Salt Sustainable Growth Fund Fact Sheet – May 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 31 May 2023

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$53.47 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 May 2023

Application	0.9525
Redemption	0.9486

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	17.52	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 30.04.23. 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 31 May 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 31 May 2023

Period	Fund Return (after fees)	Gross Reference Portfolio Return
1 month	-1.12%	-0.67%
3 months	2.60%	2.22%
6 months	2.00%	2.63%
1 year	0.50%	2.49%
Since inception p.a.	-2.85%	-1.97%

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 31 May 2023

Fisher & Paykel Healthcare	Visa
Microsoft	Thermo Fisher Scientific
Accenture	Infratil
SAP	Danaher Corp
Spark NZ	Auckland International Airport

Holdings stated as at 31.05.2023, excludes consolidated International Fixed Interest component of the Sustainable Growth Fund, due to its large number of securities.

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Market Commentary

May month saw global stocks down by 1% in USD terms, though they rose in NZD terms. Global markets were constrained by uncertainty over economic growth, still-elevated inflation, central bank policy and US fiscal wrangling. In late May the mood was buoyed by a US debt ceiling debate compromise and expectations for pauses in reduced monetary tightening in the months ahead.

- Purchasing manager survey data continued to point to further weakness in manufacturing sectors around the world, while services continued to prove more resilient. Labour markets remain tight with unemployment rates at or close to historical lows in the Eurozone, US, UK, Australia. and New Zealand.
- In the US the possibility of a default by the US Government was the key focus. The Fed hiked 25bp as expected, but in a slight but significant change to the wording of the statement, signalled they would likely pause in June. A drop in the unemployment rate to 3.4% in April and strength in core inflation data suggested that a pause might not be the end of the tightening cycle.
- With core inflation still at 5.6% in the Eurozone the ECB tightened again but at the slower pace of 25bp. The central bank said the forceful transmission of past rate hikes into tighter monetary and financing conditions justified the change to a slower pace of hikes. Markets are currently pricing two further 25bp hikes for a terminal deposit rate of 3.75%.
- In the UK, inflation fell from 10.1% to 8.7% in April, but this was significantly higher than market expectations of 8.2%. The BoE voted to hike rates 25bp to 4.5% in a split 7-2 decision. The BoE retained the same forward guidance, highlighting that "if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required".
- After the end of the zero-Covid bounce in activity in China, macro data for April pointed to a renewed slowdown. The latest factory activity reading came in below the benchmark level that separates growth from contraction. Service sector activity, while still positive, expanded at the weakest pace in four months in May. Importantly, the decline in the property market accelerated, prompting speculation of further stimulus for this sector.
- In Australia a higher-than-expected monthly inflation print raised concern that the Reserve Bank of Australia would need to do more work. While the latest labour market activity data was on the soft side, the inflation pressure from the housing market as well as higher wages is expected to keep core rates of inflation above target for some time.
- It was a busy month in New Zealand with the Government bringing down the 2023 Budget, which was closely followed by the RBNZ's latest Monetary Policy Statement. The Budget was more stimulatory than expected with a significantly higher debt issuance program than the market was expecting.
- The RBNZ hiked 25bp, as was widely expected, but surprised the market by calling time on the rate hiking cycle.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund declined -1.12% in May, reversing less than half of April's 2.5% gain (after fees). The rolling three-month return was positive at 2.60% (after fees) as March and April's positive returns more than offset the May decline. The fund's net return exceeded its Reference gross return for the three-month period by 0.38% (after fees,) while lagging it by 0.63% over the last six-months. Since inception, on an after-fees basis, the Fund is behind the Reference index's gross return by 0.8%% p.a. due mainly to Property.

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 vigilant for 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 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 Q1 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 85% (from 90% previously.) That is appropriate, as economies slow.

The sole positive individual contribution to the Sustainable Growth fund's performance for May came from global equities, specifically, the Salt Sustainable Global Shares Fund, at +0.60%. Sustainable Global Property detracted by -0.50% and Global Infrastructure, by -0.63%, reflecting the impact of higher interest rates in May. Domestic equities in the Core NZ Shares Fund subtracted -0.39%. The Fixed Income asset class had neutral impact in May, subtracting -0.02% whilst the diversifying Carbon Fund made a -0.18% negative 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, as the global economy slows progressively through the remainder of 2023 and into 2024.

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 trading conditions.

As a result, we lowered the weighting to this NZ equity fund within our Sustainable Growth portfolio in February and will extend this underweighting during the month ahead. A slight 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 bond yields, cramp 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