Salt Sustainable Growth Fund Fact Sheet – March 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 March 2023

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$52.97 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 March 2023

Application	0.9399
Redemption	0.9360

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 March 2023

Global Fixed Interest	13%
Australasian Shares	20%
International Shares	36%
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 March 2023

Period	Fund Return (after fees)	Gross Reference Portfolio Return
1 month	1.23%	1.00%
3 months	3.87%	4.60%
6 months	5.77%	6.20%
1 year	-4.39%	-2.42%
Since inception p.a.	-4.00%	-2.94%

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 March 2023

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

Holdings stated as at 31.03.2023, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund, due to its large number of securities.

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Market Commentary

March month and quarter saw global stocks edging higher despite periods of heightened volatility. Global markets overcame uncertainty over economic growth, still-elevated inflation, central bank policy and banking industry turmoil to post positive returns for the first quarter. This strength was partially catalysed by sharply lower interest rates and expectations for reduced monetary tightening going forward.

- Global growth has generally surprised to the upside in the first quarter of 2023. This has largely been enabled by lower energy prices (including oil) and has been reflected in upbeat purchasing manager indices (PMI), particularly in Europe and the United States.
- Reflecting the lower energy prices, headline inflation rates continued to ease over the quarter, though in line with our long-held view, core inflation remains stickier. As a result, central banks continued to tighten monetary policy over the period.
- The collapse of Silicon Valley Bank and problems in several finance firms along with a swift response from policy makers set off a wave of finance sector volatility during the quarter. We do not see these issues as systemic, or signalling any kind of generalised finance sector malaise, but rather as symptomatic of idiosyncratic factors relevant to each institution. That said, it serves to illustrate the lags between monetary policy actions and their impact being felt is just as relevant to the finance sector as it is to the real economy.
- In the US, the labour market remains particularly resilient. The economy added 815,000 jobs in the first two months of the year, though the unemployment rate ticked higher in February and wage growth is moderating. The Federal Reserve hiked 25bp in March to a target range of 4.75%-5.00% but left the projected terminal rate at 5.1%.
- Despite the finance sector turmoil, the European economy continued to benefit from lower energy prices, avoiding the much-anticipated contraction in activity expected for the fourth quarter of 2022. Headline inflation fell over the quarter, but core inflation rose. The ECB hiked its deposit rate by 50bp, with the next move data dependent.
- The abandonment of China's Covid-zero policy has led to a sharp rebound in economic activity, while inflation has remained surprisingly in check. 2023 is the first time in four years that economic, regulatory and Covid policies have been aligned in a pro-growth, pro-business fashion. This is being reflected in improving PMIs that are all in expansionary territory.
- Recent data out of Australia has been mixed with GDP surprising to the downside, but the labour market continuing to surprise on the upside. The RBA hiked interest rates by 25 bp in February, but paused the hiking cycle, in their April meeting.
- In New Zealand, the RBNZ remained resolute in raising the Official Cash Rate 50bp to 4.75% in February and again to 5.25% in April. That was despite the devastation of cyclone Gabrielle. December quarter 2022 GDP came in significantly weaker than expected. While possible still reflecting Covid "noise", there are clear signs in the data that tighter monetary conditions are starting to bite.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose 1.23% in March month, recovering its February month decline (after fees). The rolling three-month return was positive at 3.87% (after fees) as February months' weakness was largely offset in March. The fund's net return lagged its Reference gross return by 0.73% for the first quarter. Since inception, on an after-fees basis, the Fund is behind the Reference index's gross return by 1.06% p.a.

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 overshadowed February and persisted into March, with US mid-sized banks in the spotlight. However, there has also been persistent market optimism about how soon a pause in the interest rate tightening cycle may come.

Equity investors fear profit slippage as economies slow, as US profit growth forecasts, whilst lowered, remain (just) positive at +1.5% 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 slightly underweight (by just 2%, for now) relative to the Reference Portfolios neutral weighting, at a 13% allocation. This lowered "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 March quarter came from global equities, specifically, the Salt Sustainable Global Shares Fund, at +2.92% and domestic equities in the Core NZ Shares Fund at +0.89%. This was followed by the Salt Sustainable Global Property Fund's +0.17% quarterly contribution. Real asset classes thus again made a modest positive impact as the Salt Sustainable Global Infrastructure Fund contributed 0.07% of the first quarter's return. The Fixed Income asset class contributed 0.17% whilst the diversifying Carbon Fund was the only negative contributor, with a -0.33% negative quarterly impact.

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 through the remainder of 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, elevated interest rate 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.

As noted last month, 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

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