Salt Sustainable Growth Fund Fact Sheet – June 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 June 2024

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$60.30 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 30 June 2024

Application	1.0390
Redemption	1.0347

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	17.61	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 30.06.24. 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 June 2024

Global Fixed Interest	16%
Australasian Shares	18%
International Shares	36%
Global Listed Property	15%
Global Listed Infrastructure	12.5%
Alternative Diversifiers	1.5%
Cash or cash equivalents	1%
Asset allocation to Fixed Interest + Cash	**17%**

Fund Performance 30 June 2024

Period	Fund Return (before fees)*	Gross Reference Portfolio Return**
1 month	0.90%*	0.72%
3 months	-0.96%	-0.46%
6 months	4.91%	5.90%
1 year	8.86%	8.92%
2 years p.a.	8.23%	8.92%
Since inception p.a.	2.75%	2.88%

Performance is before fees and PIE tax and is adjusted for imputation credits. Reference Portfolio return is also gross. * performance to 27th June only due to a NZ holiday on final trading day of month. ** at 30 June.

Top Individual Holdings as at June 2024

Microsoft	Infratil
Fisher & Paykel Healthcare	US 5Yr Note (CBT) Sep24
SAP	Auckland Intl. Airport
Visa	Contact Energy
Accenture	Carbon Fund

Holdings stated as at 01.06.2024.

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Market Commentary

- The June quarter of 2024 proved to be another positive quarter for global equities. The quarter started poorly as overheating concerns from the first quarter weighed on markets, though those fears abated during the quarter as hopes of a soft landing were revived. Developed market equities rose 2.8% (in USD) over the quarter.
- The flipside of resilient economic data has been felt in stubborn services inflation which remains inconsistent with central bank 2% inflation targets. At the end of the quarter, markets continued to price in fewer rate cuts by developed central banks than they did at the start of the year. In this environment the global aggregate bond index returned -1.1% (in USD) over the quarter.
- After the initial strength at the start of the quarter, US economic data softened during May and June. Despite this and reflecting prior upside inflation surprises, the US Federal Reserve delivered a hawkish message in June, reducing the number of expected rate cuts in 2024 from three to one. Given the subsequent softer data, markets were by the end of the quarter expecting two cuts this year.
- The European Central Bank became the first of the major central banks to cut interest rates. This move had been signalled well in advance of the June meeting. But reflecting the uncertainty of the inflation outlook, the ECB was careful not to commit to any particular future path for monetary policy, reinforcing their ongoing data dependence.
- Following the outcome of the European parliamentary election, President Macron of France called a snap election. This election is in two rounds, the first on June 30th and the second on July 7th. Between those two polls, the UK will also head to a general election on July 4th.
- Activity data in China is generally surprising to the upside over the quarter, though a look under the hood reveals a strong performance from exports alongside ongoing weakness in domestic demand. Problems in the real estate sector remain largely unresolved and pose a key risk to the outlook.
- Partial inflation data in Australia has been surprising to the upside recently, keeping the RBA's August meeting live for a possible rate hike. At the end of the quarter market pricing was evenly split between a hike and a hold at that meeting. Full June quarter inflation data to be released in July will be critical to the outcome.
- In New Zealand, activity data has been weak and labour market data has been softening. Forward indicators of inflation are continuing to trend in the right direction. The latest ANZ Business outlook saw cost expectations falling a bit further, though they remain uncomfortably high. However, with the economy struggling, it's harder to pass those costs on. Pricing intentions fell to a net +35.3%, its lowest level since 2020. This better of data has markets expecting the RBNZ to start easing monetary policy earlier than signalled.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose by 0.9% (before fees/tax) in June, after the fund's gain in May month. As April was a weak month for markets, the fund declined by -0.96% (before fees) for three-month period to end-June. For the six-month period, the Growth Fund gained 4.91% and for the year, 8.86% (before fees/tax.)

The fund's net return was below its Reference Index' gross return for the quarter, largely due to underperformance within the large International Shares allocation, mainly due to stock selection in IT.

The recent underperformance was due primarily to a lag within the global equities component, which developed in March - May months. This was largely due to stock selection, in particular to underperformance in Information Technology, which outweighed the benefits of the Consumer Discretionary and Energy underweights relative to index. 2024 Year-to-Date has seen unusual dominance of Global Equity market index returns by AI and microchip companies, which have limited portfolio representation and as a result, the Global Equities component of the fund was around 2% below index in Q2 2024.

For Q2 overall, the benefit from the zero weight in Consumer Discretionary and Materials, as well as the slight Information Technology overweight, meant sector allocation was positive. Stock selection was negative for the quarter. IT was the largest detractor, given the Portfolio's tilt toward Software (up only 4%) and IT Services (down 11%); in the quarter both sub-sectors significantly lagged the AI-fuelled Semis (+19%) and Hardware (+17%).

In terms of stock selection, the largest contributors to global equities' portfolio return during the quarter were Alphabet thanks to robust growth across Search, YouTube and Cloud and increased optimism about AI impacts, TSMC, who, as the leading foundry, is set to win from growth in AI logic, Microsoft, helped by its strong position in generative AI (GenAI) adoption, Texas Instruments, as the cycle nears the end of its cyclical bottom, and SAP, which continues to benefit from its transition to the cloud.

Internationally, major central banks are communicating to investors that they have now carried through sufficient interest rate increases, to anchor inflation expectations. Most signalled a "pause" in monetary policy adjustment, to determine whether its impact on inflation will last. The European Central Bank, The Bank of Canada and the Swiss National Bank have already cut rates. Caution and volatility have diminished. At times, there have been phases of strong market optimism about the pause in the interest rate tightening cycle evolving into a moderate easing cycle and a benign outcome for the underlying economies affected. Markets have staged a "relief rally," generating strong gains in equities, especially in the US but also in the EU and Japan. Australia and New Zealand have not participated to a great extent, as yet, as there is more doubt about the speed of easings here.

Fixed interest value increased with higher bond yields prevailing, and selective bond exposure within the fund was retained. The Global Bond asset class was thus moved to a small overweight (by just 1%, for now) relative to the Reference Portfolios neutral weighting, to a 16% allocation. This leaves "Growth" asset types in the fund at a dynamic allocation of 83%. Global equities' overweight was commensurately lowered by 2% to a +1% marginal overweight, as 36% of the Fund.

That is appropriate, as economies are expected to slow in late-2024, but fears of widespread recessions, as well as of aggressive interest rate easings, have been proven to be premature. Domestic assets make up 20.5% of the Fund presently, reflecting our preference for International Assets (79.5% of Growth Fund assets.)

The positive contributors to the Sustainable Growth fund's performance for June month were international assets. The largest individual contribution came from the Sustainable Global Shares fund which added 1.05% for the month. The Sustainable Global Fixed Income fund contributed 0.08% for June month/ Unclear direction in global bond yields until recently has constrained Fixed Interest assets in 2024, with periods of both strength and weakness rather than an overall trend in returns.

Interest rate volatility also impacted on listed real assets in June month. The Sustainable Global Property Fund made no performance contribution in June, while the Sustainable Global Infrastructure Fund, which subtracted -0.21% for the month.

The Core NZ Shares fund was the second-weakest monthly contributor at -0.08%. The Carbon Fund made a small negative contribution of -0.04% in June.

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 early 2024, although it lagged its benchmark, for reasons described earlier, which relate to the dominance of large IT-related companies in global equity returns in recent months.

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 later 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. This may shift if, as recently interpreted by markets, the RBNZ is gradually positioning itself to pivot within 2024 toward less restrictive policy settings.

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 have cramped the scope for NZ equity returns.

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 substantial easing is not imminent from central banks. Recent data in the US, however, allows for cautious optimism.

June DAA change: lower Global Equities in favour of +1% Global Bonds

Given increasing geopolitical risks and the very strong global equity market returns booked over the last 18 months, we have decided to lower the Fund's overall exposure to Global equities and raise its allocation to Global bonds.

In June the portfolio allocation to Fixed Interest was increased from 14% to 16% (which is a +1% overweight compared with the Fund's Strategic allocation) and we lowered the existing 3% overweighting to Global equities to a +1% active position. This reflects a lower risk factor from bond markets, and a more elevated risk scenario which may affect international equities in the period before the US election in November.