Salt Sustainable Growth Fund Fact Sheet – April 2024

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 2024

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$59.38 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 30 April 2024

Application	1.0252
Redemption	1.0210

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 30.04.24. 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"

Fund Allocation at 30 April 2024

Global Fixed Interest	14%
Australasian Shares	18%
International Shares	38%
Global Listed Property	15%
Global Listed Infrastructure	12.5%
Alternative Diversifiers	1.5%
Cash or cash equivalents	1%
Asset allocation to Fixed Interest + Cash	**15%**

Fund Performance 30 April 2024

Period	Fund Return (before fees and tax)	Gross Reference Portfolio Return
1 month	-2.50%	-2.06%
3 months	1.86%	3.03%
6 months	11.66%	12.61%
1 year	7.92%	8.64%
2 years p.a.	4.34%	5.04%
Since inception p.a.	2.31%	2.42%

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 April 2024

Microsoft	Infratil
Fisher & Paykel Healthcare	US 5Yr Note (CBT) Jun24
SAP	Auckland Intl. Airport
Visa	Spark NZ
Accenture	Carbon Fund

Holdings stated as at 30.04.2024.

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Market Commentary

- After a generally positive first quarter of 2024, the second quarter is off to a rough start. In the US, continued higher-than-expected inflation and a GDP print that, while weak at first blush, revealed still strong private demand. This fueled fears that central banks will not ease monetary policy as quickly as previously hoped.
- Both equity and bond markets reacted negatively to this development with developed market equities down -3.7% (in USD) over the month and the global aggregate bond index down-2.5% (in USD).
- There was no US Federal Reserve meeting in April, though there were plenty of opportunities for FOMC members to voice their opinions. The most important of these was Chair Powell's observation that recent data had shown a lack of further progress on inflation, and it was therefore appropriate to give restrictive monetary policy more time to work.
- In Europe the annual rate of CPI inflation was unchanged at 2.4% in April, but the policy-critical services component fell from 4.0% to 3.7%.
- This, combined with low growth in the Euro area, has given markets confidence that a rate cut in June is still likely, though there are now fewer cuts priced in over 2024 than previously.
- Japanese equities gave up some of their recent gains in April. Ongoing downward pressure on the Yen in leading to fears of higher imported inflation weakening domestic demand.
- China's official manufacturing and non-manufacturing PMI indices for April weren't great but weren't bad either. Both came in lower than March but still in expansion territory (over 50). That suggests that growth is stabilising rather than sprinting ahead. That's consistent with the modest stimulus deployed to date. And given the ongoing issues in the property sector, stability isn't a bad thing.
- March quarter inflation came in hotter than expected in Australia. This led to speculation the RBA may be forced to hike interest rates again. Indeed, markets shifted from pricing in rate cuts this year to a chance the next move could be a hike.
- In New Zealand, March quarter inflation printed in line with expectations. The annual rate of CPI inflation fell to 4.0%, though the disinflationary process remains unbalanced. Tradeable (imported) inflation came in at 1.6% for the year while non-tradeable (domestic) inflation came in at 5.8%. However, economic activity remains weak allowing the RBNZ a degree of confidence that monetary policy is working, and that message was reflected in the statement following the April RBNZ Monetary Policy Review.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund declined -2.5% (before fees/tax) in April, giving back the 2.4% gain recorded in March. The fund's gain moderated to 1.86%% for three-month period (before fees/tax). For the six-month period, the Growth Fund gained 11.66% and for the year, 7.92% (before fees/tax.)

The fund's net return was below its Reference Index' gross return for the month by 44bps (before fees/tax.) This is largely due to underperformance within the large International Shares allocation.

The quarter's underperformance was due primarily to a lag within the global equities component, which developed in March and April months. This was largely due to stock selection, in particular to underperformance in Financials, Industrials and Information Technology, which outweighed the outperformance in Communication Services and Consumer Staples, but it is more meaningful to look at it at the stock level than in terms of sectors.

Accenture, Aon and Equifax were all down a double-digit percentage in the April month. In all three cases it was mainly derating rather than any significant earnings fall – in fact, forward EPS is higher than it was at the start of 2024 for the three companies. Accenture suffered from the hangover from its Q2 results in February, as the industry's overall contraction combined with a seeming deterioration in relative performance of the company compared with its history of outgrowing the industry. All the signs are that the industry is at or very near the trough and should return to revenue growth as the year progresses. The concern around Aon is that the revenue growth, while still healthy, is lagging some peers, particularly in the Commercial Risk segment. For Equifax, the main concerns were the lower Q2 guidance, which reduced confidence that management would achieve the maintained guidance for the year, and anxiety that the reduction in outperformance of the Workforce Solutions Mortgage business, based on the company's unique workforce database, was. The rise in interest rates may also have hit sentiment in the credit rating industry more generally.

The Global Equity component portfolio's lack of exposure to Energy was also a negative influence, as the sector held its ground amid broad weakness during April month.

Internationally, major central banks are communicating to investors that they have now carried through sufficient interest rate increases, to anchor inflation expectations. Many have signalled a "pause" in monetary policy adjustment, to determine whether its impact on inflation will last. Caution and volatility have diminished. At times, there have been phases of strong market optimism about a pause in the interest rate tightening cycle evolving into a moderate easing cycle and a benign outcome for the underlying economies affected. Since November markets have staged a "relief rally," generating strong gains in equities, especially in the US but also in the EU, Japan and Taiwan.

Fixed interest value increased with higher bond yields prevailing, and selective bond exposure within the fund was retained. The Global Bond asset class will remain slightly underweight (by just 1%, for now) relative to the Reference Portfolios neutral weighting, at a 14% allocation. This leaves "Growth" asset types in the fund at a dynamic allocation of 85%.

That is appropriate, as economies are expected to slow from mid-2024, but fears of widespread recessions, as well as of aggressive interest rate easings, have been proven to be premature.

The individual contributions to the Sustainable Growth fund's performance for April month were negative. The largest drag came from the Sustainable Global Shares fund which deducted -1.36% for the month. The Salt Sustainable Global Property fund was the second-weakest monthly contributor at -0.81%. The Sustainable Global Infrastructure Fund and the Carbon Fund made negative contributions of -0.16% in April.

Unclear direction in global bond yields has constrained Fixed Interest assets in 2024. The Sustainable Global Fixed Income contributed -0.08% in April month, just below the Salt Core NZ Shares fund's -0.05% impact.

Sustainable Global Infrastructure and Sustainable Global Property are also sizeable Growth Fund components. As long duration bond interest rates around the world began falling from November, listed Real Assets recovered sharply from weaker performance accrued earlier in 2023.

We expect the Real Asset rebound to regain momentum in the second part of 2024, as some valuations in these sectors are attractive. However, this will come in fits and starts, as interest rates remain very volatile, and easing is not imminent.

While still holding below-neutral portfolio allocations to Fixed Interest plus Cash, we are moving the weight upward progressively in 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 previously.

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 logged strong absolute returns in Q1 2024, although it lagged its benchmark.

Looking forward, 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 this will give them comparative resilience to changes in the global economic cycle, including sticky inflation and restrictive interest rates for an extended period, as the global economy slows progressively through 2024, while inflation in key global markets abates.

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 had concerns about the NZ market, given current suppressed domestic economic conditions.

As a result, we lowered the weighting to this NZ equity fund within our Sustainable Growth portfolio in 2023, and the asset allocation currently is set at 18% compared to its 25% neutral strategic weighting. An underweight portfolio exposure to NZ equities within the Growth Fund is seen as appropriate, as parts of the NZ economy and listed equities are being impacted by the Reserve Bank's still-restrictive stance, and by negative sentiment given risks of elevated lending interest rates across the board.

The NZ economy is not yet generating earnings gains in most equity sectors and high, if volatile, interest rates raise the appeal of term deposits and cramp the scope for NZ equity returns.