Salt Sustainable Growth Fund Fact Sheet – July 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 July 2024

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$63.91 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 July 2024

Application	1.0936
Redemption	1.0891

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	16.68	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 31.07.24. 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 July 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 31 July 2024

Period	Fund Return (before fees and tax)*	Gross Reference Portfolio Return**
1 month	5.39%	4.55%
3 months	7.05%	6.26%
6 months	9.04%	9.47%
1 year	13.01%	12.32%
2 years p.a.	7.88%	8.40%
Since inception p.a.	4.56%	4.39%

Performance is before fees and PIE tax and is adjusted for imputation credits. Reference Portfolio return is also gross. * performance to 31st July. ** at 31 July.

Top Individual Holdings as at 31 July 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 31.07.2024.

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Market Commentary

- July was a volatile month for markets. Weaker US labour market data and a weaker than expected US CPI set the tone and saw markets bring forward expectations of rate cuts by the US Federal Reserve. The Global Aggregate Bond Index returned 2.8% (in USD) and 1.9% in NZD over the month.
- Equities were more muted as investors became more skeptical about the ability of artificial intelligence and growth stocks more generally to continue to drive markets higher. Developed market equities rose 1.8% (in USD) and 4.4% in NZD over the month.
- In the US the July labour market report showed slowing employment growth, a higher unemployment rate and moderating wage growth. GDP data came in stronger than expected at an annualised 2.8% in Q2, but more recent higher frequency data pointed to a slowdown ahead. June CPI data came in under expectations, and just a few hours later the Fed opened the door to a September rate cut.
- In Europe, Purchasing Manager Index (PMI) data was weak, suggesting a moderation in growth over the summer. This also bolstered expectations of further rate cuts from the European Central Bank.
- The Bank of Japan continued its gradual normalisation of monetary policy in July, raising its policy rate 15 basis points from 0.10% to 0.25%. The BoJ is clearly comfortable with recent developments in wage growth and inflation expectations.
- July was also a busy month for northern hemisphere politics. The second round of French legislative elections turned the first round on its head. In the US there was an assassination attempt on the presumptive Republican nominee Donald Trump and President Biden decided not to see re-election.
- In China, ongoing problems in the property sector continue to impact activity in the broader economy. Private consumption remains particularly weak. The authorities continued their reactive and gradual approach to easing with a reduction in the Required Reserve Ratio and cuts to a range of interest rate instruments.
- In Australia the focus was on inflation and whether the Reserve Bank of Australia would resume interest rate hikes. It all hinged on the June quarter CPI outcome which was released on the last day of the month. While it came in higher than the most recent set of RBA forecasts, it was below market expectations and probably not sufficiently bad for the RBA to hike in August.
- In New Zealand, the key development was a dovish pivot from the Reserve Bank of New Zealand which was all the more surprising given it was only six weeks after their surprisingly hawkish outing in May. The change in tone clearly reflects the recent run of weak activity data, and signs from business surveys that firms pricing power is dramatically reduced given the weakness in activity. We see no reason why the RBNZ shouldn't start the unwinding of current restrictive monetary conditions in August.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose by 5.39% (before fees/tax) in July, building on the fund's gain in May-June months. The fund gained 7.05% (before fees/tax) for three-month period to end-July. For the six-month period, the Growth Fund gained 9.04% and for the year, 13.01% (before fees/tax.)

The fund's net return was above its Reference Index' gross return for the quarter, due to strong real asset gains and stronger performance within the large International Shares allocation during the market rotation, due to stock selection and a return of Quality as an investor focus.

The early-2024 underperformance phase 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 until July had seen unusual dominance of Global Equity market index returns by AI and microchip companies, which have limited portfolio representation, with an underweight sector position also in the associated Communications Services industry group.

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, and the US Federal Reserve is poised to do so. At times, there have been phases of strong market optimism about the interest rate outlook 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 fully participated, as yet, as there is more doubt about the speed of easings here, but July month saw better returns.

Fixed interest value increased 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%. In late June, Global equities' overweight was commensurately lowered by 2% to a +1% marginal overweight, at 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.)

All fund components were positive contributors to the Sustainable Growth fund's performance for July month. The largest individual contribution came from the Sustainable Global Shares fund which added 2.28% for the month. Salt Core NZ Shares fund, at 0.90%, had the second-largest contribution, followed closely by the Salt Sustainable Global Property fund (0.88% contributed) and Global Infrastructure fund (a 0.77% contribution.)

The Sustainable Global Fixed Income fund contributed 0.23% for July 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. The diversifying Carbon Fund made a small positive contribution of 0.13% in July.

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.

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 still appropriate, as parts of the NZ economy and listed equities are being impacted by the Reserve Bank's still-restrictive stance, which is only now edging towards easing, and by negative sentiment given risks of elevated lending interest rates prevailing across the board, weakening both activity and earnings. This may shift if, as recently interpreted by markets, the RBNZ is now positioning itself to pivot soon toward less restrictive policy settings.

The NZ economy is not yet generating earnings gains in most equity sectors and if volatile, interest rates raised 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 have recovered sharply, if at times erratically.

We expect the Real Asset rebound to retain momentum through the second half 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.