Salt Sustainable Growth Fund Fact Sheet – August 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 August 2022

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$51.97 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 August 2022

Application	0.9416
Redemption	0.9377

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 August 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 31 August 2022

Period	Fund Return	Reference Portfolio Return
1 month	-2.58%	-1.51%
3 months	-0.66%	-0.33%
6 months	-3.42%	-2.91%
Since inception	-6.04%	-5.91%

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 August 2022

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

Holdings stated as at 31.08.22, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund, due to its large number of securities.

Market Commentary

After the significant market weakness experienced in both equities and bonds so far this year, which had paused in July month, August saw a resumption of nervousness across most key asset classes. Global interest rates erased most of their July rally, negatively impacting bond markets.

- After a brief respite in July, equity and bond markets were rattled again in August as central banks renewed their respective commitments to bring inflation under control, despite the growing risks to the outlook for economic activity.
- The level of nervousness about the outlook for global growth remains high. This is especially the case in Europe as concern over the security of energy supplies intensifies on the back of the ongoing conflict in Ukraine.
- In the United States GDP June quarter data recorded a second consecutive quarterly decline, meeting the definition of a technical recession. However, given the narrowness of the weakness and the strength of other data, particularly the labour market, this is unlikely to be classified as an economic recession.
- US headline inflation appears to be past its peak; however, core inflation will remain more difficult to get under control, especially as the labour market remains strong. This saw Federal Reserve Chair Powell deliver a hawkish commentary at the monetary policy symposium in Jackson Hole, keeping alive the prospect of ongoing interest rate hikes by the FOMC, including the possibility of a third consecutive 75bp hike at its September meeting.
- Eurozone second-quarter GDP surprised on the upside but revealed marked divergences in performance amongst member states. Several countries (Spain, Italy) continue to benefit from the post-Covid bounce in services activity while Germany, heavily reliant on gas imports from Russia, stalled.
- In China, the domestic economy continues to struggle as ongoing Covid disruptions have morphed into disruptive weather events. July activity data was weak, with the service sector also losing momentum over the month. The People's Bank of China eased monetary conditions further and the State Council announced new fiscal stimulus measures.
- The unemployment rate in Australia dropped sharply, to 3.5%. This helps justify the Reserve Bank of Australia's early September interest rate hike of 0.5% to 2.35% - the highest since 2014.
- Headline Consumer Price Index inflation for the second quarter in Australia rose by 6.1% y/y while the core rate came in at 4.6%. The Reserve Bank of Australia hiked a further 50bp in August, signalling more to come.
- The Reserve Bank of New Zealand remains ahead of the rest of the world in tightening monetary conditions. The RBNZ hiked 50bp in August to take the Official Cash Rate to 3.0%. We expect a further 50bp hike in October. However, with monetary conditions now tight and given the emerging weakness in some activity data, we are fast approaching the point at which the RBNZ's next move is not immediately obvious. There are increasing signs of a slowdown in growth in activity in the New Zealand economy.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund was impacted by resumed global investor caution in August month, declining -2.58% (after fees.) Although the August fall was less than half of the July monthly gain in value, when compounded with June's market weakness, the fund is now in slightly negative returns territory over a three-month period, at -0.66% (net of fees.) This has brought the since-inception fund return to -6.04% (net) to 31 August, with the decline concentrated in mid-2022.

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 will unnerve markets at times. This is partly because notwithstanding a recent short-lived dip, in 2022 bond yields have moved sharply upward, 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 highly-active management will be needed ahead.

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 -25% to around USD 90/bbl in August. US Natural Gas prices have slipped but European and Asian gas prices remained elevated, being more influenced by the Russia-Ukraine situation and by unusual temperatures than is the case for American supply. However, the economic outlook and flat performance in broad Energy prices in July and August has led to a part-reversal in the dominance of the Energy equity sector seen earlier in 2022.

The robust returns in the Sustainable Growth Fund's Global Equities component are indicative of the portfolio structure of the Morgan Stanley Investment Management strategy within this asset class. 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 in Staples and Health Care 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.

Along with the Salt Core NZ Shares Fund, the other exposure within the Sustainable Growth Fund with a positive July month's performance was the Salt Carbon Fund, which rose 6.0% for the month and has gained 5.1% for the six months to 31 August. This demonstrates the Carbon Fund's value as a non-correlated diversifier over a volatile period, and we intend to increase the small initial allocation within the Slat Sustainable Growth Fund in coming weeks.

Greg Fleming, MA