

SALT

Salt Sustainable Growth Fund Fact Sheet – November 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 30 November 2023

| | |
|---------------------|---|
| Benchmark | NZ CPI +5% over 5 years |
| Reference Portfolio | SAA-weighted component benchmark indices' performance |
| Fund Assets | \$55.79 million |
| Inception Date | 15 September 2021 |
| Portfolio Manager | Greg Fleming |

Unit Price at 30 November 2023

| | |
|-------------|--------|
| Application | 0.9698 |
| Redemption | 0.9658 |

Sustainability Metrics

| Fund ESG Scores | Portfolio | Category avge |
|-----------------------|-----------|---------------|
| Morningstar ESG score | 17.36 | 25.00 |

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 30.11.23. 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"

Fund Allocation at 30 November 2023

| | |
|---|-----|
| Global Fixed Interest | 14% |
| Australasian Shares | 18% |
| International Shares | 38% |
| Global Listed Property | 15% |
| Global Listed Infrastructure | 12% |
| Alternative Diversifiers | 2% |
| Cash or cash equivalents | 1% |
| Asset allocation to Fixed Interest + Cash | 15% |

Fund Performance to 30 November 2023

| Period | Fund Return (before fees and tax) | Gross Reference Portfolio Return |
|----------------------|-----------------------------------|----------------------------------|
| 1 month | 5.03% | 4.44% |
| 3 months | -0.56% | -0.92% |
| 6 months | 2.53% | 1.43% |
| 1 year | 5.30% | 4.10% |
| 2 years p.a. | -0.35% | -0.82% |
| Since inception p.a. | -0.07% | -0.58% |

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 November 2023

| | |
|----------------------------|-----------------------------------|
| Microsoft | Thermo Fisher Scientific |
| Fisher & Paykel Healthcare | Carbon Fund |
| Accenture PLC | Spark NZ |
| Visa | Infratil |
| SAP | DEGV 0% 15/05/2024 (German Govt.) |

Holdings stated as at 30.11.2023.

SALT FUNDS MANAGEMENT

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Market Commentary

- After a tough October for markets, November provided a degree of respite with developed market equities and bonds both making gains over the month.
- Data over the month supported the soft-landing scenario for the US with a broader easing in inflation readings across developed markets. Developed market equities rose 9.4% (in USD) over the month with the global aggregate bond index up 5.0% (also in USD).
- In the US, still resilient though cooling data supported hopes of a soft landing in the US. Payrolls expanded at a slower rate in October while retail sales fell over the same month, suggesting consumers are moderating their spending after a stronger-than-expected run of gains. At the same time, October CPI inflation came in softer than expected. This lowered investor expectations of a final rate hike at the Fed's December meeting. However, while we may have seen the peak in rates, the minutes of the November FOMC meeting make it clear not to expect early cuts.
- Activity data in Europe remains weak, particularly for industrial production and manufacturing activity. However, the labour market continues to buck the weakening trend with a modest rise in employment over the September quarter. Lower energy price was the major contributor to the decline in the annual rate of headline CPI inflation to 2.4%. The core measure remains at a more worrisome 3.6%, prompting the European Central Bank to comment that it remains vigilant to upside inflation risks.
- Activity data in Japan remained somewhat sluggish. September quarter GDP data showed weaker-than-expected domestic demand, consumption, and capital expenditure. The focus remains on wage growth where the strength of corporate earnings supports the expectation of further wage growth next year. This should see the Bank of Japan continuing to relax its Yield Curve Control policy and end its Negative Interest Rate Policy as early as its January meeting.
- China activity data continued its improved run with retail sales up 7.6% y/y in October, however the housing market remains a source of concern. New home sales continued their year-on-year decline in October. The People's Bank of China injected further liquidity into the banking system over the month and we expect further fiscal stimulus will be provided to support consumer demand.
- As we expected, the Reserve Bank of Australia resumed rate hikes in November following a run of stronger than expected activity, labour market and inflation data. The 25bp hike took the cash rate to 4.35%. We expect one further hike to 4.6%, most likely at the February meeting.
- In New Zealand, there was a meaningful softening in labour market pressures with a decline in employment and a rise in the unemployment rate from 3.6% to 3.9% over the September quarter. Wage growth also moderated.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose 5.03% (before fees/tax) in November. The fund's gross return was above its Reference gross return for the month by 59bps (before fees/tax.)

Over the 6 months to November, the 2.53% fund return leads the Gross Reference index return by 1.10%. Over 12 months, the fund return lead its Reference Index by 1.20%, and by 0.51% p.a. since inception, on an after-fees/tax basis.

Internationally, major central banks are communicating to investors that they have now carried through meaningful interest rate increases, sufficient to anchor inflation expectations. Some are embarking on a "pause" in the tightening phase, to determine whether its impact on inflation will last. Caution and volatility have persisted. However, there have also been phases of strong market optimism about a pause in the interest rate tightening cycle and a better-than-feared outcome for the underlying economies affected. November was one such "relief rally."

Fixed interest value increased, and the time to buy additional, selective bond exposure within the fund arrived earlier 2023. 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 into 2024, but earlier fears of widespread outright recessions now look premature.

The main positive individual contributions to the Sustainable Growth fund's performance for November month came from the Sustainable Global Property fund which added 1.41% for the month. The Sustainable Global Shares fund was not far behind Global Property and contributed 1.30% in November. The Salt Core NZ Shares fund was the third-strongest monthly contributor at +0.99% while the Sustainable Global Infrastructure fund provided 0.70% of last month's fund return.

The diversifying Carbon Fund is still subject to political emphasis changes in the global and NZ carbon emissions regulatory environment, but contributed 0.15% last month, while the Sustainable Global Fixed Income Opportunities fund had positive portfolio impact of 0.30%.

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 has now moved in line of its benchmark in 2023 to date, returning +20.6% (Gross) as compared to +20.8% from the MSCI World Index in NZD as at 30 November.

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 will give them comparative resilience to changes in the global economic cycle, including inflation and interest rates for an extended period, as the global economy slows progressively into 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 domestic economic conditions.

As a result, we lowered the weighting to this NZ equity fund within our Sustainable Growth portfolio in February, July and October, 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-hawkish stance, and by negative sentiment given higher 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.

Sustainable Global Infrastructure and Sustainable Global Property are also sizeable Growth Fund components. As long duration bond interest rates around the world spiked, and then began falling rapidly in November, listed Real Assets have recovered from weaker performance accrued earlier in 2023. We expect the rebound to continue into 2024, as some valuations in these sectors are attractive.

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.

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.