Sustainable Growth Fund: asset allocation change notification

- **2022 saw weakness in most asset markets, and damage limitation was the priority for Growth funds.**
- **We believe bond yields have now adjusted upwards enough to lower our underweight bond positions.**
- **As the Reserve Bank of New Zealand continues to lift the Official Cash Rate and inflation is persisting, domestic yields and discount rates are likely to stay elevated. We lower our position in the Core NZ Shares Fund from neutral to underweight and redeploy Cash to invest in an additional 1% Carbon Fund holding.**

Dynamic Asset Allocation change – Salt Sustainable Growth Fund

Salt's Sustainable Growth Fund (SSGF) aims to outperform the Reserve Bank of New Zealand's Consumer Price Index +5% p.a. benchmark on a rolling five-year basis by investing in a diversified mix of growth and defensive assets with a focus on securities with strong Environmental, Social, and Governance (ESG) credentials.

After a year in which previously overvalued asset classes (particularly, but not exclusively bonds) have corrected to reasonable levels, we are adjusting our asset allocation to maximize the prospective after-inflation returns projection whilst lowering the fund's overall tactical bias to Growth: Income assets from a ratio of 90:10 to 85:15.

With a period of low economic growth ahead as monetary policy focusses on damping down inflation, we consider a reduced tilt towards Growth asset classes appropriate. We now consider NZ equities more vulnerable than their international counterparts, given an aggressive Reserve Bank outlook and mounting cost pressures for NZ firms.

Adjustment to Asset Allocations 10 February 2023

Sector	Target	Range	New allocation	Change	DAA tilt
Global Fixed Interest	15%	0% – 60%	13%	+4%	u/weight
Australasian Shares	25%	10% – 40%	20%	-5%	u/weight
International Shares	35%	20% – 50%	35%	-	neutral
Global Listed Property	10%	0% – 25%	16%	-	o/weight
Global Listed Infrastructure	10%	0% – 25%	12%	-	o/weight
Cash or cash equivalents	5%	0% – 10%	2%	-	u/weight
Alternative diversifiers	-	0% – 30%	2%	+1%	-

Source: Salt Funds Management

Portfolio growth orientation concentrated in Real Assets due to inflation resilience.

In line with our after-inflation returns objectives, the new Asset Allocation retains the active overweight positioning in Global Listed Property (where valuations are now compelling) and Infrastructure (which provides a stable source of defensive yield and innate inflation protection features.) Given weaker global economies, a less aggressive bias against Fixed Interest assets is now appropriate and so we close up the underweight position, from -6% to -2%.

Greg Fleming

10 February 2023