Salt Sustainable Growth Fund Fact Sheet – May 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 31 May 2024

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$59.71 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 May 2024

Application	1.0307
Redemption	1.0265

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	17.63	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 31.05.24. 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 31 May 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 31 May 2024

Period	Fund Return (before fees and tax)	Gross Reference Portfolio Return
1 month	0.67%	0.91%
3 months	0.51%	2.31%
6 months	7.03%	8.80%
1 year	9.73%	10.36%
2 years p.a.	5.76%	6.35%
Since inception p.a.	2.49%	2.69%

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 May 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 31.05.2024.

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Market Commentary

- The month of May saw positive returns for both developed market equities and fixed income. Ongoing optimism about a global soft landing supported risk assets while anticipated rate cuts spurred bond markets to a positive return. Developed market equities rose +4.5% (in USD) over the month while the global aggregate bond index was up +1.3% (in USD) over the same period.
- In the US activity data surprised mostly to the downside. Most importantly, April payrolls came in below expectations and the unemployment rate rose. April CPI data was in line with expectations following three months of higher-than-expected numbers. Earlier in the month the Fed kept policy unchanged but highlighted the lack of progress towards the 2% inflation. This was interpreted by markets as a delay in rate cuts, rather than a return to rate hikes.
- Economic activity continues to improve in Europe. PMI data released during the month shows the recovery is being driven by the services sector, but there are also signs of improvement in manufacturing. Despite the annual rates of headline and core inflation accelerating in May, progress over the last few months is expected to still give the ECB sufficient confidence to start cutting interest rates at their June meeting.
- The weakness in the Yen continues to be a key focus in Japan. While this is usually positive for Japan exports and the export heavy Topix, the very low level of the Yen is starting to impact negatively on consumer confidence. Japanese stocks were one of the regions weakest performers in May.
- Activity data in China is generally surprising to the upside, 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 unresolved and pose a key risk to the outlook.
- The Reserve Bank of Australia kept monetary policy unchanged at its May meeting and was less hawkish than expected, despite higher-than-expected March quarter inflation. Policy guidance remained unchanged in “not ruling anything in or out”.
- Labour market conditions continue to deteriorate in New Zealand. The unemployment rate rose from 4% to 4.3% in March while the annual rate of increase in the Labour Cost Index slowed to 3.8%, its lowest level in 18 months. Despite this, the RBNZ remains concerned about sticky domestic inflation pressures, delivering a hawkish statement during the month. This saw market pricing push the first full rate cut out to February 2025.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose by 0.67% (before fees) in May, following the consolidation in April month. The fund’s gain thus moderated to 0.51% for three-month period to end-May. For the six-month period, the Growth Fund gained 7.03% and for the year, 9.73% (before fees/tax.)

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

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 Globa l Equities component of the fund is around 5% below index so far in 2024.

In terms of stock selection, the main issue in May was weak performance in Information Technology, as the Software industry (up only 3% and down excluding Microsoft) and IT Services (down 6%), the which make up over 75% of the portfolio within IT, were over 10 points behind Hardware (up 13%) and Semis (up 16%), which were boosted by Apple and Nvidia respectively. Health Care, Consumer Staples and Financials detracted to a lesser extent, while Industrials contributed.

The Global Equity component portfolio’s lack of exposure to Energy was a positive influence, as the sector slipped back after showing resilience during the April month.

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. Since November 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.

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. Domestic assets make up 20.5% of the Fund presently, reflecting our preference for International Assets (79.5% of Growth Fund assets.)

The individual contributions to the Sustainable Growth fund's performance for May month were varied. The largest drag came from the Sustainable Global Shares fund which deducted -0.43% for the month. The Core NZ Shares fund was the second-weakest monthly contributor at -0.17%. The Carbon Fund made a negative contribution of -0.04% in May.

Positive contributors for the month were the Sustainable Global Property Fund Infrastructure Fund, which provided 0.55% of the total return; just ahead of the Sustainable Global Infrastructure Fund, which contributed 0.54%.

Unclear direction in global bond yields has constrained Fixed Interest assets in 2024, with periods of both strength and weakness rather than an overall trend in returns. The Sustainable Global Fixed Income fund contributed 0.10% for May month.

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.

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 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.

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.