

SALT

Salt Sustainable Growth Fund Fact Sheet – December 2021

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 31 December 2021

Benchmark	NZ CPI +5% over 5 years
Fund Assets	\$57.89 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming
Current yield to 31/3/22	n/a

Unit Price at 31 December 2021

Application	1.0506
Redemption	1.0463

Investment Guidelines

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

Fund Allocation at 31 December 2021

New Zealand Fixed Interest	0%
International Fixed Interest	9%
Australasian Shares	24%
International Shares	36%
Global Listed Property	18%
Global Listed Infrastructure	12%
Alternative Diversifiers	0%
Cash or cash equivalents	1%

Fund Performance to 31 December 2021

Period	Fund Return	Benchmark Return
1 month	4.58%	n/a
3 month	5.65%	n/a
Since inception	4.84%	n/a

Performance is net of fees and tax, but not adjusted for imputation credits. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.

Top Holdings at 31 December 2021

Fisher & Paykel Healthcare	Visa
Microsoft Corporation	SAP
Spark New Zealand	Reckitt Benckiser Group
Mainfreight	Abbott Laboratories
Accenture	Baxter International

SALT FUNDS MANAGEMENT

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Market Commentary

Developed market equities continued to rally in the final quarter of the year, delivering equity investors their third consecutive calendar year of strong returns. Strong earnings growth drove equities higher over the quarter, despite fresh volatility as news broke of the emergence of the new Omicron variant of Covid-19. Markets quickly recovered however as early indications suggested Omicron was less likely to lead to serious illness. The jury is still out on the full implications of Omicron. In general, solid earnings reports plus the prospect of continued, albeit lower, earnings growth in 2022 proved sufficient to negate risk factors. The MSCI World Index rose 7.6% (in USD) over the quarter to up 20.4% over the year. Sovereign bonds rallied during the quarter but ended generally flat as central banks turned more hawkish.

In the **United States** the CPI reached a 40-year high of 7.0% in the year to December and the unemployment rate fell to 3.9%. This combination of factors led to what is now being described as the “Powell pivot” which saw the term “transitory” inflation retired from the FOMC lexicon and a faster taper of the Fed’s asset purchase program announced. The program is now scheduled to end in March 2022, paving the way for higher interest rates from that time. The S&P 500 rose 11.0% (in USD) over the quarter to be up 28.7% over the year.

In **Europe** the economy rebounded strongly in the middle of 2021, though confidence surveys have softened in recent months. A combination of factors led to a sharp rise in gas and electricity prices across the continent over the quarter, adding to already robust inflationary pressure. The ECB signalled an initial though moderate step towards less accommodative policy at its December meeting. The MSCI Europe ex-UK index rose 7.0% (in EUR) over the quarter to be up 24.4% over the year.

In **Japan**, a contraction in Q3 GDP has been followed by more robust Q4 data. Recent data for retail sales, industrial output and the broader service sector activity level saw solid gains. The Government’s supplementary fiscal package, amounting to around 6.5% of GDP, was passed just prior to Christmas and will provide support for economic activity in 2022. The Topix Index returned -1.7% (in JPY) over the quarter and is up 12.7% over the year.

The **Australian** economy contracted a better-than-expected -1.9% in Q3. Q4 activity data has bounced back suggesting a strong recovery in Q4 and the unemployment rate fell to 4.6% in November with jobs employment surging 366,100. However, Omicron arrived in Australia in late November and daily case numbers are surging. The S&P/ASX200 rose 1.5% (in AUD) over the quarter and was up 13.0% over the year.

New Zealand GDP contracted by less than expected in Q3 and the economy is slowly emerging from a long lockdown in Auckland. Activity will rebound in the fourth quarter, but a full recovery won’t be achieved until early 2022. The labour market has tightened further with the unemployment rate falling to 3.4% in the September quarter. The RBNZ raised interest rates for the second time this cycle during November and signalled ongoing rate hikes ahead with a terminal rate higher than neutral. New Zealand 10-year yields rose sharply over the quarter from 1.97% to 2.37%. Despite a strong recovery during the December month, the NZX50 ended the quarter -1.8% (in NZD) lower and broadly flat (down -0.4%) over the year.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund performed strongly in the course of December, rebounding by 4.58% after its resilient November performance of -0.24%. The rally in equity assets in December month has driven a positive net return of 5.65% for the Fourth Quarter, and of 4.84% since the Fund’s inception in mid-September, 2021.

Returns for the Salt Sustainable Growth Fund for the month were boosted by the sustainable international equity component, where returns were strongly positive. The Salt Sustainable Global Shares Fund provided 2.08% towards the Growth Fund’s monthly return, as the Global Shares Fund’s own monthly gain of 6.0% was passed through as the Growth Fund’s largest individual component - possessing a current weighting of 36%.

Investors witnessed continuing strength in US corporate earnings but re-opening plans around the world, even in economies where vaccination rates are sufficiently high have been compromised by Omicron. The US Federal Reserve’s shift in tone to a more inflation-averse stance has also challenged investor sentiment. We believe that in 2022, 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 rates.

The international Real Asset components of the Sustainable Growth Fund both made positive performance contributions in December month. Salt Sustainable Global Property Fund contributed 1.02% and the Sustainable Global Infrastructure Fund, 0.72%. Together, these Real Asset diversifiers presently comprise 30% of The Sustainable Growth Fund’s holdings.

New Zealand equities were also positive contributors for the month, with the Salt Core New Zealand Shares Fund providing 0.60% toward the Sustainable Growth Fund’s overall return.

International Fixed Interest again gained modestly in December, as concerns about Covid Omicron rose and quality debt assets gained. The Global Fixed Interest Fund, though a smaller component of the Sustainable Growth Fund with just a 9% current portfolio weighting, was little changed for the month of December and for the Fourth Quarter, with a contribution 0.02% for the month and 0.04% for the three month period. While this is a very modest return from International Fixed Interest, seen in the context of a weak year for that asset class, the performance of the PIMCO Global Fixed Interest Fund has been resilient. The 2021 return from the Global Fixed Interest portfolio was -0.27% which compares well with the -1.23% return from its benchmark; the Bloomberg Barclays Global Aggregate Index (NZD hedged.)



Greg Fleming, MA