Salt Sustainable Growth Fund Fact Sheet – August 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 August 2023

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$56.15 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 August 2023

Application	0.9789
Redemption	0.9749

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	17.35	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 31.08.23. Sustainalytics provides issuer-level ESG Risk analysis used in the calculation of Morningstar's Sustainability Score. Sustainable Investment Mandate information is derived from the fund prospectus.

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"

Fund Allocation at 31 August 2023

Global Fixed Interest	13%
Australasian Shares	19%
International Shares	37%
Global Listed Property	15%
Global Listed Infrastructure	13%
Alternative Diversifiers	2%
Cash or cash equivalents	1%
Asset allocation to Fixed Interest + Cash	**14%**

Fund Performance to 31 August 2023

Period	Fund Return (after fees)	Gross Reference Portfolio Return
1 month	-0.25%	-1.05%
3 months	2.77%	2.37%
6 months	5.44%	4.64%
Year to date	8.18%	8.37%
1 year	3.97%	5.10%
Since inception p.a.	-1.12%	-0.53%

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 August 2023

Fisher & Paykel Healthcare	Infratil
Accenture	Spark NZ
Microsoft	SAP
Visa	Danaher Corp
Thermo Fisher Scientific	Auckland International Airport

Holdings stated as at 31.08.2023, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund, due to its large number of securities.

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

Market Commentary

August saw global equities retreat after strong July returns, though they rose in NZD terms due to a sharp fall in the Kiwi dollar. Growth and inflation signals remained of concern to investors, undermining expectations for reduced monetary tightening. Higher bond yields caused interest-rate sensitive assets to decline in general last month.

- Volatility returned to global markets In August reflecting fresh strains in the Chinese property market and weakness in a broad range of activity indicators. Developed market sovereign bond yields also moved higher during the month. In this environment developed market equities declined -2.3% (in USD) over the month while the Bloomberg Global Aggregate bond index fell -1.4% (also in USD).
- The credit rating agency Fitch downgraded the US sovereign credit rating from AAA to AA+ during the month, citing unsustainable fiscal settings and increasing political dysfunction. The move was largely dismissed by US politicians and economists alike, though it does highlight our concern that without some form of political intervention the fiscal settings of several key developed economies are on an unsustainable path.
- US data remained solid over the month, keeping markets anticipating the possibility of one final interest rate hike from the FOMC. The jobs market remained strong with payroll gains ahead of forecast and a dip lower in the unemployment rate. Retail sales growth also exceeded expectations. Core inflation remains too high for comfort.
- Eurozone GDP data came in stronger than expected for the second quarter of the year and the labour market remains tight with the unemployment rate at its lowest ever level. The outlook remains uncertain, however, with the August composite Purchasing Managers Index falling to 47. Core inflation moved slightly lower but at 5.3%, markets are continuing to price in more tightening from the ECB.
- In Japan, the economy grew +6.0% q/q annualised in the second quarter, boosted by a strong contribution from net exports. The core CPI rose to 4.3% in July and the spring (Shunto) wage negotiations saw the biggest wage increase in three decades. That will have markets continuing to be alert to further tweaks to Japan's monetary policy settings.
- In China, activity data was much weaker than expected including retail sales and private investment, particularly in real estate. The annual rate of CPI increase turned negative in July. To address these challenges, the PBoC cuts rates twice during the month, though credit demand is yet to respond. China's troubles appear likely to weigh on markets for a few months yet.
- In Australia, data over the month has broadly tracked in line with the RBA's forecasts, with unemployment higher and inflation lower, providing little reason for the RBA to shift from its current "wait and see" approach. Still, we expect somewhat more challenging inflation dynamics over the next few months which will challenge the RBA's position.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund dipped by -0.25% (after fees) in August. The rolling three-month return remained positive at 2.77% (after fees). The fund's net return was ahead of its Reference gross return for the three-month period by 0.4% (after fees.) Year to date, the 8.18% fund return (after fees) lags the Gross Reference index return by 0.2%. Since inception, on an after-fees basis, the Fund is behind the Reference index's gross return, due to soft Property returns, and a lag in global equities which developed in early-2023, but has closed up.

Internationally, major central banks are communicating to investors more clearly and have now carried through meaningful interest rate increases, sufficient to anchor inflation expectations. Some are preparing the ground for a "pause" in the tightening phase, to determine whether its impact on inflation will last. Caution and volatility have persisted at times. However, there has also been resilient market optimism about a pause in the interest rate tightening cycle and a better-than-feared outcome for the underlying economies affected.

Equity investors are vigilant for signs of profit slippage as economies slow, as US profit growth forecasts, whilst lowered, remain (just) positive at +1.2% for 2023 as a whole. The weakest quarter for US profits was the second quarter, with flat annual earnings growth seen in Q3 and a recovery anticipated late in the year (+8.2% y/y forecast in Q4.) 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 earlier 2023. The Global Bond asset class will remain slightly underweight (by just 2%, for now) relative to the Reference Portfolios neutral weighting, at a 13% allocation. This leaves "Growth" asset types in the fund at a dynamic allocation of 86% (from 90% previously.) That is appropriate, as economies slow.

The main positive individual contribution to the Sustainable Growth fund's performance for August month came from global equities, specifically, the Salt Sustainable Global Shares Fund, at +1.40%. Our small, diversifying Carbon Fund allocation added 0.05% as prices recovered somewhat. Sustainable Global Property subtracted -0.36% and Global Infrastructure, -0.59%. Domestic equities in the Core NZ Shares Fund subtracted -0.71%% in August as the local economy is still facing difficult conditions and pre-Election uncertainty impact. The Fixed Income asset class had a neutral impact on the Fund in August.

We believe that the specific companies favoured in the Sustainable Global Shares Fund are able to protect their pricing power in a slower growth environment and will give them comparative resilience to changes in the global economic cycle, including inflation and interest rates for an extended period, as the global economy slows progressively through the remainder of 2023 and into 2024, while inflation abates.

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. This fund has lagged its benchmark over the last year, as Health Care (where the fund is overweight) has not yet rallied in line with the market, whereas Consumer Discretionary cyclicals (where the fund is underweight) have proven surprisingly robust.

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 during the turbulence of recent years, and a fairly advantageous dividend yield. However, we have concerns about the NZ market, given current domestic economic conditions.

As a result, we lowered the weighting to this NZ equity fund within our Sustainable Growth portfolio in February, and again in July. An underweight portfolio exposure to NZ equities within the Growth Fund is seen as more appropriate, as parts of the NZ economy and listed equities are being impacted by the Reserve Bank's still-hawkish stance, and by negative consumer and business sentiment given higher lending interest rates across the board. The NZ economy is now confirmed to be in a technical recession, and this, plus pre-election uncertainty and high and still-volatile bond yields, cramp scope for NZ equity returns.

While still holding below-neutral portfolio allocations to Fixed Interest plus Cash, we are moving the weight upward slightly in those portfolio components, as the interest rate environment has improved (from an expected returns perspective) and negative repricing risk is lower for bond markets than was the case previously.

Global bonds exposure is achieved via the Salt Sustainable Global Fixed Income Opportunities Fund, managed by our investment partner Morgan Stanley Investment Management. This fund component enhances the sustainability credentials of our Diversified Funds significantly, given their weightings to Global bonds.

Greg Fleming, MA