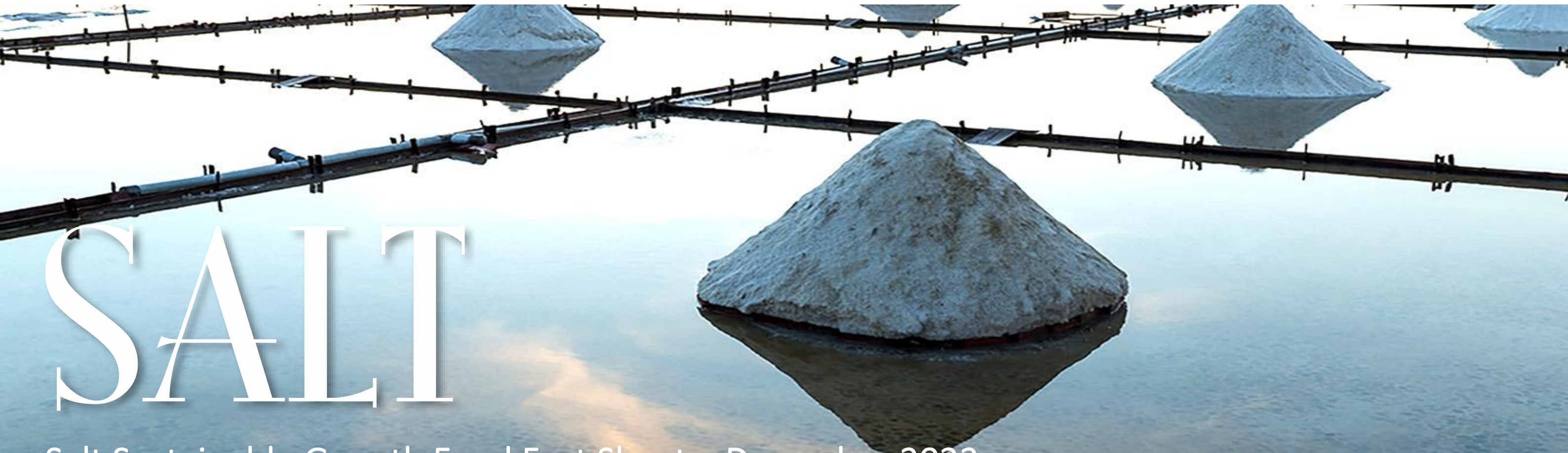

Salt Sustainable Growth Fund Fact Sheet – December 2022

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. 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 December 2022

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$50.93 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 December 2022

Application	0.9051
Redemption	0.9014

Investment Guidelines

Sector	Target	Range
New Zealand Fixed Interest	10%	0% – 25%
International Fixed Interest	5%	0% – 30%
Australasian Shares	24%	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 31 December 2022

New Zealand Fixed Interest	0%
International 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 December 2022

Period	Fund Return	Reference Portfolio Return
1 month	-3.09%	-3.06%
3 months	1.84%	1.51%
6 months	-0.76%	0.72%
1 year	-13.85%	-11.95%
Since inception	-9.68%	-8.86%

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 Individual Holdings at 31 December 2022

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

Holdings stated as at 31.12.22, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund, due to its large number of securities.

Market Commentary

- December month saw a reversal in sentiment to a more cautious tone, after a tentative recovery earlier in the quarter. Equity markets around the world weakened during the month, led by a 5.8% fall in the US S&P 500 Index.
- The global equity market rally that started early in the December quarter partly reversed in the December month. Global equities lost 3.9% (in USD) in the December month, trimming the gain for the fourth quarter to 9.8%.
- The gains early in the quarter reflected the growing confidence that the worst of the inflation surge was now behind the world's major economies. This optimism was tempered late in the quarter by central banks which, despite reducing the magnitude of rate hikes, signalled they still had more tightening work to do, exceeding markets views of the various terminal rates. This included the US Federal Reserve, the European Central Bank and the Reserve Bank of New Zealand.
- This was exacerbated by a surprise move from the Bank of Japan to adjust its Yield Curve Control policy by allowing a widening of the trading band around 10-year JGBs. This was seen by markets as a de facto tightening in monetary policy.
- Political turmoil continued in the UK as Prime Minister Liz Truss was replaced by her competitor in the earlier selection process, Rishi Sunak.
- China was immune from the global sell-off in markets as the Government, in the face of widespread social unrest, moved swiftly to unwind still-stringent Covid restrictions. We had expected such a move following the conclusion of the 20th National Congress of the CCP, but the pace of this move surprised us and does not come without risks.
- In Australia, the economy is showing signs of slowing and will weaken further in 2023 but is expected to avoid recession.
- In New Zealand, the RBNZ delivered its largest ever interest rate increase of 75bps during the quarter, taking the Official Cash Rate to 4.25%. Cementing the hawkishness even further was the admission the Bank had considered a 100bp hike. The projected terminal rate of the OCR was lifted from 4.1% to 5.5%, higher than was expected by the market.
- NZ GDP growth appears remarkably resilient, rising 2.0% over the September quarter. However, we believe this strength continues to reflect Covid "noise" and the reopening of borders. The latest ANZ Business Outlook survey is a more important indicator of things to come with all key activity indicators moving more negative in the December month. This suggests the New Zealand economy may already be close to recession and that a 5.5% OCR may not be required.
- In summary, the December quarter marked the end of a challenging 2022 for markets and investors as the highest inflation, along with the most aggressive rate hikes from the world's major central banks in decades, put pressure on both equity and bond markets at the same time.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund declined in December month after a period of improved investor sentiment in November faded. The fund returned -3.09% (after fees) for the month, reversing a comparable gain in November. The rolling three-month return improved to 1.84% (after fees) as December month's weakness was compensated by strength in the latter part of October and the November months.

The December quarter's fund gain brought the one-year fund return to -13.8% (net) up to 31 December, and the since inception return to -9.7% (net.) Over the second half year, the fund return was -0.8% (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 continued to unnerve markets. Bond yields moved sharply upward earlier in 2022, but have recently descended, particularly at the longer end of the yield curve. Investors fear profit slippage as economies slow, although internationally profit growth forecasts, whilst lowered, remain 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 arrive. We are implementing an upward adjustment in the Sustainable Growth fund's underweight Bond position in the next month. The Bond asset class will remain underweight relative to the Reference Portfolio neutral weighting, but the underweight will reduce by half.

As global growth showed more definitive signs of cooling, the price of oil has retreated substantially from its June highs of USD 106 per barrel, declining -25% to around USD 80/bbl in early January. Natural Gas prices have also dropped substantially in recent months. Heating oil and gasoline prices plus a warm European winter so far have allowed less pressure on State subsidies than might have been expected. European gas storage is close to capacity and no major shortages are anticipated this year.

The strongest individual contribution to the Sustainable Growth fund's performance for the December quarter came from the Salt Core NZ Shares Fund, at +1.09%. This was closely followed by the Sustainable Global Infrastructure Fund's +0.80% contribution. Real asset classes have recently benefitted from the moderate move lower in long-term interest rates.

The returns in the Sustainable Growth Fund's Global Equities component was negative for the quarter, at -0.64%. 2022's variable returns from Global Shares are 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.

All other components of the Salt Sustainable Growth Fund contributed positively for the December quarter. Sustainable Global Property accounted for 0.60% and the Global Fixed Interest fund contributed 0.08% while the small Salt Carbon Fund weighting was neutral in returns impact.

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, at 2/3rds the size of the Global Equities equivalent. 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 anticipate trimming the weighting to this NZ equity fund within our Sustainable Growth portfolio in the month to come. 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 will commensurately lift our bond holdings and reduce our underweight orientation in Global Fixed Interest to a smaller active position within the Sustainable Growth Fund in early 2023. 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.

Greg Fleming

Greg Fleming, MA