Salt Sustainable Growth Fund Fact Sheet – January 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 31 January 2023

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$53.05 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 January 2023

Application	0.9409
Redemption	0.9371

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 31 January 2023

Global Fixed Interest	9%
Australasian Shares	25%
International Shares	35%
Global Listed Property	16%
Global Listed Infrastructure	12%
Alternative Diversifiers	1%
Cash or cash equivalents	2%

Fund Performance to 31 January 2023

Period	Fund Return	Reference Portfolio Return
1 month	3.96%	4.09%
3 months	3.74%	2.86%
6 months	-2.64%	-0.67%
1 year	-6.31%	-4.08%
Since inception	-6.10%	-4.77%

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 31 January 2023

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

Holdings stated as at 31.01.2023, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund, due to its large number of securities.

Market Commentary

January month saw another reversal in sentiment, this time back into a positive tone after a weak December month. Equity markets around the world rose during the month, led by a 6.3% bounce in the US S&P 500 Index, which recovered its December loss. The more constructive market mood lifted growth sectors from their sharp 2022 valuation declines.

- Stock markets had a strong start to 2023. Developed market equities rose 6.0% (in USD) over the month. Bonds also rallied as it became evident that inflation had peaked in the key developed economies, with the Global Aggregate bond index returning +3.2% (USD). This aided share sentiment.
- The surprisingly swift end to China's zero-Covid policy bolstered already positive expectations about growth in China this year. That will benefit not only China but also China's main trading partners given the extent of pent-up demand and high savings rates amongst China's consumers.
- China's GDP was weak in the final quarter of 2022; however more recent partial indicators suggest that may be the bottom of the cycle with a recovery expected to unfold over 2023 on the back of re-opening and likely ongoing policy support.
- Softer annual inflation rates in the US and the Eurozone raised hopes that those central banks might soon end their tightening cycles. However, while some central banks have reduced the pace of rate hikes, there isn't any greater clarity on the level at which interest rates will peak.
- In the US, labour market data was viewed positively by markets in that while employment remained solidly positive, wage inflation also slowed, suggesting a soft landing was indeed possible. The cautionary note is that wage inflation remains well in excess of the level consistent with 2% inflation.
- In Europe, the relatively mild winter has led to a decline in energy prices and has seen inflation recede from its peak and has reduced the risk of recession. The average purchase price for natural gas in January was over 50% lower than the average prevailing in H2 2022.
- At the same time, activity data out of the Eurozone has been surprisingly upbeat, indicating a winter recession may be avoided, albeit narrowly. This surprising economic resilience has supported Europe's equity markets at the start of the year.
- Japan's inflation surged to 4% in calendar 2022, its highest level in 31 years. The Bank of Japan loosened its yield curve control policy, widening the band in which 10-year JGBs can trade from +/-25bp to +/-50bp. The Bank then had to intervene with bond purchases through January as markets anticipated a further widening, which did not eventuate.
- Despite recently soft retail sales data in Australia, the Reserve Bank of Australia will likely continue to raise interest rates. Headline inflation came in at 7.8% for the year to December 2022, a 32-year high and ahead of expectations.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rallied in January month, after an episode of market weakness in December faded. The fund returned 3.96% (after fees) for the month, reversing a slightly smaller decline in December.

The rolling three-month return improved to 3.74% (after fees) as December month's weakness was compensated by strength in the November and January months. For the three months, the fund's net return exceeded its Reference gross return by 0.88% but continues to lag over longer periods.

The January fund gain lifted the one-year fund return to -6.31% (after fees) up to 31 January, and the since inception return to -6.1% (after fees.)

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. However, January saw optimism on inflation and interest rates gain the upper hand, leading to positive returns from both equity and bond asset classes.

Bond yields have recently descended somewhat, particularly at the longer end of the yield curve. For example, the US 10-Year Treasury yield is 0.5% lower than it was at its October 2022 peak, and the NZ 10-Year yield 03% lower. Investors fear profit slippage as economies slow, although internationally profit growth forecasts, whilst lowered, remain (just) positive. We target investments with defensible profits in difficult periods and believe active management will be needed in years ahead.

Fixed interest value is increasing, and the time to buy additional selective bond exposure within the fund has arrived. We are implementing an upward adjustment in the Sustainable Growth fund's underweight Bond position in February. The Global Bond asset class will remain underweight relative to the Reference Portfolio neutral weighting, but the weighting is being 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.)

The strongest individual contributions to the Sustainable Growth fund's performance for the January month came from global equities, specifically, the Salt Sustainable Global Shares Fund, at +1.36% and the Salt Sustainable Global Property Fund at +1.29%. This was followed by the Salt Core NZ Shares Fund's +0.85% contribution. Real asset classes have recently benefitted from the moderate moves lower in long-term interest rates, and the Salt Sustainable Global Infrastructure Fund contributed 0.34% of the January 2023 return. Global Bonds added 0.16% for January month.

2022's 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.

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 are trimming 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 than the existing neutral holding, as parts of the NZ economy and listed equities are likely to be impacted by the Reserve Bank's monetary intentions and by negative consumer and business sentiment given sharply higher lending interest rates across the board.

Better income interest streams have become available within the Fixed Income universe than has been the case for a considerable period. As a result, we are lifting our bond holdings and reduce our underweight orientation in Global Fixed Interest to a smaller active position within the Sustainable Growth Fund. 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 than was the case one year ago.

Finally, the Global bonds exposure is simultaneously being switched into the newly-launched Salt Sustainable Global Fixed Income Opportunities Fund, 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

Greg Fleming, MA