Salt Sustainable Growth Fund Fact Sheet – October 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 October 2023

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$53.11 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 October 2023

Application	0.9243
Redemption	0.9205

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	17.37	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 31.10.23. 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 October 2023

Global Fixed Interest	14%
Australasian Shares	18%
International Shares	37%
Global Listed Property	15%
Global Listed Infrastructure	13%
Alternative Diversifiers	2%
Cash or cash equivalents	1%
Asset allocation to Fixed Interest + Cash	**15%**

Fund Performance to 31 October 2023

Period	Fund Return (before fees)	Gross Reference Portfolio Return
1 month	-1.30%	-1.58%
3 months	-5.80%	-5.97%
6 months	-4.03%	-3.37%
Year to date	2.15%	2.98%
1 year	1.95%	1.79%
Since inception p.a.	-3.67%	-2.85%

Performance is before fees and PIE tax and is adjusted for imputation credits. Reference Portfolio return is also gross. 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 31 October 2023

Microsoft	Thermo Fisher Scientific
Fisher & Paykel Healthcare	Carbon Fund
Accenture PLC	Spark NZ
Visa	Infratil
SAP	OSFI Futures Offset for Global Bonds

Holdings stated as at 31.10.2023, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund, due to its large number of securities.

Market Commentary

October month, and the last three months overall, saw global equities retreat after strong July returns. Growth and inflation signals remained of concern to investors, undermining expectations for reduced monetary tightening from central banks. Higher bond yields caused interest-rate sensitive asset declines, though a reversal seems likely.

- Stocks and bonds fell in unison through October as geo-political tensions weighed on market sentiment following the start of Israel-Hamas hostilities. Bond yields rose sharply in response to buoyant economic data which supported the "higher for longer" mantra, coupled with rising concerns about fiscal sustainability. Developed market equities fell 2.9% (in USD) over the month while global bonds were down 1.2% (in USD) over the same period.
- In the United States, markets had to contend with the implications of a plethora of data pointing to the continued resilience of the US economy including strong retail sales, and blowout jobs and GDP reports. Inflation data also came in higher than expected. This resilience in the data suggests the US Federal Reserve may have to keep interest rates at these higher levels longer than investors were anticipating.
- Meanwhile, there are increasing signs of fragility across the Eurozone economies. Latest bank surveys by the European Central Bank highlight a contraction in the supply of credit to businesses and households over the September quarter. At the same time, forward looking indicators such as PMI surveys continue to weaken, with the composite index down a further 0.7 points to 46.5 in October.
- In Japan, 10-year Government Bond yields moved higher over the month as persistent price pressure led markets to question the ongoing sustainability of the Bank of Japan's Yield Curve Control Policy. Despite earlier attempts to defend it accommodative position, the BoJ made a further tweak to its YCC policy with the 1.0% upper limit now being referred to a "reference".
- Better looking industrial production, retail sales and GDP data out of China suggests policy easing efforts are starting to have some stabilising effect on the economy. However, continued weakness in the beleaguered property sector suggests the economy is not out of the woods yet and further policy easing and debt restructuring efforts will be required.
- The Reserve Bank of Australia left interest rates unchanged at the start of the month. This was the first meeting under new Governor Michele Bullock, so a semblance of continuity was not surprising. However, since then activity and inflation data have printed stronger than expected. That has led to the rising expectation over the month that the RBA will move back to interest rate increases at its November meeting.
- In New Zealand the General Election delivered a change of government, although the final shape was yet to be determined by the counting of Special Votes. National's Christopher Luxon will be the new Prime Minister in a coalition arrangement.

Economic data continued to soften over the month and the labour market saw a noticeable easing in pressures over the September quarter as the unemployment rate rose from 3.6% in June to 3.9%. This continues to support our view that the RBNZ has tightened enough and now just needs to be patient.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund fell by -1.30% (before fees) in the October. The fund's net return was above its Reference gross return for the month by 28bps (before fees.) Over the 12 months to October, the 1.95% fund return leads the Gross Reference index return by 0.16%. Since inception, on an after-fees basis, the Fund is behind the Reference index's gross return, due to soft Property returns, and a lag in sustainable global equities which developed as global energy sectors outperformed strongly during 2022. That drag is now fading.

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. However, there have also been phases of market optimism about a pause in the interest rate tightening cycle and a better-than-feared outcome for the underlying economies affected.

Fixed interest value increased, and the time to buy additional, selective bond exposure within the fund arrived earlier 2023. The Global Bond asset class will remain slightly underweight (by just 1%, for now) relative to the Reference Portfolios neutral weighting, at a 14% allocation. This leaves "Growth" asset types in the fund at a dynamic allocation of 85% (from 90% previously.) That is appropriate, as economies slow.

The main positive individual contributions to the Sustainable Growth fund's performance for October month came from the Sustainable Global Shares Fund which added 0.12% for the month. The Sustainable Global Infrastructure fund contributed 0.04% and the diversifying Carbon Fund, 0.03% last month, while the Sustainable Global Fixed Income Opportunities fund had a neutral portfolio impact (0.0%.)

The negative returns in the Sustainable Growth fund derive from the NZ equity market, as the Salt Core NZ Shares fund holding had a negative impact of -0.85% in October. This was in spite of the underweighting at asset class level, and a slight benchmark outperformance by the Salt component fund, given that the NZ market significantly underperformed global equities (particularly in NZ dollar terms.)

Sustainable Global Property subtracted -0.65% in October. The uncertain path in global bond yields undermined Property's performance and we do not expect a substantial rally from the sector until interest rates are more definitively on the turn downward in 2024.

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 now moved ahead of its benchmark over the last year, returning +12.11% (Gross) as compared to +10.34% from the MSCI World Index in NZD.

We believe that the specific companies favoured in the Sustainable Global Shares Fund are able to protect their pricing power in a 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 into 2024, while inflation in key global markets abates

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, July and October, and the asset allocation currently is set at 18% compared to its 25% neutral strategic weighting. An underweight portfolio exposure to NZ equities within the Growth Fund is seen as appropriate, as parts of the NZ economy and listed equities are being impacted by the Reserve Bank's still-hawkish stance, and by negative sentiment given higher lending interest rates across the board. The NZ economy is not yet generating earnings gains in most equity sectors and high, if volatile, interest rates raise the appeal of term deposits and cramp the scope for NZ equity returns.

While still holding below-neutral portfolio allocations to Fixed Interest plus Cash, we are moving the weight upward progressively 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