

# SALT

## Salt Sustainable Growth Fund Fact Sheet – September 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 September 2023

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	\$53.73 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

### Unit Price at 30 September 2023

Application	0.9365
Redemption	0.9327

### Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	17.35	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 30.09.23. Sustainability 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"

### Fund Allocation at 30 September 2023

Global Fixed Interest	13%
Australasian Shares	19%
International Shares	37%
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 September 2023

Period	Fund Return (before fees)	Gross Reference Portfolio Return
1 month	-4.32%	-3.45%
3 months	-3.20%	-3.15%
6 months	-0.33%	0.03%
Year to date	3.50%	4.63%
1 year	5.43%	6.23%
Since inception p.a.	-3.20%	-2.21%

Performance is before fees and PIE tax and is adjusted for imputation credits. Reference Portfolio return is also gross. 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 2023

Accenture	Thermo Fisher Scientific
Fisher & Paykel Healthcare	Carbon Fund
Microsoft	Infratil
Visa	Spark NZ
SAP	US Treasury 5-Year Note (CBT)

Holdings stated as at 30.09.2023, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund, due to its large number of securities.

### SALT FUNDS MANAGEMENT

Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143  
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

## Market Commentary

September month and the last two months of the third quarter saw global equities retreat after strong July returns. Growth and inflation signals remained of concern to investors, undermining expectations for reduced monetary tightening from central banks. Higher bond yields caused interest-rate sensitive assets to decline in general last quarter.

- The September quarter of 2023 was somewhat reminiscent of the 2022 year as global equities suffered a reality check in the face of higher bond yields. Developed market equities fell -3.4% (in USD) over the quarter, though were still up a healthy 11.6% year-to-date. The global aggregate bond benchmark had a similarly tough quarter, falling -3.6% (in USD).
- While the outcome was much like 2022, the reasons behind the moves were different. 2022 was all about the sharp trend higher in interest rates, while the quarter just gone was about the realisation that interest rates would remain higher for longer as central banks sought to tame stubbornly high inflation.
- Fiscal sustainability has been another focus for bond markets, particularly in the United States, where concerns are rising about the amount of issuance that will be required to sustain the large fiscal deficit.
- Oil prices surged higher over the quarter, rising 28%. Higher oil prices present another headwind to consumer demand and will be problematic for central banks as headline inflation reaccelerates.
- In the United States, key activity data including retail sales and industrial production all expanded. Third quarter GDP growth is tracking at a healthy 1.2% (q/q annualised). Headline inflation rose again on the back of higher oil prices, but core declined to an annual 4.3%. The Fed left interest rates unchanged in September, though projections showed one more hike and a tighter stance through next year. A government shutdown was avoided, but only provided funding through to November.
- Business surveys remained subdued across Europe in September. Composite PMIs were still in contraction territory with the euro area index at 47.1 and the UK index at 46.8. On a more positive note, inflation fell more sharply than expected in both the euro area and the UK. The ECB raised its deposit rate by 25bps to 4% but the Bank of England, in a surprise move, left rates unchanged at 5.25%.
- China economic data improved in August with a reacceleration in both retail sales and industrial production and, after a brief flirtation with deflation, the annual rate of CPI inflation rose to 0.1%. Real estate distress remained a key focus, but the authorities have been eager to signal support by easing banks' Reserve Requirement Ratio.
- In Japan, the BoJ kept its policy stance unchanged, maintaining its widened Yield Curve Control.

- In Australia, both activity and inflation data came in stronger than expected though the RBA, in its first meeting under new Governor Michele Bullock, left rates unchanged for a third consecutive meeting. We see a high chance of a further hike at the November meeting when fresh economic projections will be available.
- In New Zealand GDP growth came in much stronger than expected for the June quarter, though the annual rate of expansion continues to fall. We see annual growth at close to zero when the September quarter data is released in December. As expected, the RBNZ left interest rates unchanged at the August Monetary Policy Statement but emphasised the higher for longer message.

## Salt Sustainable Growth Fund Commentary

**The Sustainable Growth Fund fell by -3.20% (before fees) in the September Quarter. The fund's net return was in line with its Reference gross return for the three-month period to September. (before fees.) Over the 12 months to September, the 5.42% fund return lags the Gross Reference index return by 0.8%. Since inception, on an after-fees basis, the Fund is behind the Reference index's gross return, due to soft Property returns, and a lag in sustainable global equities which developed as energy sectors outperformed strongly.**

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. However, there have also been phases of market optimism about a pause in the interest rate tightening cycle and a better-than-feared outcome for the underlying economies affected.

Fixed interest value increased, and the time to buy additional, selective bond exposure within the fund arrived earlier 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 leaves "Growth" asset types in the fund at a dynamic allocation of 86% (from 90% previously.) That is appropriate, as economies slow.

The only positive individual contributions to the Sustainable Growth fund's performance for the September Quarter came from the "diversifying" assets, specifically, the Salt Sustainable Global Fixed Income Opportunities Fund, at +0.01% and from our small Carbon Fund allocation which added 0.41% as prices recovered somewhat. Sustainable Global Property subtracted -0.83% and Global Infrastructure, -1.07%. This was in line with the negative impact of the Sustainable Global Shares Fund which was -0.93% for the quarter. Domestic equities in the Core NZ Shares Fund subtracted -0.83% in Q3 as the local economy is still facing difficult conditions and pre-Election uncertainty impact.

We believe that the specific companies favoured in the Sustainable Global Shares Fund are able to protect their pricing power in a 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. This fund has lagged its benchmark over the last year, as Health Care (where the fund is overweight) has not yet rallied in line with the market, whereas Consumer Discretionary cyclicals (where the fund is underweight) have proven surprisingly robust.

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 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 being impacted by the Reserve Bank's still-hawkish stance, and by negative consumer and business sentiment given 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 still-volatile bond yields, cramp scope for NZ equity returns.

While still holding below-neutral portfolio allocations to Fixed Interest plus Cash, we are moving the weight upward slightly in those portfolio components, as the interest rate environment has improved (from an expected returns perspective) and negative repricing risk is lower for bond markets than was the case previously.

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