Salt Sustainable Growth Fund Fact Sheet – December 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 31 December 2023

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$57.42 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 December 2023

Application	0.9971
Redemption	0.9930

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	17.28	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 31.12.23. 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 31 December 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 31 December 2023

Period	Fund Return (before fees and tax)	Gross Reference Portfolio Return
1 month	2.94%	3.48%
3 months	6.81%	6.19%
6 months	3.77%	2.85%
1 year	11.72%	11.11%
2 years p.a.	-1.20%	-0.61%
Since inception p.a.	1.21%	0.95%

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 31 December 2023

Fisher & Paykel Healthcare	Carbon Fund
Microsoft	Thermo Fisher Scientific
SAP	Infratil
Visa	US 5Yr Note (CBT)
Accenture	Auckland International Airport

Holdings stated as at 31.12.2023.

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Market Commentary

- After something of a reality check in the third quarter of the year, the December quarter saw strong returns across nearly all asset classes. Further progress on inflation saw markets anticipating earlier interest rate cuts leading to an 11.5% (in USD) rally in developed market equities and an 8.1% (in USD) return from the global aggregate bond index.
- Asset classes that have struggled most under the interest rate mantra of "higher for longer" such as real estate investment trusts showed some of the highest returns. Global REITS rallied 15.6% over the quarter.
- As the quarter began markets were becoming increasingly convinced that interest rates in the key developed markets had peaked. Softer than expected inflation prints in the US and Europe had markets bringing forward rate cut expectations.
- This expectation was reinforced by a dovish December statement from the US Federal Open Market Committee where the latest projections removed the final hike from prior projections and added an extra cut into 2024. By the end of the quarter US interest rate markets were anticipating six 25-basis point cuts in the Fed funds rate in 2024, an expectation we think will ultimately be disappointed.
- Activity data in Japan remained somewhat sluggish over the quarter. 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. The Bank of Japan left monetary policy unchanged at its December meeting, though we expect they may end their Yield Curve Control and Negative Interest Rate policies as early as their January meeting. This is based on our view that such moves are as much about policy normalisation as concerns about inflation.
- The sluggish December PMI readings out of China suggest that fourth GDP will likely slip further. Some rebound in the manufacturing PMI in January 2024 is likely with pass-through of the Rmb1trn additional fiscal support to infrastructure projects flows through. China's reflation journey will remain bumpy and gradual.
- 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. The biggest surprise of the quarter came with weaker than expected third quarter GDP growth which was accompanied by significant downward revisions to prior data. This seems to put the nail in the coffin of the one further hike included in the RBNZ's November interest rate projections. However, it does not necessarily bring forward rate cuts. That will depend on whether the weaker growth data will be followed by soft inflation readings, particularly non-tradeable inflation. The next CPI data is due for release on January 24th.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose 2.94% (before fees/tax) in December, and by 6.81% for the three months. The fund's gross return was above its Reference portfolio's gross return for the quarter by 62bps (before fees/tax.)

Over the 6 months to December, the 3.77% fund return lead the Gross Reference index and over 12 months, the fund return lead its Reference Index by 0.61%, on a gross basis. The Fund is behind the Reference index's gross return over two years, due to soft Property returns early last year, and a lag in global equities which developed as global energy sectors outperformed strongly during 2022. Both those drags are now fading, and property is rebounding.

Internationally, major central banks are communicating to investors that they have now carried through meaningful interest rate increases, sufficient to anchor inflation expectations. Many 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-December was one such "relief rally," which generated strong gains in equities and real assets.

Fixed interest value increased, and the time to buy additional, selective bond exposure within the fund arrived. 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 fears of widespread outright recessions now look misguided or premature.

The main positive individual contributions to the Sustainable Growth fund's performance for December month again came from the Sustainable Global Property fund which added 1.09% for the month. The Salt Core NZ Shares fund was the second-strongest monthly contributor at +0.66% The Sustainable Global Shares fund was not far behind and contributed 0.48% in December, while the Sustainable Global Infrastructure fund provided 0.40% 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, so detracted -0.12% last month, while the Sustainable Global Fixed Income Opportunities fund had positive portfolio impact of 0.29%.

For the full year of 2023, the dominant contributor to the very positive return of 10.2% (gross) was the Salt Sustainable Global Shares Fund, which contributed 7.2% for the year. The second-strongest Growth Fund component was the Sustainable Global Property Fund, which provided 1.6% of the total annual return, while the Core NZ Slares Fund provided 0.69% and the Sustainable Global Fixed Income Fund contributed 0.66% for the year.

The Sustainable Global Infrastructure Fund made a flat contribution in 2023 of just 0.07%, as the asset class was held back until late in the year by global uncertainty on the direction of interest rates.

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, whilst logging strong absolute returns in 2023, lagged its benchmark its benchmark, returning +22.4% (Gross) as compared to +23.6% from the MSCI World Index in NZD as at 31 December.

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 suppressed 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 from November, listed Real Assets have recovered from weaker performance accrued earlier in 2023. We expect the rebound to continue in 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.

Greg Fleming, MA