Salt Sustainable Growth Fund Fact Sheet – July 2023

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 Fund aims to provide a total return (after fees and expenses but before tax) above the Reserve Bank of New Zealand's Consumer Price Index + 5% benchmark on a rolling five-year basis. To achieve this, the Fund targets a diversified mix of growth and defensive assets, with a focus on securities with strong Environmental, Social and Governance credentials.

The Fund also aims to maximise its total return by outperforming, over the long term, the weighted average return of the market indices used to measure performance of the underlying funds/assets in which the Fund invests: the Reference Portfolio. Medium-term capital growth is prioritized above income in the fund, nevertheless, the allocation to both growth and yielding assets allows for both objectives to operate over the medium- and longer-term horizons.

Fund Facts at 31 July 2023

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$55.19 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 July 2023

Application	0.9813
Redemption	0.9773

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	17.42	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 31.07.23. Sustainalytics provides issuer-level ESG Risk analysis used in the calculation of Morningstar's Sustainability Score. Sustainable Investment Mandate information is derived from the fund prospectus.

Investment Guidelines

Sector	Target	Range
Global Fixed Interest	15%	0% – 60%
Australasian Shares	25%	10% – 40%
International Shares	35%	20% - 50%
Global Listed Property	10%	0% – 25%
Global Listed Infrastructure	10%	0% – 25%
Alternative Diversifiers	0%	0% - 15%
Cash or cash equivalents	5%	0% – 30%

See "Salt Statement of Investment Policy and Objectives, 30 June 2022"

Fund Allocation at 31 July 2023

Global Fixed Interest	13%
Australasian Shares	20%
International Shares	36%
Global Listed Property	15%
Global Listed Infrastructure	13%
Alternative Diversifiers	2%
Cash or cash equivalents	1%
Asset allocation to Fixed Interest + Cash	**14%**

Fund Performance to 31 July 2023

Period	Fund Return (after fees)	Gross Reference Portfolio Return
1 month	1.41%	1.37%
3 months	1.87%	2.77%
6 months	4.29%	5.22%
Year to date	8.44%	9.52%
1 year	1.54%	4.62%
Since inception p.a.	-1.04%	0.01%

Performance is after all fees and does not include imputation credits or PIE tax. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance. Reference Portfolio return is gross.

Top Individual Holdings at 31 July 2023

Fisher & Paykel Healthcare	Spark NZ
Microsoft	Infratil
Accenture	Thermo Fisher Scientific
Visa	Danaher Corp
SAP	Auckland International Airport

Holdings stated as at 31.07.2023, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund, due to its large number of securities.

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Market Commentary

July saw global equities again strengthen sharply, though they rose by less in NZD terms due to a gain in the Kiwi dollar. The mood was buoyed by better growth and inflation signals and by expectations for reduced monetary tightening. Earnings have also surprised positively.

- Market sentiment remained positive in July as developed market headline inflation rates continued to retreat and activity data continued to prove resilient. This continues to support the contention that inflation can be tamed without harming activity.
- Global stocks performed well over the month. Developed market equities delivered a 3.4% return (in USD). Fixed income also recorded positive returns over the month.
- Data in the US supported hopes for a soft landing. The June CPI came in below expectations at 3.0% y/y, though core inflation remains sticky at 4.8% y/y. GDP growth surprised to the upside at 2.4% (q/q annualised), though the weakest part of the cycle is still yet to come. The Federal Reserve raised its key policy rate by 25bp to 5.25-5.50% during the month, with markets signalling this as the likely peak in rates.
- The European Central Bank likewise raised their key deposit rate 25bp, taking it to 3.75%. The messaging was dovish however, probably reflecting lower eurozone inflation and weakening activity data.
- Wage growth remains elevated in the UK with average earnings (ex-bonuses) rising 7.3% y/y. However, inflation came in lower than expected, driving a rally in Gilts. This is the first downside inflation surprise in a year. Markets have brought the expected peak policy rate down from 6.0% to 5.75%.
- Japanese inflation remained strong in June, with the Bank of Japan's preferred measure (CPI excluding fresh food and energy) rising to 4.2% y/y. Later in the month the BoJ further tweaked its Yield Curve Control policy by shifting from a rigid 0.5% upper limit on 10-year government bonds to a "reference point" of 1%.
- In China, June GDP data softened as expected, but the MSCI China Index is now back to a positive return year-to-date. This reflects some policy easing and likely further stimulus to come.
- In Australia there is an ongoing battle between inflation that is slowing, but still too high, and the still tight labour market. The June quarter CPI came in below expectations at 6.0% y/y for the headline rate and 5.9% y/y for core (trimmed mean). The lower inflation data and softer activity growth saw the Reserve Bank of Australia pause on rate hikes at its July meeting, with markets at this stage still pricing in one more 25bp hike.
- New Zealand headline inflation came in at 6.0% y/y in the June quarter, down from 6.7% y/y in March. However, the more problematic non-tradeable measure came in at 6.6% y/y. The economy has already seen a technical recession, with the weakest point in the cycle yet to come. We think the RBNZ has tightened enough, and Q2 labour market data in early August supported that view.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose 1.41% (after fees) in July. The rolling three-month return was positive at 1.87% (after fees) as July and June's positive returns more than offset the May decline. The fund's net return lagged its Reference gross return for the three-month period by 0.9% (after fees.) Year to date, the 8.44% fund return (after fees) lags the Gross Reference index return by 1%. Since inception, on an after-fees basis, the Fund is behind the Reference index's gross return, due to soft Property returns, and a benchmark lag in global equities.

Internationally, major central banks are communicating to investors more clearly and have now carried through meaningful interest rate increases, sufficient to anchor inflation expectations. Some are preparing the ground for a "pause" in the tightening phase, to determine whether its impact on inflation will last. Caution and volatility have persisted at times. However, there has also been resilient market optimism about a pause in the interest rate tightening cycle and a better-than-feared outcome for the underlying economies affected.

Equity investors are vigilant for signs of profit slippage as economies slow, as US profit growth forecasts, whilst lowered, remain (just) positive at +0.8% for 2023 as a whole. The weakest quarter for US profits was the second quarter, with flat annual earnings growth seen in Q3 and a recovery anticipated late in the year (+7.6% y/y forecast in Q4.) We target investments with defensible profits in difficult periods and believe active management will be needed in the years ahead.

Fixed interest value increased, and the time to buy additional, selective bond exposure within the fund arrived in H1 2023. The Global Bond asset class will remain slightly underweight (by just 2%, for now) relative to the Reference Portfolios neutral weighting, at a 13% allocation. This lowers "Growth" asset types in the fund to a dynamic allocation of 86% (from 90% previously.) That is appropriate, as economies slow.

The main positive individual contribution to the Sustainable Growth fund's performance for July month came from global equities, specifically, the Salt Sustainable Global Shares Fund, at +0.06%. Sustainable Global Property added 0.45% and Global Infrastructure, 0.12%. Domestic equities in the Core NZ Shares Fund contributed +0.23% and the Carbon Fund, +0.43% in July. The Fixed Income asset class had a positive impact in June, adding 0.11%.

We believe that the specific companies favoured in the Sustainable Global Shares Fund are able to protect their pricing power in an slower growth environment and will give them comparative resilience to changes in the global economic cycle, including inflation and interest rates for an extended period, as the global economy slows progressively through the remainder of 2023 and into 2024 while inflation abates.

Salt Sustainable Growth Fund outlook

As the largest current individual Sustainable Growth Fund component, the Salt Sustainable Global Shares Fund's returns are of substantial influence on Sustainable Growth Fund's overall return. This fund has lagged its benchmark over the last year, as Health Care (where the fund is overweight) has not yet rallied in line with the market, whereas Consumer Discretionary cyclicals (where the fund is underweight) have proven surprisingly robust.

SALT

The Salt Core NZ Shares fund is the second-largest Growth Fund component. The New Zealand equity market has a defensive orientation, which has at times assisted in the relative resilience of domestic shares during the turbulence of recent years, and a fairly advantageous dividend yield. However, we have concerns about the NZ market, given current domestic economic conditions.

As a result, we lowered the weighting to this NZ equity fund within our Sustainable Growth portfolio in February, and again in July. An underweight portfolio exposure to NZ equities within the Growth Fund is seen as more appropriate, as parts of the NZ economy and listed equities are being impacted by the Reserve Bank's still-hawkish stance, and by negative consumer and business sentiment given higher lending interest rates across the board. The NZ economy is now confirmed to be in a technical recession, and this, plus pre-election uncertainty and high and still-volatile bond yields, cramp scope for NZ equity returns.

While still holding below-neutral portfolio allocations to Fixed Interest plus Cash, we are moving the weight upward slightly in those portfolio components, as the interest rate environment has improved (from an expected returns perspective) and negative repricing risk is lower for bond markets than was the case previously.

Global bonds exposure is achieved via the Salt Sustainable Global Fixed Income Opportunities Fund, managed by our investment partner Morgan Stanley Investment Management. This fund component enhances the sustainability credentials of our Diversified Funds significantly, given their weightings to Global bonds.

Greg Fleming, MA