Salt Sustainable Growth Fund Fact Sheet – April 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 April 2023

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$54.45 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 30 April 2023

Application	0.9634
Redemption	0.9594

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 April 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 April 2023

Period	Fund Return (after fees)	Gross Reference Portfolio Return
1 month	2.50%	1.89%
3 months	2.38%	2.39%
6 months	6.21%	5.34%
1 year	-0.54%	1.56%
Since inception p.a.	-2.46%	-1.75%

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 April 2023

Fisher & Paykel Healthcare	Accenture
Microsoft	Reckitt Benckiser Group
SAP	Auckland International Airport
Visa	Thermo Fisher Scientific
Spark NZ	Infratil

Holdings stated as at 30.04.2023, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund, due to its large number of securities.

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Market Commentary

April month saw global stocks again moving higher despite periods of volatility. Global markets overcame uncertainty over economic growth, still-elevated inflation, central bank policy and banking industry risks to post positive returns. This strength was partially catalysed by lower interest rates and expectations for reduced monetary tightening going forward.

- Global economic news remained generally positive in April, again highlighting the resilience of growth to higher interest rates. Purchasing Manager Indices (PMIs) beat expectations in the United States and the eurozone, while better-than-expected GDP growth in China also aided the story of positive economic momentum. Developed market equities rose 1.8% (in USD) over the month and 3.07% in NZ dollar terms.
- Headline inflation continued to moderate over the month as energy prices continued to fall. OPEC announced a cut in production aimed at stabilising prices, but when compared with significantly higher prices last year, energy prices should still contribute to lower inflation over the next few months.
- Core services inflation continues to prove sticky. Despite that, we believe we are close to a pause in the hiking cycle amongst the major central banks. The Reserve Bank of Australia hit the pause button in April, though signalled more tightening was likely. The Reserve Bank of New Zealand is also close to pausing.
- In the US there were further signs of cooling in the labour market as the monthly gains in non-farm payrolls continued to moderate, the unemployment rate rose to 3.5% and wage growth moderated to an annual rate of 4.2%. Markets are pricing a final 25bp hike in the fed funds rate in May, followed by a pause. Interest rate cuts are expected before the end of the year, which we believe is too early. However, much will depend on ongoing stresses in the financial sector.
- Activity data continued to surprise to the upside in April. While the economy skirted the expected recession expect at the end of 2022, that just means the European Central Bank has more work to do to slow demand. Markets are pricing a further 75bps of hikes by the ECB.
- China activity data released over the month confirmed the expected reopening "bounce". GDP data for the March quarter and retail sales for the March month both came in stronger than expected. But despite the better data, the local equity market continues to suffer from ongoing geo-political tensions.
- March quarter inflation data in Australia was largely in line with expectations and confirms that inflation peaked at the end of 2022. However, we believe the split between goods and services inflation was cause for concern. While the annual rate of goods inflation slowed sharply, services prices rose. This suggests that despite the pause in the rate hiking cycle early in the month, the RBA still has more work to do.
- Despite clear and obvious signs of a slowing domestic economy, the RBNZ surprised markets with a hawkish 50bp hike in the Official Cash Rate, taking it to 5.25%.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose 2.50% in April month, building on the 1.23% gain seen in March (after fees). The rolling three-month return was positive at 2.39% (after fees) as February months' weakness was fully offset in March and April. The fund's net return matched its Reference gross return for the three-month period, while exceeding it by 0.87% over the last six-months, reflecting the rebounds following the market lows last October. Since inception, on an after-fees basis, the Fund is behind the Reference index's gross return by 0.7%% p.a.

Internationally, major central banks are communicating to investors more clearly and carried through meaningful interest rate increases, sufficient to anchor inflation expectations. Some are now preparing the ground for a "pause" in the tightening phase, to determine its impact on inflation. Caution and volatility have persisted at times, with US mid-sized banks in the spotlight. 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 still punishing profit slippage as economies slow, as US profit growth forecasts, whilst lowered, remain (just) positive at +1.2% for 2023 as a whole. The weakest quarter for US profits is anticipated to be the current, second quarter, with a recovery anticipated later 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 February. We implemented an upward adjustment in the Sustainable Growth fund's underweight Bond position in mid-February. 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 new dynamic allocation of 85% (from 90% previously.) That is appropriate, as economies slow.

The strongest individual contribution to the Sustainable Growth fund's performance for April came from global equities, specifically, the Salt Sustainable Global Shares Fund, at +1.28% and Sustainable Global Property, at +0.43%. Domestic equities in the Core NZ Shares Fund added +0.30, just ahead of Sustainable Global Infrastructure's 0.28% contribution. Real asset classes thus again made a positive impact on overall returns. The Fixed Income asset class contributed 0.05% whilst the diversifying Carbon Fund made a +0.15% positive contribution.

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 rates for an extended period, even as the global economy slows progressively through the remainder of 2023.

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.

All the same, as the Reserve Bank of New Zealand has not yet indicated any degree of monetary policy easing ahead, we lowered the weighting to this NZ equity fund within our Sustainable Growth portfolio in February. A slight underweight portfolio weighting within the Growth Fund is seen as more appropriate, as parts of the NZ economy and listed equities are likely to be impacted by the Reserve Bank's hawkish stance, and by negative consumer and business sentiment given sharply higher lending interest rates across the board. NZ equity's allocation was lowered to 20%, from a prior 25%.

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 one year ago.

Global bonds exposure is achieved via the Salt Sustainable Global Fixed Income Opportunities Fund, managed by our investment partner Morgan Stanley Investment Management. This enhanced the sustainability credentials of our Diversified Funds significantly, given their weightings to Global bonds. We anticipate raising their allocation to a Neutral level in the next asset allocation shift for the Sustainable Growth Fund.

Greg Fleming, MA