Salt Sustainable Income 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 gross fixed quarterly income (after fees and expenses but before tax) in excess of bank deposit rates, along with a positive return on capital on a rolling three-year basis. Deposit rates are proxied by the NZ Bank Bill Index.

A Reference Portfolio is provided, medium-term outperformance of which is a secondary objective, consisting of the weighted sum of components.

The Fund targets a diversified mix of growth and defensive assets, with a focus on securities with Environmental, Social and Governance features & reliable income generation. The Fund's strategy is to invest in a quality asset mix to provide regular, sustainable income and a positive return on capital. The value of the fund will fluctuate in line with listed market developments, but the primary focus is enhanced income and thus, shorter-term variability is an expected feature. Income is prioritized above capital gain 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	Bank deposit rates (BNZBIL Index)
Reference portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$45.15 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Prospective distribution yield (cents per unit) / based on Unit Price of 1.07.23	1.125 cents per unit per Quarter / 5.29% per annum

Unit Price at 30 June 2024

Application	0.8518
Redemption	0.8483

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	21.06	22.00

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	35%	0% – 60%
Australasian Shares	30%	15% – 45%
Global Listed Property	15%	0% – 35%
Global Listed Infrastructure	15%	0% – 35%
Cash or cash equivalents	5%	0% – 20%

See "Salt Statement of Investment Policy and Objectives, 30 June 2022"

Fund Allocation at 30 June 2024

Global Fixed Interest	34.5%
Australasian Shares	27.5%
Global Listed Property	20.0%
Global Listed Infrastructure	17.0%
Cash or cash equivalents	1.0%
Asset allocation to Fixed Interest + Cash	**35.5%**

Fund Performance to 27 June* 2024

Period	Fund Return (before fees and tax)	Gross Reference Portfolio Return**
1 month	-0.57%*	-0.24%
3 months	-1.14%	-0.89%
6 months	0.89%	0.59%
1 year	3.58%	3.11%
2 years p.a.	3.89%	2.60%
Since inception p.a.	0.50%	-0.40%

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

Top Individual Holdings as at June 2024

US 5Yr Note (CBT) Sep24	Infratil
Goodman Property Trust	Auckland International Airport
UST 0% 27/06/2024	Spark New Zealand
Fisher & Paykel Healthcare	Vital Healthcare Property Trust
Precinct Properties NZ	Kiwi Property Group

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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 Income Fund Commentary

The Sustainable Income Fund was slightly lower in June, with a return of -0.57% (before fees/tax) in the month, which lowered its six-month gain to 0.89% and its one-year return to 3.58% (before fees/tax.) Note that the final day of June is not fully reflected in returns this month due to the Matariki public holiday and will be captured in the July monthly Factsheet.

June's return was negatively affected by NZ assets; specifically, the NZ Dividend Appreciation and Enhanced Property funds, and by Global infrastructure, which offset positive returns from global bonds. Markets continue to waver as to when lower inflation will permit central bank interest rate reductions. Uncertainty on central banks' easing timing has influenced the listed Real Asset and Bond returns within the portfolio, after their strong late-2023 gains. NZ domestic assets continued to underperform global peers. However, any signs of an easing bias from the RBNZ may assist NZ equity assets through the second half year.

As inflation progressively shows signs of a definitive down-shift, we expect component asset classes to improve further, as global central banks will ultimately embark on interest rate easings. Volatility across markets is ever-present but sentiment is much less fragile. Central banks around the world remain vigilant but have scope to assess the impact of high rates on inflation pressures positively, and incrementally lower rates. We expect value recoveries in interest-rate sensitive assets to continue in H2 2024.

However, markets expressed excessive optimism in late-2023 as to how swiftly those central bank rate cuts are likely to eventuate. A more realistic turn in 2024 explains the moderating returns from the most interest rate-sensitive asset components of the Income fund. This is now improving.

June quarter saw NZ domestic asset types recording negative returns which offset the positive or flat returns contributions from the global components of the Income Fund. The NZ Dividend Appreciation Fund contributed -0.39% and the Enhanced Property Fund, -1.42% in Q2 2024. On the positive side of the ledger, the Salt Sustainable Global Infrastructure Fund contributed 0.23% The Global Fixed Interest Opportunities Fund made a positive quarterly contribution of 0.22% and the Sustainable Global Property Fund had flat (-6bps) impact for the three months ending June 30.

Salt Sustainable Income Fund outlook

Markets got ahead of themselves in late-2023 in anticipating central bank rate cuts. Now these are expected for later this year. We believe bond yields have now adjusted sufficiently (via a volatile and uncertain route in the last 18 months) for us to move progressively toward a higher bond positioning within the Sustainable Income Fund. We consider inflation risk now poses a much-reduced danger to the capital valuations of bond portfolios. The allocation to bonds is now almost at the neutral 35% SAA.

Much of the softer recent returns from the Income Fund is due to the still-weak state of the NZ economy, straining under mild recessionary forces. The Reserve Bank of New Zealand has remained "on hold" with the Official Cash Rate, as core inflation is persisting, so domestic yields and discount rates are likely to stay fairly elevated. This suppressed returns from NZ equities through 2023 and early 2024, and the relative weakness of NZ shares compared to global equities remains a notable feature. There is some scope for improved NZ returns later this year, and the latest RBNZ

Official Cash Rate Review, while stressing that domestic inflation pressures are slow to fade out, signalled a potential policy rate reduction this year.

Diversified Income Funds containing an allocation to domestic equities have generally experienced low overall capital value gains in early 2024, although their income yields remain attractive by historical standards, as the NZ equity market has moved sideways overall for the last two years.

Until a catalyst for a resumption in NZ equity market performance emerges, much of the medium-term capital growth objective of the Fund will be driven by international assets, which comprise half of the Portfolio at current allocation weightings.

We anticipate the longer-term capital growth strategies within the Sustainable Income Fund to boost performance, as inflation conditions are improving. However, there is still a mildly recessionary period to traverse en route to that outcome (in New Zealand, if not globally.) The phase of actual interest rate reductions from central banks has now begun, with the European Central Bank moving in early June, and when easing is more broadly underway, we expect more beneficial capital growth impacts. This positive portfolio role will likely be a key feature of total returns in 2024-5.

As the primary objective of the Salt Sustainable Income Fund is to invest in quality sustainable yield payers, minimizing short-term capital price fluctuation is secondary. Market volatility allows us to acquire high quality and defensible dividend-paying assets for the Fund at better prices.

Distribution of 1.125 cents per unit / quarter retained

Higher component asset yields enabled us to retain the quarterly cents-per-unit distribution from the fund, at 1.125 cpu, for the latest quarterly distribution which was paid out / reinvested in May. This will be updated again in September 2024, dependent on the outlook for overall Fund's income.

As noted earlier, the silver lining in the bond market's repricing is that the yield received from bond investments have shifted to a higher range and that supports the Sustainable Income Fund's forward distribution path. This is characteristic of a transition into a mid-level interest rate regime which may endure for years, rather than months, ahead.

Internationally, major central banks are now communicating the phase of interest rate adjustments, sufficient to anchor inflation expectations, has been successful. Recently, the balance of evidence has been on the better side globally, particularly suggesting that the US Federal Reserve is well on track to deliver an economic "soft landing." Rate reductions will follow incrementally later this year. In New Zealand, the timing is uncertain, as the Reserve Bank will need to assess the trajectory of inflation in mid-2024 and may not actually move the OCR down until the last quarter of the year.

While the data-driven market volatility at times requires fortitude from investors, the objective of securing an inflation-resilient income level means that equity market fluctuations and corrections over short periods are inevitable. Over the medium-term, moderate capital gains in addition to income advantages are expected, and the Sustainable Income Fund is positioned to harvest them.

It is crucial to note that the Income level from equity dividends and bond coupons received into the fund has been commensurately rising through periods of market turbulence. This trend exemplifies the incremental return of some "risk premia" into asset classes.

The fund's modelled income received from coupons and dividends is still modestly above its prospective distribution yield. We regard this as prudent, in a still-uncertain environment.

The equity capital value components of the Income Fund have adjusted to reflect weaker economies overall, yet the Real Asset components of Infrastructure and Property are well-suited to the subdued immediate period ahead, as central bank policy rates will begin to fall. Defensive merit should continue to be asserted in coming months through renewed demand for these specific "Real Asset" equity types, along with the sustainable dividend-payers in the broader Australasian market.

In the last rebalancing, we lifted the Fund's investment in the Sustainable Global Fixed Income Opportunities Fund by 2.5%. This increased the Defensive allocation within the Income Fund to 34.5%, in line with the slowing economic outlook. The yield impact of the Dynamic Asset Allocation bond asset increase was negligible, but we think that Sustainable Global Bonds still have upside potential and display lower volatility risk than Australasian listed property stocks. The latter are retained (at slightly reduced weightings) due to their medium-term scope for capital growth.