

SALT

Salt Sustainable Growth Fund Fact Sheet – November 2022

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 30 November 2022

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	\$52.51 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 30 November 2022

Application	0.9339
Redemption	0.9301

Investment Guidelines

Sector	Target	Range
New Zealand Fixed Interest	10%	0% – 25%
International Fixed Interest	5%	0% – 30%
Australasian Shares	24%	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% – 10%

Fund Allocation at 30 November 2022

New Zealand Fixed Interest	0%
International Fixed Interest	9%
Australasian Shares	25%
International Shares	35%
Global Listed Property	16%
Global Listed Infrastructure	12%
Alternative Diversifiers	2%
Cash or cash equivalents	1%

Fund Performance to 30 November 2022

Period	Fund Return	Reference Portfolio Return
1 month	2.97%	1.94%
3 months	-0.81%	-0.05%
6 months	-1.46%	-0.38%
1 year	-7.04%	-5.46%
Since inception	-6.80%	-5.80%

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.

Top Individual Holdings at 30 November 2022

Microsoft	Infratil
Fisher & Paykel Healthcare	Accenture
Spark New Zealand	Auckland International Airport
VISA	Mainfreight
SAP	Danaher Corp

Holdings stated as at 30.11.22, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund, due to its large number of securities.

SALT FUNDS MANAGEMENT

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Market Commentary

- Equity markets continued their recovery from mid-October's lows with developed markets rising a healthy 7% and emerging markets up nearly 15% (both in USD).
- Despite further aggressive rate hikes from the US Federal Reserve and the Bank of England, who hiked their respective policy rates by 75bp, the Global Aggregate Bond Index rallied 4.7% (in USD) over the month as US inflation data printed below expectations. This was the first below expectations data print in four months, contributing to the view that the Fed would be able to slow the pace of rate hikes from December.
- In the United States, consumer spending continues to prove resilient, however there is a strong downtrend emerging in the housing market. Housing starts peaked at an annualised 1.8m in April but had fallen to 1.4m by October. Consumer spending continues to be supported by an equally resilient labour market, though signs of weakness are emerging there too as unemployment claims have risen and job openings have declined.
- In Europe higher energy prices continue to fuel new highs in consumer price increases. The October eurozone CPI came in at 10.6% but eased to 10.0% in November. At the same time, activity indicators improved over the month including consumer confidence, albeit from very low levels. The risk of Europe running out of gas this winter continues to diminish thanks to mild temperatures and soft demand. Storage is over 90% of capacity thanks to strong planning actions earlier.
- Policymakers in China have started a gradual easing of Covid controls and have stepped up efforts to vaccinate the elderly. The easing of controls includes a shortening of the quarantine period and taking secondary contacts out of scope for quarantine. But it has not all been positive news as some new restrictions were put in place towards the end of the month. Despite the setback, equity markets rallied on the back of hopes of an eventual end of the Covid-zero policy.
- Activity data in China was mostly weaker than expected over the month. Monetary policy was eased, and we expect there is more easing in the pipeline.
- Australian data remains mixed with the labour market continuing to show resilience. However, Australian retail sales suffered their first fall of 2022 in October as rising prices and higher interest rates finally seemed to have an impact on spending. The RBA has continued to hike at the reduced rate of 25bp per meeting, despite above-forecast Q3 inflation data.
- In New Zealand, the RBNZ delivered its largest ever interest rate increase of 75bps in November, taking the Official Cash Rate to 4.25%. Cementing the hawkishness even further was the admission the Bank had considered a 100bp hike. The projected terminal rate of the OCR was lifted from 4.1% to 5.5%, higher than was expected by the market. The New Zealand dollar has rallied 10% since its lows in early October, reflecting a combination of hawkish domestic monetary policy and the softer USD. This has offset some gains from the rally in unhedged international equities, after the opposite dynamic prevailed earlier in 2022.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund benefited from improved investor sentiment in November, after a generally weak market environment in the September quarter this year. The fund rallied 2.97% (after fees) for the month. The rolling three-month return improved to -0.81% as September month's weakness was compensated by strength in the October and November months.

The November gain brought the one-year fund return to -7.0% (net) up to 30 November, and the since inception return to -6.8% (net.)

Internationally, major central banks are communicating and swiftly enacting the desirable course of carrying through meaningful interest rate increases, sufficient to anchor inflation expectations, and this continues to unnerve markets. Bond yields moved sharply upward in the third quarter, but have recently descended, particularly at the longer end of the yield curve. Investors fear profit slippage as economies slow, although internationally profit growth forecasts, whilst lowered, remain positive. We target investments with defensible profits in difficult periods and believe active management will be needed in years ahead. Fixed interest value is increasing, and the time to buy additional bond exposure within the fund is fast approaching. We expect to implement this in the early New Year.

As global growth showed more definitive signs of cooling, the price of oil has retreated substantially from its June highs of almost USD 110 per barrel, declining -32% to around USD 75/bbl in early December. Natural Gas prices stabilised in November, gaining 2%, though they remain up by 119% YTD. The Russia-Ukraine situation is still inducing disruptive political and market uncertainty, and despite the Northern winter now in full swing, it remains too early to predict when the hostilities may diminish. Heating oil and gasoline prices are still very high and State subsidies have been critical.

November's positivity in markets, which had become very volatile during the September quarter before improving on October, lifted most of the Sustainable Growth fund's component assets, with just the small Carbon Fund holding registering a flat monthly return. That is in fact desirable, as the Carbon Fund is a diversifier and ideally should not track other assets.

The strongest individual contribution for the month came from the Sustainable Global Property Fund, at +0.85%. This was closely followed by the Sustainable Global Infrastructure Fund's +0.82% contribution. Real asset classes have recently benefitted from the moderate move lower in long-term interest rates. The returns in the Sustainable Growth Fund's Global Equities component were also positive for the month, at +0.50%. 2022's variable returns from Global Shares are indicative of the portfolio structure of the Morgan Stanley Investment Management strategy. Due to the prioritisation of low carbon-footprint investments within that fund, the strategy has above-benchmark holdings in Info Tech, Health Care and Consumer Staples sectors. The full benefit of the defensiveness is beginning to positively impact, though this has taken time to emerge, as the evidence on US recession risk is not yet definitive. The recent weakness in Energy stocks (which the Sustainable Global Shares Fund does not hold) has removed a performance headwind compared to the benchmark index.

We believe that the specific companies favoured in the Sustainable Global Shares Fund will be able to protect their pricing power in an inflationary environment and will give them comparative resilience to changes in the global economic cycle, including higher inflation and interest rates for an extended period.

The New Zealand equities component also made a positive November contribution of +0.60% in November, whilst Global Fixed Interest provided a small, but beneficial, return of +0.16% and the Carbon Fund, +0.03%.

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. The Salt Core NZ Shares fund is the second-largest Growth Fund component, at 2/3rds the size of the Global Equities equivalent. The New Zealand equity market has a defensive orientation, which has at times assisted in the relative resilience of domestic shares in the turbulence of 2022, and an advantageous dividend yield.

All the same, now that the Reserve Bank of New Zealand has indicated sustained interest rate rises ahead, we anticipate trimming the weighting to this fund within our Sustainable Growth portfolio in the early New Year. A slight underweight portfolio weighting within the Growth Fund is seen as more appropriate than the existing neutral holding, as parts of the NZ economy and listed equities are likely to be impacted by the Reserve Bank's monetary intentions and by negative consumer and business sentiment given sharply higher lending interest rates across the board.

Better income interest streams have become available within the Fixed Income universe than has been the case for a considerable period. As a result, we will commensurately lift our bond holdings and reduce our underweight orientation in Global Fixed Interest to a smaller active position within the Sustainable Growth Fund in early 2023. While still holding below-neutral portfolio allocations to Fixed Interest plus Cash, there is no reason to remain quite as cautious on those portfolio components, as the interest rate environment has improved (from an expected returns perspective) and negative repricing risk is much lower than was the case one year ago.



Greg Fleming, MA