.08%	14.01%
Inception p.a.	12.60%	11.57%

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 July 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
Spark NZ	Goodman Property Trust
Infratil	Genesis Energy
Freightways	Z Energy
Sky City	Property For Industry

### SALT FUNDS MANAGEMENT

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## Monthly Market Commentary

**The global recovery continued in July. The ongoing rollout of the Covid vaccine allowed restrictions on activity to be reduced further across a number of the world's major economies. Sentiment was dented somewhat however with the increased spread of the more contagious Delta variant.**

Bond yields fell sharply as the spread of the Delta variant raised concerns there may be a setback to the economic recovery. This boosted equities, with the MSCI World Index rising 1.8% (in USD) over the month and 35.7% over the year.

Emerging markets lagged developed market equities, falling -6.7% (in USD), led by China where unpredictable regulatory changes triggered a sharp decline in stocks.

In the USA the differing messages from equity and bond markets were stark. The S&P 500 hit all-time highs, ending +2.4% higher and +34.4% over the year. However, Treasury yields rallied to their lowest since February. There were a number of factors – the renewed spread of Covid, concerns the US economy may be passed its peak and signs the Federal Reserve was only moving incrementally towards removing stimulus. Technical factors also appear to have been at play in the bond markets. The 10-year US Treasury yield ended the month at 1.23%, down from 1.47%.

The major development in Europe was the European Central Bank's strategic review which saw it adopt a more symmetric 2% inflation target compared to the previous "below but close to 2%". This confirmed that monetary conditions are on hold in Europe for the foreseeable future. At the same time, the purchasing managers' index data for July pointed to economic growth gathering pace. The FTSE Europe ex-UK index rose 2.1% (in EUR) over the month and 33.9% over the year. In the United Kingdom the FTSE All-Share index was up 0.4% over the month (in GBP) and 22.8% over the year.

Recent data out of Japan has been downbeat and is unlikely to improve any time soon given the re-imposed state of emergency around the Tokyo area. The closely followed and more forward-looking Tankan survey has improved recently but only modestly. The TOPIX index returned -2.2% (in JPY) over the month and is up 21.7% over the year.

The Australian economy has been performing well. Activity has been growing strongly and the unemployment rate has fallen to 4.9%, prompting the Reserve Bank of Australia to announce the tapering of its asset purchase program. The outlook has however become more uncertain with the renewed spread of Covid and a number of states reimposing lockdowns. The S&P/ASX200 rose 1.1% (in AUD) over the month and 24.7% over the year.

**In NZ, the economy continues to perform well but signs of over-heating and that the RBNZ is seriously behind the curve continue to build. The RBNZ ended its asset purchase program towards the end of the month and there is now universal expectation the RBNZ will start to raise interest rates in August – the only questions now being how high the Official Cash Rate needs to go and how fast. At the same time however, NZ bond yields were not entirely immune from the global rally. NZ 10-year yields fell from 1.77% over the month to 1.51%. The NZX50 fell 0.5% (in NZD) over the month to be up 7.4% over the year, but down 7.1% from the peak in January this year.**

## Salt Core NZ Shares Fund Commentary

**Despite the rally in NZ 10-year bonds, with yields falling from 1.77% to 1.51%, New Zealand's normally interest rate sensitive equity market continued to underperform global equity markets over the month of July. The Fund underperformed with a -0.79% decline compared to a -0.47% fall in the NZX50 Gross.**

Cyclically exposed transport and construction sectors were again supportive for the Fund, with Mainfreight (+7.4%), Fletcher Building (+1.6%), Freightways (+1.6%), and Brambles (+1.6%) all rising.

The Fund's less than market weight positioning in the Gentailers was marginally positive as individual companies generally reported negative returns as they struggled with poor hydro conditions; Meridian (-2.1%), Trustpower (3.0%), Contact Energy (-2.0%), and Mercury Energy (-0.9%). The exception was Genesis (+0.9%) with their coal fired Huntly power station being immune from the dry conditions.

The Fund had little exposure to the banking sector which was a positive as the banks struggled during the month. Westpac (-6.6%), ANZ (-3.4%) and Heartland (-1.0%) all fell. This gain by the Fund was offset by the strength in the real estate sector which was supported by the bond rally but also some corporate action with Goodman Group purchasing an extra slice of the Goodman Property Trust (GMT +5.6%) at a premium to market.

Further Covid19 outbreaks in Australia saw tourism related stocks crunched. Air NZ (-3.2%) and THL (-7.1%) were hit the hardest, while AIA (-0.4%) was relatively unscathed. The Fund is underweight these stocks but its position in Sky City (-8.3%) which fell on the news that South Australia was being locked down, offset this.

Other stock performances that contributed to the slight underperformance of the Fund included falls in Spark (-1.4%), Infratil (-5.1%), Tower (--4.7%), Turners (--2.8%) and Computershare (-7.7%).

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

During the month, the Fund was an opportunistic "backfoot" buyer of Meridian, Pushpay, Kathmandu, Sky City, Infratil, Fletcher Building, and Ebos. Sales included Mercury, Pacific Edge, and Ryman.



Paul Harrison, MBA, CA