Salt Sustainable Growth Fund Fact Sheet – March 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 31 March 2022

Benchmark	NZ CPI +5% over 5 years
Fund Assets	$54.26 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming
Current yield to 31/3/22	n/a

Unit Price at 31 March 2022

Application	0.9841
Redemption	0.9800

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 31 March 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 31 March 2022

Period	Fund Return	Benchmark Return
1 month	0.94%	n/a
3 month	-6.34%	n/a
6 month	-1.04%	n/a
Since inception	-1.80%	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 Holdings at 31 March 2022

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

Holdings stated as at 31.3.22

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

SALT

Market Commentary

The first quarter of 2022 was challenging for markets. Concerns over the need for a faster pace of interest rate hikes to combat higher inflation, along with the economic implications of Russia's invasion of Ukraine, weighed on both equity and bond markets. Russia is a major energy and commodity producer, with the invasion exacerbating the current surge in inflation and already constrained global supply chains, posing risks to global growth. These developments sharply disrupted most asset classes in Q1.

Central banks became gradually more hawkish as the transitory inflation narrative was overtaken by rising core inflation, higher inflation expectations and stronger wage inflation. Bond yields rose rapidly as the market feared monetary authorities are now seriously behind the curve. Even the European Central Bank was more hawkish than expected and indicated the end of its asset purchase program was likely some time in Q3 2022 and declined to push back on expectations of rate increases before the end of the year. The US Federal Reserve hiked the Fed funds rate for the first time this cycle in March.

The flattening of the US yield curve and, at times, inversion of certain parts of the curve has generated a degree of consternation about the prospect of recession in the US. An important consideration is that through history there has been an average 19-month lag between the inversion of the yield curve and the onset of recession. We don't dismiss the prospect of future recession but it's important to not get too negative too soon.

Hawkish recent RBNZ statements set the scene for aggressive hikes in the next few months. This fits well with our view that the RBNZ needs to get the OCR to neutral as fast as possible which supports the 50bp hike the RBNZ made on 13 April and suggests another such would be appropriate in May.

Weak business and consumer confidence has raised concerns about the growth outlook in New Zealand. While those readings are consistent with a soft GDP result in the March quarter, we expect stronger growth through the middle part of the year as our borders reopen to tourists.

Central Bank's shift in tone to a more inflation-adverse stance, combined with the rapidly escalating Ukraine crisis, has challenged investor sentiment throughout the Quarter. It appears unlikely that such factors darkening the global growth outlook for the present will not clear quickly, and we will maintain a preference for Real Assets and select diversifiers.

Global equity markets moved up in March month, but insufficiently to pull Q1 equity returns out the red. For March month, The MSCI World Index rose 2.5% but ended the quarter lower by -5.7% compared to the end of 2021. in NZD terms, the index declined -6.6% for the First Quarter. The Australian equity market was among the few showing resilience, gaining 0.7% largely due to the Resources sector which benefits from the current jump in raw materials prices. However, the NZX 50 Index lost -7.1% for the three months, lagging the US S&P 500 Index, which closed the quarter -5.0% lower. In regional terms, Europe in particular suffered, through being both an energy importer and having trade and investment exposure to Russia.

The growth-tilted and high multiple Consumer Discretionary (-11%) and Information Technology (-10%) sectors were among the worst sectoral performers in Q1, both with double-digit drawdowns. At the other end of the spectrum was Energy, which is up 31% since the start of 2022 and up 50% from one year ago, due to soaring oil and gas prices.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund benefited from the partial equity market recovery in March month, gaining 0.94% (after fees.) However, the fund was negatively affected by the weakness in global markets for the First Quarter as a whole, declining by -6.3%. This has brought the six-month fund return to -1.0%, as strong Q4 2021 returns reversed in Q1 2022.

In March month, the monthly return was lifted by strong performance of the defensively aligned Salt Sustainable Global Infrastructure Fund, which contributed 0.87% for the month, and by its other Real Asset class component, the Salt Sustainable Global Property Fund, which contributed 0.86%. The other positive contributor for the month was the Salt Core New Zealand Shares Fund, supplying 0.22% of the Sustainable Growth Fund's return. Negative impacts for March month came from the Salt Sustainable Global Shares Fund (contributing -0.76%) and the Global Fixed Income Fund component, which lowered the overall return by -0.18%. In mid-March, an initial allocation of the Salt Carbon Fund was introduced to the Sustainable Growth Fund for diversification but it had little impact on the portfolio yet.

The Sustainable Growth Fund's gain of 0.94% (after fees) in March was insufficient to offset declines in January and February months, which resulted in a negative three-month return of -6.3% and a 6-month return of -1.0%. The largest negative quarterly impact came from the Salt Sustainable Global Shares Fund, at a -3.82% portfolio contribution. The Salt Core NZ Shares Fund was next in negative effect, at -1.90% over the quarter, while the Salt Sustainable Global Property Fund detracted by -0.61%. There was also a smaller negative contribution by Global Fixed Interest, -0.45%. Only the Salt Sustainable Global Infrastructure Fund managed to deliver a positive portfolio contribution in Q1 2022, at 0.40%, reflecting that fund's decently-defensive quarterly return of 2.8% (after fees.)

The decline in international equities (which was the weakest quarter since the outbreak of coronavirus in Q1 2020) made the largest negative contribution. A combination of high valuations, anticipated rate hikes and geopolitical uncertainties sparked a decline in growth stocks, widening the gap between value and growth segments of the market. The performance of the Global Energy sector (in which our fund is not invested) has been driven by perceived energy transportation and distribution shortages due to current geopolitical factors like sanctions and trade embargoes and is of uncertain duration.

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.

Greg Fleming, MA