

# SALT

## Salt Sustainable Growth Fund Fact Sheet – October 2021

### 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 October 2021

Benchmark	NZ CPI +5% over 5 years
Fund Assets	\$55.1 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming
Current yield to 31/3/22	n/a

### Unit Price at 31 October 2021

Application	1.0070
Redemption	1.0029

### Investment Guidelines

Sector	Target	Range
New Zealand Fixed Interest	10%	0% – 25%
International Fixed Interest	5%	0% – 30%
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% – 10%

### Fund Allocation at 31 October 2021

New Zealand Fixed Interest	0%
International Fixed Interest	9%
Australasian Shares	25%
International Shares	35%
Global Listed Property	18%
Global Listed Infrastructure	12%
Alternative Diversifiers	0%
Cash or cash equivalents	1%

### Fund Performance to 31 October 2021

Period	Fund Return	Benchmark Return
1 month	1.27%	n/a

Performance is net of fees and tax, but not adjusted for imputation credits. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.

### Top Holdings at 31 October 2021

Fisher & Paykel Healthcare	Accenture
Microsoft Corporation	Reckitt Benckiser Group
Spark New Zealand	Visa Inc-Class A Shares
Mainfreight	Auckland Int'l Airport
SAP SE	Infratil

### SALT FUNDS MANAGEMENT

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## Monthly Market Commentary

Global equity markets rebounded strongly in October, erasing the declines seen in international markets in the course of the September. This led to a sharp monthly rise in the MSCI World Index of 5.0% (in USD) led by a very robust 7.0% gain in the US S&P 500. Rising supply disruptions and inflation pressures remained on the negative influences, but investors focussed more on healthy corporate earnings for the third quarter, particularly in the US, as well as on a perception that Central Banks may not rush to lift interest rates. As the quarter progressed, Covid-reopening once again became a theme, allowing equities to recover upward momentum in the main global markets. NZ equities were softer, declining -1.3% for the month as concerns rose that the Reserve Bank may hike rates soon, and Auckland lockdowns hit sentiment.

The US market surged back in the October month, bringing its year-to-date (YTD) return to 24% in USD terms, while full-year returns were 40.8%. European ex-UK shares also rebounded, rising 4.9% for the month and a remarkable 39.1% for the full year. Emerging Markets remained weakest, due to continuing East Asian concerns, and inflation risks which restrained returns to 1.0% for the month and a flat performance YTD in USD terms. Japanese equities slipped from recent highs, as the election temporarily lifted risk awareness.

The inflation implications of resurgent world growth have caught up with bond markets, with most sovereign and investment grade securities experiencing flat or modestly negative total returns. However, the potential for a significant impact on global equities from higher inflation is yet to be realized. Looking at geography, North America performed well, with the US up 7% and Canada gaining 5% in local currency in October. Most major European and Asian markets finished the month slightly below the global index, though still robustly in positive territory for the month.

Evidence of a sharp slowdown in the **Australian** economy continues to mount as the key states of NSW and Victoria remained under Covid-related restrictions. The evident slowdown in the Chinese economy continues to cloud the outlook. The S&P/ASX200 declined 0.1% (in AUD) over the month and was up 23.6% over the year.

In **New Zealand**, the economy is in the midst of a slowdown on the back of Covid restrictions and a mounting delta wave. At the same time, inflation continues to rise, the labour market remains tight and the RBNZ delivered the first interest rate hike of this cycle during the month. New Zealand 10-year yields rose over the month from 1.97% to 2.61%. The NZX50 fell 1.3% (in NZD) over the month and is up 8.4% over the full year. The negative return from the S&P NZX NZ Fixed Interest Composite Index has declined to a hefty -7% by end-October, with NZ Government-only indices even weaker. This vindicates our present avoidance of NZ bond securities, as we prefer better opportunities in the international bond markets.

## Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund performed positively in the course of October, capturing a +1.27% gain for the full month, following a dip in September's last fortnight which saw broad market softness.

Returns for the Salt Sustainable Growth Fund for the month were boosted by the international equity components, where returns were positive. Following a short-lived period of global market nervousness in late September, investors focussed again on very strong US corporate earnings and progressive re-openings around the world, in economies where vaccination rates are sufficiently high. New Zealand equities did not participate, on the whole, in the international equity rebound, and were thus a mild drag on portfolio performance for the month. International Fixed Interest was generally weaker in October, as concerns about inflation rose.

The positive proportionate contributors to the Salt Sustainable Growth fund's monthly return were the Salt Sustainable Global Shares fund (accounting for 0.54% of the gain,) the Salt Sustainable Global Property fund (which contributed 0.80%) and the Salt Sustainable Global Infrastructure fund (providing 0.38%.) The Core NZ Shares fund, by contrast, made a negative month's contribution of -0.54% and the PIMCO Global Fixed Interest fund had no appreciable impact in October (-0.02%.)

The performance of international equity markets represented a more optimistic investor interpretation of very strong global growth and profit dynamics in the Covid rebound scenario. The US market achieved new, record highs throughout the month. However, this confidence is vulnerable to periodic bouts of concern that inflation is becoming entrenched at its current higher level. US political uncertainty has diminished with the passage of President Biden's Infrastructure stimulus bill and a rising perception that the Chinese government may protect the broad national real estate market from some of the consequences of over-borrowing. We are of the view that the markets should emerge into the year-end with less euphoria and better focus on inflation-resilience, and November so far has seen resumed optimism in IT and Real Estate.

Global Listed Infrastructure and Property also made solid monthly contributions, with a 4.3% gain in Salt Sustainable Global Listed Property fund and a 3.1% rise in the Salt Sustainable Global Listed Infrastructure fund. We view the listed real asset sectors as very valuable buffers against a potentially inflationary multi-year period.

On International Bonds, PIMCO is maintaining its cautious view towards both interest rates and corporate credit and maintained its underweight duration position versus the index.



Greg Fleming, MA