Salt Sustainable Growth Fund Fact Sheet – April 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, whilst paying a semi-annual distribution of income. 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.

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 April 2022

Benchmark	NZ CPI +5% over 5 years
Fund Assets	$53.37 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming
Current yield to 30/4/22	n/a

Unit Price at 30 April 2022

Application	0.9685
Redemption	0.9646

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 April 2022

New Zealand Fixed Interest	0%
International Fixed Interest	9%
Australasian Shares	24%
International Shares	35%
Global Listed Property	18%
Global Listed Infrastructure	12%
Alternative Diversifiers	1%
Cash or cash equivalents	1%

Fund Performance to 30 April 2022

Period	Fund Return	Benchmark Return
1 month	-1.57%	n/a
3 month	-3.56%	n/a
6 month	-3.82%	n/a
Since inception	-3.35%	n/a

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 April 2022

Fisher & Paykel Healthcare	Reckitt Benckiser Group
Microsoft Corporation	Infratil
Spark New Zealand	Auckland International Airport
VISA	SAP
Mainfreight	Danaher

Holdings stated as at 30.04.22, excludes consolidated International Fixed Interest component.

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Market Commentary

- Following a difficult first quarter of 2022 for markets, there was no respite in April. The ongoing war in Ukraine, Covid lockdowns in China and the prospects of significantly tighter monetary policy in several major countries all weighed on markets.
- The global economy entered 2022 with strong tailwinds, many of which including tight labour markets and high levels of pent-up savings remain. But the risks to the outlook are building, especially as monetary policy tightening peaks in 2023 and the economic cycle bottoms out.
- Global equites returned -8.0% in April and fixed income was not far behind as US 10-year Treasury yields approached 3%. Expectations of the degree of monetary policy tightening was ramped up over the month, most notably in the US, the UK and Australia. More defensive equity markets such as Japan, the UK and Switzerland were more resilient than the US and Emerging Markets. On a 2022 YTD basis global equities are down by -11% but in unhedged NZ Dollar terms, this was cushioned as NZD/USD accelerated its weakening trend, depreciating by 7.4% in April.
- The war in Ukraine intensified over the month with no sign of resolution in sight. The most notable economic impact is on energy markets as Europe faces into the challenge of reducing its energy dependency on Russia.
- Chinese authorities are struggling to contain a major Covid outbreak, with Shanghai spending the whole of April in lockdown. Easier monetary and fiscal policy will provide some support to growth, but the official 2022 GDP target of 5.5% is challenged.
- In the US the Federal Open Market Committee (FOMC) appears ready to accelerate the pace of rate hikes from as early as their May meeting. Markets are now pricing a series of 50bp hikes following comments from several FOMC participants suggesting the need for an expeditious move in the Fed funds rate to neutral.
- In Australia, a larger than expected increase in the March quarter CPI has seen markets bring forward the likely timing of the first interest rate hike by the RBA to May, and RBA delivered +25bps.

The Reserve Bank of New Zealand (RBNZ) hiked the Official Cash Rate by 50bp to 1.5% in April. This is in line with our view the RBNZ should get the OCR to neutral (2%) as soon as possible. We expect them to follow up with another 50bp hike in May. This will likely be followed by a number of 25bp hikes for a terminal rate of 3.0%. NZ data continues to point to soft March quarter growth but expect stronger growth through the middle part of the year as borders reopen to tourists. It won't be until the final quarter of the year that we will get a true reading on underlying domestic activity

Internationally, major central banks are now communicating the desirable course of concluding several meaningful interest rate increases, sufficient to anchor inflation expectations, and this will unnerve markets at times.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund was negatively affected by deteriorating global investor sentiment in April month, declining -1.57% (after fees.) The fund has moved into negative returns territory over a three-month period, at -3.56%. This has brought the since-inception fund return to -3.35%, as strong Q4 2021 returns reversed in Q1 2022 and into April.

In April month, the monthly return was somewhat shielded by the flat performance of the Salt Sustainable Global Shares Fund (which made a negative impact of just 0.05% on the Growth Fund) in a month when the Global Equities benchmark index dropped -1.97%. This we consider indicative of the portfolio structure of the Morgan Stanley Investment Management strategy within this asset class. 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. While the first of the three sectors, IT, has repriced negatively across the board, the relative resilience of Staples and Health Care partially offset the drag of IT stocks on the fund's performance.

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 better than peers and that their activities in the Healthcare, Consumer Staples, Financials and quality IT industries will give them comparative resilience to changes in the global economic cycle, including higher inflation and interest rate. That is more the focus of this portfolio strategy, rather than directly hedging against shocks to global trade and finance, such as the Russian invasion of Ukraine has delivered.

The other (albeit currently small) exposure within the Sustainable Growth Fund with a positive April month's performance was the Salt Carbon Fund, which we introduced into the Growth Fund as a sustainable diversifier during March, and which made a 0.02% positive impact.

Among the Growth Fund's components that made a negative month's contribution were the defensively-aligned Salt Sustainable Global Infrastructure Fund, which contributed -0.34% for the April month, having been a strongly positive influence on returns in the prior month. The other Real Asset class component, the Salt Sustainable Global Property Fund, contributed -0.57%. The weaker recent returns from Property and Infrastructure partially reflect the continuing surge in global long-bond interest rates in April, as yield competitors for Real Assets. However, the Salt Sustainable Global Property Fund has beaten its benchmark once again in April, declining by -2.95% compared with the -4.00% Index return. We expect a phase of listed real estate weakness which is characteristic of the early stages of a monetary policy tightening cycle such as we are presently seeing develop across the world. Nevertheless, Property's scope for inflation-hedging and other longer-term advantages of the asset class outweigh the near-term impact of higher bond yields on prices, in our view.

The Salt Core New Zealand Shares Fund was another negative influence on April returns, detracting -043% from the Sustainable Growth Fund's return, although the NZ strategy did outperform its benchmark slightly in April.

Greg Fleming, MA