Salt Sustainable Growth Fund Fact Sheet – September 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 30 September 2022

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$49.11 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 30 September 2022

Application	0.8887
Redemption	0.8851

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 30 September 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	2%
Cash or cash equivalents	1%

Fund Performance to 30 September 2022

Period	Fund Return	Reference Portfolio Return
1 month	-5.61%	-4.55%
3 months	-2.55%	-0.77%
6 months	-9.68%	-7.64%
1 year	-10.62	-8.83%
Since inception	-11.31%	-10.46%

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 30 September 2022

Microsoft	Accenture
Fisher & Paykel Healthcare	Infratil
Spark New Zealand	Mainfreight
VISA	SAP
Danaher Corp	Thermo Fisher Scientific

Holdings stated as at 30.09.22, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund, due to its large number of securities.

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September 2022

Market Commentary

- After a strong rally at the start of the quarter, equity and bond markets sold off sharply in August and September. In USD terms, developed market equities ended the quarter 6% lower while global bonds fell 7%.
- The rally in July was supported by markets starting to price in interest rate cuts by the Federal Reserve in 2023, suggesting an economic soft landing was likely. However, in August, the Fed along with other central banks renewed their commitment to prioritise returning inflation to target over supporting growth.
- The tough talk was followed up by aggressive action as the key global central banks raised interest rates over the quarter, by 1.5% (in the US) and 1.25% (in the eurozone). Guidance indicative of further hikes saw markets price in significantly higher terminal rates as the quarter progressed.
- Headline inflation moderated in many countries as last years' increases fell out of annual calculations and prices for key commodities fell, most notably oil. However, core inflation is proving to be more stubborn and remains well in excess of central banks targets, supporting indications of more tightening to come.
- The global growth outlook continues to weaken as central banks continue to hike and signal further interest rate increases to come.
- The odds of a "soft landing" are diminishing in several countries. Despite a technical recession over the first half of 2022, the US economy remains one of the more resilient. That is especially the case for the labour market where an unemployment rate of 3.7% and nominal wage growth in excess of 5% remain inconsistent with 2% inflation.
- The energy crisis continues to dominate the headlines in Europe as Russia halted all gas flows through the Nord Stream 1 pipeline in early September. Activity data continued to weaken over the quarter and recession now appears the most likely outcome. However, with inflation still stubbornly high, the ECB will continue to hike interest rates.
- Fiscal policy was the hot topic in the UK towards the end of the quarter. The announcement of significant unfunded tax cuts by the new Chancellor brought a severe negative reaction from markets and intervention from the Bank of England. The package has since been partially reversed.
- In New Zealand second quarter GDP data came in stronger than expected, though the underlying detail was soft as consumer spending dropped sharply. The RBNZ raised the Official Cash rate 100bps over the quarter to 3.0% and flagged a terminal rate of 4.1% at the August Monetary Policy Statement.
- Over the fourth quarter of the year, growth conditions will continue to deteriorate as central banks continue to tighten with terminal rate likely to be met in late 2022 or early 2023.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund was impacted by resumed global investor caution in the final two months of the third quarter, following a strong month's returns in July. September quarter as a whole saw the fund decline by -2.55% (after fees) but the bulk of that quarterly decline was concentrated in September month, when the fund dropped by -5.61%. This has brought the one-year fund return to -10.62% (net) to 30 September, and the since inception return to -11.31% (net.)

Internationally, major central banks are now communicating the desirable course of carrying through several meaningful interest rate increases, sufficient to anchor inflation expectations, and this continues to unnerve markets. This is partly because notwithstanding a mid-year, short-lived dip, in 2022 bond yields have moved sharply upward, strongly impacting valuations, and slowing demand worldwide. 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, but it is not yet time to buy bonds.

As global growth showed more definitive signs of cooling, the price of oil has retreated somewhat from its June highs of above USD 120 per barrel, declining -30% to around USD 85/bbl in October. US Natural Gas prices have slipped back to mid-year levels (still, up +66% YTD) but European gas prices remained elevated, being more influenced by the Russia-Ukraine situation than is the case for American supply. This is now having highly-disruptive political and market consequences, as shown by recent turmoil in the UK.

The economic outlook and softer performance in broad Energy prices in July through to September has led to a part-reversal in the dominance of the Energy equity sector seen earlier in 2022. Recently, the classically defensive Consumer Staples and Health Care sectors have shown more resilience to the bearish developments than cyclical companies listed on world markets.

The returns in the Sustainable Growth Fund's Global Equities component 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.

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 rate. That is more the focus of this portfolio strategy, rather than directly hedging against shocks to global bond yields. Quality companies are more resilient over the full economic cycle, and compounders reward the patient holders.

Greg Fleming

Greg Fleming, MA