Salt Sustainable Growth Fund Fact Sheet – February 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 28 February 2023

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$52.33 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 28 February 2023

Application	0.9284
Redemption	0.9246

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" for further information.

Fund Allocation at 28 February 2023

Global Fixed Interest	13%
Australasian Shares	20%
International Shares	35%
Global Listed Property	16%
Global Listed Infrastructure	13%
Alternative Diversifiers	2%
Cash or cash equivalents	1%
Asset allocation to Fixed Interest + Cash	**14%**

Fund Performance to 28 February 2023

Period	Fund Return (after fees)	Gross Reference Portfolio Return
1 month	-1.33%	-0.50%
3 months	-0.59%	0.40%
6 months	-1.40%	0.35%
1 year	-4.77%	-2.33%
Since inception	-7.35%	-5.55%

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. Reference Portfolio return is gross.

Top Individual Holdings at 28 February 2023

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

Holdings stated as at 28.02.2023, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund, due to its large number of securities.

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Market Commentary

February month saw yet another flip in sentiment, this time into a cautious mood after the strong returns in January which opened 2023. Equity markets around the world declined modestly during the month, led by a -2.4% dip in the US S&P 500 Index. However, the -4.1% monthly drop in the NZD/USD exchange rate insulated unhedged NZ investors from the slippage in the US market. Elsewhere, there was a wide range of market returns among global regions, with the MSCI Europe Index gaining 1.4% in local currency terms, while the MSCI Emerging Market Index declined -4.6% bring its 2023 year-to-date returns down to 1.6%.

- After a strong start to the year, resilient economic data caused markets to give some of those gains back in February. The stronger data indicated central banks have more work to do and that rate cuts are far from imminent. Developed market equities were 2.4% lower (in USD) over the month, while the global aggregate bond index was 3.3% (USD) lower.
- Central banks in the US, the UK, Europe, Australia and New Zealand all delivered on expected rate hikes over the course of the month and all, with varying degrees of nuance, signalled they weren't done yet as inflation remains too high.
- In the US the January jobs report was much stronger than expected, retail sales surprised the upside, and while the monthly CPI print saw annual inflation fall, the result was stronger than expected. This followed Fed Chair Powell's comments earlier in the month that the process of disinflation still has some way to go and that further rate hikes are likely needed.
- In Europe, falling energy prices contributed to a further decline in headline inflation. However, resilient core inflation remains the key focus for ECB President Lagarde who, at the same time as raising rates 50bp in February, expressed her intent to deliver another 50bp hike in March.
- In China, the end of Covid-zero and the swift re-opening of the economy is feeding strong rebound in growth. As we have seen in other countries, the significant amount of excess savings accumulated during the lockdown will fuel consumption spending in the period ahead. Despite this, Chinese stocks were lower over the month on escalating geo-political tensions.
- In Australia, the release of the minutes of the RBA's February meeting confirmed its hawkish tilt, indicating they had considered a more aggressive tightening at that meeting. This was followed by weaker than expected labour market data suggesting the unemployment rate may have troughed. While this was a weaker print than expected, likely continued wage pressure means this is unlikely to alter the RBA's hawkish shift.
- In New Zealand, cyclone Gabrielle caused considerable devastation on the east coast of the North Island. Early indications are the repair bill to rebuild communities and infrastructure will be in the order of NZ$13 billion. It's early days and we expect more detail in the coming weeks.
- At its February meeting the RBNZ remained resolute in raising the OCR a further 50bp. The Bank said they would "look through" the near-term impacts of the cyclone on activity and inflation but expect both to be impacted to the upside over the medium-term as the rebuild gets underway.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund declined -1.33% in February month, giving back one third of its strong January month return of +3.74% (after fees). The rolling three-month return was slightly negative at -0.6% (after fees) as December and February months' weakness was not offset by the rally seen in January. The fund's net return lagged its Reference gross return by 0.99% for the three months to February. Since inception, the Fund is behind the Reference index's gross return by 1.8% (on an after-fees basis.)

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 has potential to unnerve markets. This caution and volatility occurred in later February and has persisted into March, with US mid-sized banks in the spotlight.

While February saw the sustained trend higher in bond yields, following the US banking issues in early March yields descended sharply, particularly at the shorter end of the yield curve. For example, the US 2-Year Treasury yield is 0.8% lower than it was at its recent peak, and the NZ 10-Year yield 0.3% lower. Equity investors fear profit slippage as economies slow, although US profit growth forecasts, whilst lowered, remain (just) positive for 2023 as a whole. We target investments with defensible profits in difficult periods and believe active management will be needed in the years ahead.

Fixed interest value increased, and the time to buy additional, selective bond exposure within the fund arrived in February. We implemented an upward adjustment in the Sustainable Growth fund's underweight Bond position in mid-February. The Global Bond asset class will remain underweight (by just 2%, for now) relative to the Reference Portfolios neutral weighting, with the weighting increased by 4%, to a 13% allocation. This lowers "Growth" asset types in the fund to a new dynamic allocation of 85% (from 90% previously.) That is appropriate, as economies slow.

The most resilient individual contributions to the Sustainable Growth fund's performance for the February month came from global equities, specifically, the Salt Sustainable Global Shares Fund, at -0.06% and domestic equities in the Core NZ Shares Fund at -0.04%. This was followed by the Salt Sustainable Global Fixed Income Opportunities Fund's -0.14% contribution. Real asset classes reversed recent outperformance and the Salt Sustainable Global Infrastructure Fund contributed -0.45% of the February 2023 return, while Global Property was the weakest component last month, at -0.53%.

Recent variable returns from Global Shares were 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, even as the global economy slows progressively in 2023.

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. 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 lowered the weighting to this NZ equity fund within our Sustainable Growth portfolio in February. A slight underweight portfolio weighting within the Growth Fund is seen as more appropriate, as parts of the NZ economy and listed equities are likely to be impacted by the Reserve Bank's hawkishness, and by negative consumer and business sentiment given sharply higher lending interest rates across the board. NZ equity's allocation was lowered to 20% from 25%.

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 for bond markets than was the case one year ago.

The Global bonds exposure was switched into the Salt Sustainable Global Fixed Income Opportunities Fund during February, and is now managed by our investment partner Morgan Stanley Investment Management. This enhances the sustainability credentials of our Diversified Funds significantly, given their weightings to Global bonds

Greg Fleming, MA