Salt Sustainable Growth Fund Fact Sheet – August 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 August 2024

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$64.94 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 August 2024

Application	1.1030
Redemption	1.0985

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	16.72	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 31.08.24. 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 August 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 August 2024

Period	Fund Return (before tax and fees)	Gross Reference Portfolio Return*
1 month	0.97%	0.18%
3 months	7.38%	5.49%
6 months	7.93%	7.92%
1 year	14.28%	13.72%
2 years p.a.	9.77%	9.33%
Since inception p.a.	4.77%	4.33%

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

Top Individual Holdings as at 31 August 2024

Microsoft	Infratil
Fisher & Paykel Healthcare	US T Note Sep 2025
SAP	Auckland Intl. Airport
Visa	Contact Energy
Accenture	Carbon Fund

Holdings stated as at 31.08.2024.

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Market Commentary

- The volatility that prevailed in markets over July continued into the early part of August. Disappointing US labour market, combined with an interest rate hike from the Bank of Japan saw a sharp sell-off in global equity markets. A degree of order was restored later in the month as markets began to price in more aggressive policy easing from the US Federal Reserve and solid earnings results suggested little chance of imminent US recession.

- Developed market equities ended 2.7% higher over the month while the global aggregate bond index rose 2.8%. Interest rate sensitive asset classes also performed well with the global REITs index up 6.2%. All percentage changes are in USD terms. In NZD terms, however, the 5% gain in NZD/USD led to unhedged global shares declining -2.6% in August month.

- In the US the July jobs report showed the smallest payrolls gain (+144k) in over three years, while a stronger participation rate saw the unemployment rate rise to 4.3%. Recession fears were further fueled by a weak ISM manufacturing index. This led to market pricing in over 100bp of policy easing by the Federal Reserve at points during the month.

- The Bank of Japan's decision to increase its policy rate by 25bp combined with the hawkish tone set of Governor Ueda led to an abrupt unwinding of carry trade positions, whereby investors relied on cheap borrowing costs in Japan to invest in other higher yielding assets.

- Despite a bounce in the Euro zone composite Purchasing Managers Index because of the Olympics in France, underlying data remained weak across the currency bloc. Earnings from cyclical companies disappointed, adding to the weak tone.

- Property market problems in China continue to weigh on the broader economy. Growth in retail sales increased 2.7% y-o-y in July, up from 2.0% in June. This improvement is largely driven by the low comparison base last year. Despite the improvement, retail sales growth remains weak compared to pre-COVID levels. Policy support remains modest and reactive.

- The Reserve Bank of Australia delivered a hawkish message at its August meeting, again "not ruling anything in or out". Governor Bullock pushed back on suggestions of early rate cuts, saying that "doesn't align with the Board's current thinking".

- In New Zealand, data continued to point to the dire state of the economy. Retal spending contracted sharply in the June quarter and the unemployment rate rose to 4.6%, despite a surprise lift in employment that was at odds with other measures of labour market activity. The RBNZ cut the Official Cash Rate by 25bp to 5.25% and signalled further cuts to come in the months ahead.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose by 0.97% (before fees) in August, building on the fund's gain in May-July months. The fund gained 7.38% (before fees) for three-month period to end-August. For the six-month period, the Growth Fund gained 7.93% and for the year, 14.28% with the two-year annualised return rising to 9.77% p.a. (before fees.)

The fund's net return was above its Reference Index' gross return for the quarter, due to strong real asset gains and a rebound in 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 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. This has subsequently shifted, and the market rally leadership has changed.

Internationally, major central banks are communicating to investors that they have moved to a careful, but distinct, easing bias. The European Central Bank, the Bank of Canada and the Swiss National Bank and the Reserve Bank of NZ 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.

Fixed interest value increased and the small overweight to selective bond exposure within the fund was retained, at 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. This is likely to be lowered a little further in the month to come, given US risks.

That is appropriate, as economies are slowing 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, reflecting our preference for International Assets (79.5% of Growth Fund assets.) NZ shares' allocation will now be gently raised.

All fund components except global shares were positive contributors to the Sustainable Growth fund's performance for August month. The modest negative impact of global equities was due to the 5% rally in the NZD/USD during the month.

The largest individual contribution came from the Sustainable Global Property fund which added 0.7% for the month, while the Global Infrastructure fund made a 0.4% contribution. Smaller positive portfolio returns were provided by the Salt Core NZ Shares fund, at 0.13%, while the Sustainable Global Fixed Income fund contributed 0.15% and the Carbon Fund, 0.19%.

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. Reserve Bank easing has recently improved domestic business confidence, and the equity market has rallied, but this is not as yet supported by significant improvement in the earnings outlook.

The asset allocation currently is set at 18% compared to its 25% neutral strategic weighting. Our 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 into easings, and by still-elevated lending interest rates prevailing across, weakening both activity and earnings. This may shift if, as recently interpreted by markets, the RBNZ is now moving into less restrictive policy settings.

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.

We expect the Real Asset rebound to retain momentum through the last part of 2024, as some valuations in these sectors are attractive. However, this will come in fits and starts, as interest rates remain volatile, and substantial super-stimulatory easing is not quite on the table from central banks. Recent data in the US, however, allows for cautious optimism.

Given increasing geopolitical risks and the very strong global equity market returns booked over the last 24 months, we decided to modestly lower the Fund's overall exposure to Global equities and raise its allocation to Global bonds.

This reflects a lower risk factor from bond markets, and a more elevated risk scenario which may affect international equities in the period leading into the US election in November.