Salt Core NZ Shares Fund Fact Sheet – September 2024

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 30 September 2024

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

Unit Price at 30 September 2024

Application	0.9437
Redemption	0.9398

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 30 September 2024

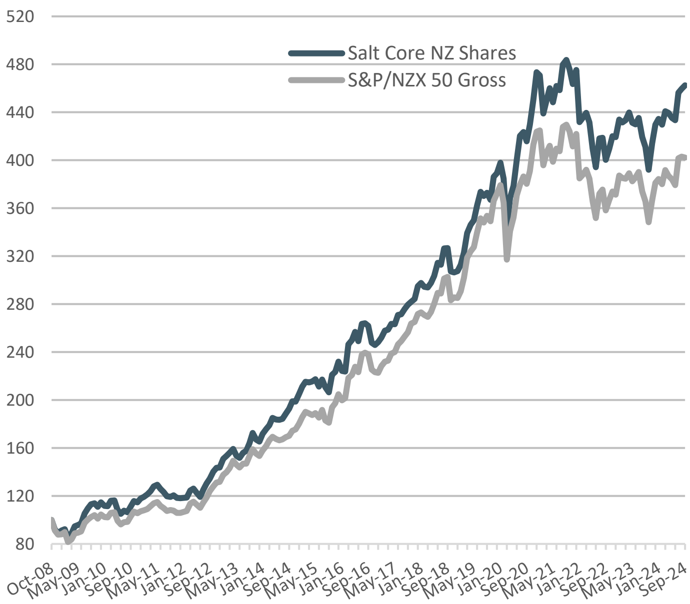
NZ shares	94.52%
Australian Shares	4.16%
Cash or cash equivalents	1.32%

Fund Performance to 30 September 2024

Period	Fund Return*	Benchmark Return
1 month	0.61%	-0.19%
3 months	6.69%	6.03%
6 months	4.88%	2.63%
1 year	12.48%	9.99%
2 years p.a.	7.48%	5.96%
3 years p.a.	-1.49%	-2.18%
5 years p.a.	4.40%	2.61%
7 years p.a.	7.45%	6.62%
10 years p.a.	9.14%	8.99%
Inception p.a.	10.04%	9.09%

Performance is after all fees and does not include imputation credits or PIE tax.
*From 1 December 2009 to 30 December 2020, performance is from a fund with the same strategy and the same portfolio manager.

Cumulative Fund Performance to 30 September 2024*



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
Freightways	Chorus Networks
Infratil	Kiwi Property Group
Tower	Goodman Property Trust
Contact Energy	Arvida
CSL	Meridian Energy

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Equities Market Commentary

The September quarter saw solid overall returns albeit with several bouts of volatility along the way. US labour market weakness combined with a BOJ rate hike saw stocks hit hard in August. However, September saw the long-awaited US rate cuts begin, a less hawkish tone from the BoJ and a large stimulus package in China. Developed market equities rose +6.5% over the quarter, while the global aggregate bond index rose +7.0%. Global REITs advanced +16.2%.

The Fed began its easing cycle with a 50bp cut in September. While a cut had been well-telegraphed, the quantum was a moderate surprise. While 25bp cuts appear likely from here, the Fed has demonstrated a willingness to be more aggressive should the data justify it.

The ECB has been taking a “cut at every other meeting” approach, cutting in June and September. Ongoing disinflation and weak activity data may see them move to cuts at every meeting from October. In Japan, a rate hike by the BoJ along with hawkish guidance led to a sharp JPY appreciation and a sudden unwinding of “carry trades” that rely on cheap Japanese borrowing costs. Stocks fell sharply, though pared those losses as the hawkishness softened later in the quarter. The Chinese authorities announced a raft of easing measures in September. While their magnitude may be insufficient thus far, their market soared on a new “growth first” focus by the Politburo.

The RBA continues to take a hawkish tone in the face of political pressure. While some progress has been made in the disinflation process, it has been too slow and they never hiked as much to begin with. Continued labour market strength is a key watch-point. NZ economic data continued to be dire. June quarter GDP growth came in at -0.2% q/q and the unemployment rate rose to 4.6%, with further increases likely. The RBNZ reversed its earlier hawkishness and cut the OCR by 25bp to 5.25% in August and signalled further cuts to come. It is possible that the desynchronisation of monetary policy cycles between Australia and NZ could see the four-year outperformance of the latter reverse.

Salt Core NZ Shares Fund Commentary

New Zealand and Australian share markets notched up very solid returns for the September quarter. After a strong start in response to interest rate rallies, both markets then stumbled through the August company reporting period, experiencing huge volatility in the “good” vs “bad” results at the stock level. The NZ market, possibly weighed down by two very large capital raisings, consolidated its gains through the September month, but Australian equities kicked on as investors chased resource stocks following some stimulus moves by the Chinese authorities. The NZX50 benchmark return for the quarter was 6.03% with the fund outperforming the benchmark with a return of 6.69% before fees and taxes.

Interest rate falls due to a change in Monetary Policy direction by the RBNZ supported a strong +8.7% rise in the S&P/NZX All Real Estate Gross Index and created demand for cyclically exposed stocks. This benefited the Fund’s holdings in Freightways (+21.6%), Turners Auctions (+17.4%), Port of Tauranga (+28.6%), and Mainfreight (+7.1%). The takeover of retirement village operator, Arvida (+79.6%) saw the other companies in the sector Summerset (+27.0%), Ryman (+20.8%), and Oceania (+39.6%) all bounce hard. The Fund does not hold Arvida or Oceania so this was somewhat of a relative performance headwind during the quarter.

The other takeover during the quarter was Contact Energy (-5.8%) bidding for Manawa Energy (+21.4%). The price reaction of Contact showed the market viewed the purchase price as very full and was not convinced by the apparent synergies. The rest of the gentailer sector underperformed as Mercury Energy (+1.2%) and Genesis (+0.8%) rose slightly but Meridian (-2.5%) slid on investor concerns about low lake levels. The Fund was underweight Meridian and Mercury and overweight Contact and Genesis.

The Telco sector stocks had varied success as Telstra (+9.7%) rose but Spark (-22.5%) fell heavily after reporting a very disappointing result and its lower market capitalisation could see it fall out of some international indices. The Fund is underweight Spark but is also underweight Chorus (+17.1%) which bounced hard after announcing that it would increase its dividend. The increase in dividend is a very short-term measure given that Chorus does not have the free cash flow or underlying earnings to support even its current dividend and is borrowing to pay these “dividends”.

The Fund’s overweight to the more defensive healthcare sector was a relative performance benefit with Fisher & Paykel Healthcare (+15.5%), Resmed (+20.4%), Ebos (+14.3%), and Pacific Edge (+56.2%) all rising strongly on more favourable outlooks. CSL (-2.3%) was the exception after failing to achieve the market’s lofty expectations for growth.

The Fund’s holding in Tower Limited (+53.4%) deserves special mention as it was the largest contributor to outperformance. Tower upgraded guidance twice during the quarter due to Gross Written Premium (GWP) growth and concluded the financial year with no major calamities, resulting in a $32m NPAT benefit from reinsurance deductibles that they would otherwise have had to pay. The company has now proposed a $45m (11.9cps) return of capital in the upcoming March quarter. In addition, they placed their 2025 reinsurance programme on terms that were considerably better than analysts expected, which sparked a further round of upgrades.

During the quarter, the Fund participated in the capital raises by Auckland Airport and Flecther Building. The Auckland Airport raise was viewed as attractive in terms of valuation and the positive impact on the company’s balance sheet. The Manager was less enthused by being asked yet again to provide capital to Fletcher Building, but the level of discount was significant.

Paul Harrison, MBA, CA