Salt Sustainable Growth Fund Fact Sheet – February 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 28 February 2022

Benchmark	NZ CPI +5% over 5 years
Fund Assets	$53.75million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming
Current yield to 31/3/22	n/a

Unit Price at 28 February 2022

Application	0.9749
Redemption	0.9709

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 28 February 2022

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 28 February 2022

Period	Fund Return	Benchmark Return
1 month	-2.93%	n/a
3 month	-2.96%	n/a
Since inception	-2.72%	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 Q1 2022

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

Holdings stated as at 31.1.22 and next reviewed on 31.3.22.

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Market Commentary

Equity and bond markets experienced a difficult month in February as geopolitical tensions rose between Russia, Ukraine, and NATO. Russia launched a large-scale invasion of Ukraine on February 24th.

The first half of the month was dominated by increasing expectations of the number of rate hikes likely to be delivered by the major developed central banks in 2022, most notably the US Federal Reserve, and that growth would suffer consequently. As Ukraine tensions grew, rate hike expectations were reassessed downwards, but growth concerns intensified. However, corporate profit reports remain robust, and some sectors have lifted their guidance. Nevertheless, for now, the spike in global energy prices is obscuring the earnings projection picture as its duration is unknowable.

There is still a high degree of uncertainty as to how the Russia-Ukraine conflict will play out. Right now, the clearest economic impact appears likely to be via energy and food prices. This will have a dampening impact on growth, intensifying concerns of a period of stagflation, particularly in Europe.

Activity data in **Europe** improved over the month with PMI results pointing to increasing economic momentum. Headline inflation reached 5.1% y/y, with more than half of that increase already coming from higher energy prices. The ECB signalled a calm and gradual approach to withdrawing pandemic-era stimulus, which seems even more appropriate now, in the midst of a fresh crisis affecting the entire continent and indeed, the globe.

Early 2022 concerns about the strength of the **US** consumer were allayed with the release of a strong January retail sales report showing that consumers had simply delayed spending due to Omicron. The headline CPI reached 7.5% y/y in January and the payrolls report was stronger than expected with nominal wage growth reaching 5.7% y/y.

Interest rate markets expected six rate hikes in 2022 from the US Federal Reserve at the end of the month, though the evolution of the Russia-Ukraine conflict will impact rate-hiking expectations.

The **US Federal Reserve** is on schedule to end its bond purchase programme in March. The January meeting of the Federal Open Market Committee (FOMC) and subsequent statements by officials all-but-confirmed interest rate lift-off in March and that they are actively pursuing plans to reduce the size of their bloated balance sheet. Investors' concern about significantly tighter overall monetary conditions, given high equity valuations, translated into a rapid deterioration in sentiment, compounded by the Ukraine crisis.

The performance of the S&P NZX NZ Fixed Interest Composite Index and NZ Government-only Index have continued to be soft into 2022, declining by -1.5% and -1.9%, respectively, for January and February months and recording further declines into early March. This vindicates our present avoidance of NZ bond securities, as we foresee further weakness and prefer better opportunities available in the international bond and credit markets.

The US Federal Reserve'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 clear quickly, and we will maintain a preference for Real Assets and select diversifiers.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund was negatively affected by the weakness in global markets in February, declining by -2.92% -The declines in January and February months have led to a negative three month return of -2.96%, and impacted its performance since the Fund's inception in mid-September 2021, reducing it to -2.72% (after fees.)

Components of the Fund performing positively in February were limited to the Salt Core NZ Shares Fund (0.16%.) Other assets contributed negative returns for to the Salt Sustainable Growth Fund for the month, although the Global Listed Infrastructure fund imposed only a minor drag on returns with a -0.08% February impact.

The sharp decline in international equities over the month made the largest negative contribution, as the sole international industry sector to log significant gains this year continues to be Energy. The Salt Sustainable Global Shares Fund provided -2.27% towards the Sustainable Growth Fund's overall monthly return, as the Global Shares Fund's own monthly decline of -6.2% was passed through, as the Growth Fund's largest individual component, at a 35% target portfolio neutral weighting.

The performance of the Global Energy sector, which has gained 15% to end-February, and of the US listed sector, which has rallied an even more impressive 27.5% while all other sectors have declined in value, 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.

Among the Growth Fund's international assets, Sustainable Global Property Fund contributed -0.57% of the overall negative return, whilst the Sustainable Global Infrastructure Fund, just -0.08%. Together, these Real Asset diversifiers comprise 30% of the Sustainable Growth Fund's holdings.

We regard both Property and Infrastructure as possessing surety of demand and operation in the present uncertain climate, as well as inflation- hedging features, and they will remain important elements within the Fund.

The Fund's International Bond component was of limited diversification benefit as inflation risk led yields up around the world, resulting in a -0.17% drag on the Sustainable Growth Fund from that source (though it should be noted that the global bonds held were considerably more resilient than the broad global fixed income benchmark in the last three months and indeed, over the full year to end- February.)

Greg Fleming, MA