Salt Sustainable Growth Fund Fact Sheet – June 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 30 June 2023

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$54.36 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 30 June 2023

Application	0.9677
Redemption	0.9637

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	17.43	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 30.06.23. Sustainalytics provides issuer-level ESG Risk analysis used in the calculation of Morningstar's Sustainability Score. Sustainable Investment Mandate information is derived from the fund prospectus.

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 30 June 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 30 June 2023

Period	Fund Return (after fees)	Gross Reference Portfolio Return
1 month	1.59%	2.06%
3 months	2.96%	3.29%
6 months	6.91%	8.04%
1 year	6.10%	8.93%
Since inception p.a.	-1.94%	-0.75%

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 30 June 2023

Fisher & Paykel Healthcare	Spark NZ
Microsoft	Infratil
Accenture	Thermo Fisher Scientific
SAP	Danaher Corp
Visa	Reckitt Benckiser Group

Holdings stated as at 30.06.2023, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund, due to its large number of securities.

Market Commentary

June saw global equities strengthen sharply, though they rose by less in NZD terms. The mood was buoyed by better growth and inflation signals and by expectations for reduced monetary tightening.

- June month saw global stocks rebounding 6.1% and by 7.0% for the June quarter, in USD terms. Expressed in NZD terms, global equities (MSCI World Index) returned less for the month (+3.75%) but more for the three-month period (+9.10%,) reflecting volatility in the NZD/USD exchange rate. Global markets overcame uncertainty over economic slowing, still-elevated inflation and central bank policy and focused on now-lower recession probabilities.
- The first half of 2023 has been much better for balanced portfolios than the challenging 2022 year. A 9.1% (in NZD) gain for developed market equities over the quarter leaves them 18.8% higher year to date. Global sovereign bonds have lagged but are still doing better than last year rising 1% (in USD) YTD.
- The positive tone in markets this year has been driven by a generally improving outlook for global growth as economies have proven to be more resilient than expected to the recent aggressive tightening in monetary conditions. However, underlying inflation has also proven to be more persistent, so we are not out of the woods yet.
- US inflation has fallen sharply from a peak of 9% to 4%, but mostly due to lower oil prices. Core inflation has remained stickier as the labour market has remained tight and wage growth in excess of the level consistent with target inflation.
- The US consumer has continued to spend, reflecting still high excess cash, lower savings and continued employment gains that have averaged 314,000 per month since the start of the year. Weaker business investment intentions and weak corporate loan demand pose risks for growth going forward.
- Economic activity in Europe has proven stronger than expected as the lower energy prices has delivered real income gains back to consumers. However, in order to contain still problematic underlying inflation pressures, what lower oil prices have delivered to consumers, the European Central Bank has had to take away. With core inflation still in excess of 5% the ECB has raised interest rates to 3.5%, with more hikes still to come.
- After the end of the zero-Covid bounce in activity in China, macro data over the June quarter has pointed to a renewed slowdown. We think that the slowing reflects the payback of front-loaded production and policy easing, which are one-off factors, but the recovery is far from over, given that the job market recovery is incomplete. Given that the recovery has remained fragile, we believe the authorities would stand ready to support growth as needed.
- In Australia there are increasing signs that the activity is slowing after a very strong period of growth in 2022. The labour market has remained resilient though it typically lags growth. The RBA is taking a stop-start approach to raising interest rates. We think they have more work to do; we see the cash rate rising to 4.6% in the next few months.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose 1.59% (after fees) in June, more than reversing May's decline. The rolling three-month return was positive at 2.96% (after fees) as April and June's positive returns more than offset the May decline. The fund's net return lagged its Reference gross return for the three-month period by 0.33% (after fees.) Since inception, on an after-fees basis, the Fund is behind the Reference index's gross return, due mainly to weak Property returns until June.

Internationally, major central banks are communicating to investors more clearly and have now carried through meaningful interest rate increases, sufficient to anchor inflation expectations. Some are preparing the ground for a "pause" in the tightening phase, to determine whether its impact on inflation will last. Caution and volatility have persisted at times. However, there has also been resilient market optimism about a pause in the interest rate tightening cycle and a better-than-feared outcome for the underlying economies affected.

Equity investors are vigilant for profit slippage as economies slow, as US profit growth forecasts, whilst lowered, remain (just) positive at +0.6% for 2023 as a whole. The weakest quarter for US profits is anticipated to be the current, second quarter, with a recovery anticipated late in the year. 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 H1 2023. 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 dynamic allocation of 86% (from 90% previously.) That is appropriate, as economies slow.

The main positive individual contribution to the Sustainable Growth fund's performance for June month came from global equities, specifically, the Salt Sustainable Global Shares Fund, at +1.22%. Sustainable Global Property added 0.49% and Global Infrastructure, 0.30%. Domestic equities in the Core NZ Shares Fund subtracted -0.06% and the Carbon Fund, -0.37% in June. The Fixed Income asset class had neutral impact in June, adding 0.02% which offset an identical negative contribution booked in May month. For the June quarter, the Sustainable Global Shares Fund was again dominant, adding 3.14%.

We believe that the specific companies favoured in the Sustainable Global Shares Fund are able to protect their pricing power in an slower growth environment and will give them comparative resilience to changes in the global economic cycle, including inflation and interest rates for an extended period, as the global economy slows progressively through the remainder of 2023 and into 2024 while inflation abates.

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 during the turbulence of recent years, and a fairly advantageous dividend yield. However, we have concerns about the NZ market, given current domestic economic conditions.

As a result, we lowered the weighting to this NZ equity fund within our Sustainable Growth portfolio in February and again in early July. An underweight portfolio exposure to NZ equities within the Growth Fund is seen as more appropriate, as parts of the NZ economy and listed equities are be impacted by the Reserve Bank's prior hawkish stance, and by negative consumer and business sentiment given sharply higher lending interest rates across the board. The NZ economy is now confirmed to be in a technical recession, and this, plus pre-election uncertainty and high and volatile bond yields, cramp scope for NZ returns.

While still holding below-neutral portfolio allocations to Fixed Interest plus Cash, there is no reason to remain 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 in early 2022.

Global bonds exposure is achieved via the Salt Sustainable Global Fixed Income Opportunities Fund, managed by our investment partner Morgan Stanley Investment Management. This fund component enhances the sustainability credentials of our Diversified Funds significantly, given their weightings to Global bonds.

Greg Fleming, MA