Salt Sustainable Growth Fund Fact Sheet – May 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, whilst paying a semi-annual distribution of income. 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.

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 May 2022

Benchmark	NZ CPI +5% over 5 years
Fund Assets	$52.25 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming
Current yield to 30/4/22	n/a

Unit Price at 31 May 2022

Application	0.9478
Redemption	0.9439

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 May 2022

New Zealand Fixed Interest	0%
International Fixed Interest	9%
Australasian Shares	24%
International Shares	35%
Global Listed Property	18%
Global Listed Infrastructure	12%
Alternative Diversifiers	1%
Cash or cash equivalents	1%

Fund Performance to 31 May 2022

Period	Fund Return	Benchmark Return
1 month	-2.15%	n/a
3 month	-2.78%	n/a
6 month	-5.66%	n/a
Since inception	-5.42%	n/a

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 May 2022

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

Holdings stated as at 31.05.22, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund.

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

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Market Commentary

- Global equity markets ended May broadly flat, though it was a round-about journey getting there with significant intra-month volatility. Key macro risks remain at the forefront, including war in Ukraine, weak data out of China, and further tightening in monetary policy. Markets still lack a catalyst for a change in sentiment.
- Central banks continue to play catch-up with inflation, which is contributing to growing risks to growth, though those risks remain greater in Europe than the United States. Labour markets remain tight but negative real wage growth continues to squeeze household incomes. Margins are coming under pressure, especially for consumer-facing companies, with pricing power becoming an increasingly important factor in relative equity performance.
- In the United States the FOMC's 50bp hike in the Fed funds rate during the May month was well-signalled. Hawkish commentary from various FOMC participants and inflation data saw interest rate markets pricing in a series of larger hikes. In June, the Fed hiked 75bps, validating market expectations, with more to come.
- US headline inflation came in higher than expected at 8.6% y/y. Growth risks increased over the month which saw FOMC commentary becoming more hawkish.
- The war in Ukraine continues unabated with no sign and little hope of an imminent resolution. Positioning of both sides appears incompatible with a diplomatic solution.
- European consumer confidence improved in May, though remains low. Business confidence remains resilient. This will give the European Central Bank confidence in moving ahead with its "pre-announced" intentions to deliver a first interest rate increase in July, end asset purchases during the third quarter of the year and exit negative interest rates by the end of Q3 2022.
- In China, Shanghai remained in lockdown, though there were some easing of restrictions as the month progressed. The easing of restrictions is expected to gather pace over June. Credit growth eased over the month as banks became concerned about the deteriorating economic outlook, prompting an easing in a key mortgage rate by the People's Bank of China.
- The Reserve Bank of Australia raised interest rates for the first time this cycle at the May meeting, raising the cash rate 25bps. Labour market and activity trends during 2022 thus far suggest solid economic fundamentals amid building inflationary pressures. We expect ongoing interest rate increases and a step up to 50bp hikes was seen in the first meeting in June, to 0.85%.
- After some short-term softness in economic data and pullback in activity due to the Omicron variant, recent consumer and labour data indicate that the outlook for the New Zealand economy remains solid. The inflation outlook has heated up as well, which will keep the RBNZ on track for further rate hikes this year. We expect a 50bp hike in July, after which the RBNZ will likely slow the pace of rate hikes to 25bps for a terminal rate of 3.0-3.5%.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund was negatively affected by weaker global investor sentiment in May month, declining -2.15% (after fees.) The fund remains in negative returns territory over a three-month period, at -2.78%. This has brought the since-inception fund return to -5.42%, as strong Q4 2021 returns reversed in the course of H1 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 bond yields are rapidly moving upward, impacting valuations which had been elevated, and slowing demand worldwide. Investors fear profit slippage as economies slow, although internationally profit growth forecasts, while lowered, remain positive.

In May month, the monthly return was somewhat shielded by the performance of the Salt Sustainable Global Shares Fund (which made a negative impact of -0.22% on the Growth Fund) Although the Global Equities benchmark index was little changed in the month, the NZD rose by just under 1% versus USD, lowering the unhedged fund return over the month. Any renewed weakness in NZD/USD, conversely, assists returns.

Near-term declines in the 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. IT has repriced negatively across the board. The full benefit of the defensiveness in Staples and Health Care takes time to impact, however, as the evidence on US recession risk is not 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.

The Sustainable Global Infrastructure Fund, by contrast, benefits from safe-haven appeal and thus contributed 0.3% to the Growth Fund's May return. The other exposures within the Sustainable Growth Fund with positive May month's performances (albeit small) were the Salt Carbon Fund, which made a 0.04% positive impact and the Global Fixed Interest Fund, which contributed 0.03%. Among the Growth Fund's components that made a negative month's contribution were the Salt Core NZ Shares Fund, which contributed -1.25% for the May month. The Salt Sustainable Global Property Fund contributed -0.99%. Weaker recent returns from Property partially reflect the continuing surge in global long-bond interest rates, as yield competitors for Real Assets. We expect a phase of listed real estate weakness which is characteristic of the early stages of a monetary policy tightening cycle such as we are presently seeing develop across the world. Nevertheless, Property's scope for inflation-hedging and other longer-term advantages of the asset class outweigh the near-term impact of higher bond yields on prices, in our view.

Greg Fleming, MA