Salt Sustainable Growth Fund Fact Sheet – December 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 December 2024

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$70.18 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 December 2024

Application	1.1445
Redemption	1.1398

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	17.01	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 30.11.24. 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 December 2024

Global Fixed Interest	16%
Australasian Shares	20%
International Shares	34%
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 December 2024

Period	Fund Return (before tax and fees)	Gross Reference Portfolio Return*
1 month	-0.78%	-0.18%
3 months	3.08%	4.73%
6 months	10.95%	10.48%
1 year	16.40%	17.01%
2 years p.a.	14.03%	14.02%
3 years p.a.	4.35%	4.95%
Since inception p.a.	5.60%	5.58%

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

Top Individual Holdings as at 31 December 2024

Fisher & Paykel Healthcare	Auckland Intl. Airport
Infratil	US 5Yr Note (CBT) Mar 25
Microsoft	Contact Energy
SAP	Alphabet
Visa	Procter and Gamble

Holdings stated as at 31.12.2024.

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Market Commentary

- In the December quarter markets were dominated by events in the US with Donald Trumps's victory in the US Presidential election, a hawkish pivot from the US Federal Reserve and ongoing strength in the US dollar.
- Trump's victory had markets contemplating more expansionary US fiscal policy, including further tax cuts, and a more nationalist trade policy. At the same time, the US Federal Reserve signalled there was less scope for interest rate cuts in the period ahead. These two events cancelled each other out in equity markets, while both were bad for bonds.
- In the US, data releases continue to point to resilient growth and recent inflation results have been generally higher than expected, stalling the disinflation process. While the Fed cut interest rates by 25 basis points in December, they signalled only two cuts in 2025, down from the previously signalled four.
- In Europe, the central bank delivered a 25bp rate cut in December, taking the deposit rate to 3.0%. As the downside risks to growth build, the Bank removed the reference to the need for restrictive policy from its statement. That seems to open the door to a steadier pace of rate cuts to neutral, wherever that may be. Budget related political uncertainty in France and the collapse of the German Government is also impacting markets.
- The Bank of Japan left interest rates unchanged in December though expectations of another interest rate hike continue to build. The Bank will likely want further clarity on next year's Shunto wage negotiation before moving, making a hike in January or March likely.
- In China the authorities to continue to signal further stimulus is in the pipeline, though details remain scant. Stimulus delivered to date appears to be having some impact with the December non-manufacturing PMI rising from 50.0 to 52.2, and while the manufacturing index came in weaker than expected at 50.1, there were glimmers of recovery under the hood. More fiscal stimulus is still required, preferably aimed at boosting demand (consumption) rather than supply.
- In Australia the RBA delivered a more dovish that expected statement in December, potentially opening the door to an interest rate cut as early as February. However, that optimism was quickly dashed as the unemployment rate surprised to the downside in November, falling from 4.1% (where it has been for 3 months on the trot) to 3.9%.
- In New Zealand, labour market data for the September quarter was weak with employment contracting over the 3-month period. The unemployment rate rose from 4.6% to 4.8%, with a decline in the participation rate preventing a sharper rise. September quarter GDP data incorporated revisions to the prior data showing activity levels had been higher than previously estimated up until March 2024, but that there had been a sharper fall in activity through the middle quarters of the year.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund declined by -0.78% (before fees) in December, consolidating after the fund's May-November monthly gains. The fund rose 3.08% (before fees) for three-month period. For the six-month period, the Growth Fund gained 10.95% and for the year, 16.40% with the two-year annualised return at 14.03% p.a. (before fees.)

The fund's net return was below its Reference Index' gross return for the three months, due mainly to stock selection in global equities, but outperformance in real assets and NZ equities assisted the fund to outperform its reference index over the six-month period.

Internationally, major central banks are communicating to investors that they have moved onto defined policy easing paths. The US Federal Reserve, Bank of England, European Central Bank, the Bank of Canada, Swiss National Bank and the Reserve Bank of NZ have all cut rates and indicated more easing is ahead. At times, there have been phases of strong market optimism about the interest rate outlook evolving into a benign outcome for the underlying economies affected. Markets have more recently revised the scale of likely easings in the US, which has kept the headline US equity indices from reaching new highs over the last month. The ebullience in the immediate aftermath of the Republican victories in the November 5th elections has not persisted.

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%. Global equities' weighting was kept at a -1% marginal underweight, at 34% of the Fund.

Domestic assets make up 22.5% of the Fund, reflecting our preference for International Assets (77.5% of Growth Fund assets.) NZ shares' allocation was raised by 2% in October 2024 but remain -5% underweight relative to the Strategic Asset Allocation level.

The largest individual positive contribution In December month came from the Sustainable Global Shares fund which added 0.88%, while the Salt Core NZ Shares fund contributed 0.06% for the month. The Carbon Fund detracted -0.06%. Global bonds, infrastructure and property also detracted. For the quarter, Global Shares contributed +3.41% and Core NZ Shares, +1.0%. Global property and infrastructure detracted.

Volatile bond interest rates led to the Sustainable Global Fixed Income fund making a soft contribution of -0.08% in the fourth quarter, given a performance drag from yield-sensitive asset types. Salt Sustainable Global Infrastructure fund made a -0.40% negative quarterly contribution. The Salt Sustainable Global Property fund detracted -1.17% for the fourth quarter, following its strong Q3 contribution.

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. The international equity fund logged strong absolute returns in 2024, although it lagged its benchmark, for reasons which related to the dominance of large IT and Artificial Intelligence chip-related companies in global equity returns in recent months.

This was extended in the immediate aftermath of the Trump victory in the US Presidential Election, meaning support for Energy companies and miners which the Salt Sustainable Global Shares Fund would not hold in its portfolio due to their negative environmental and carbon footprints. However, this can at times (such as presently) lead to a benchmark index lag . In the last month, there has been less unbounded enthusiasm for “all things Trump-themed” and the actual corporate earnings results for Q4 2024 have begun to be reported, leading to a wait-and-see mindset from fundamentals-focussed investors.

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 still-restrictive (though declining) interest rates, as the global economy slows progressively, while inflation in key global markets stabilises.

It is too early to tell what effects the election of Donald Trump to the US Presidency, supported by a Republican Senate majority, will have on US economic prospects in the years ahead. We are cautious on this, but policy moves in the post-inauguration period will be informative.

The initial investor reaction has been positive, due to prospects for lower corporate taxes, US-focussed industrial policies and business-friendly policies. However, the associated risks are untameable deficit spending, erratic initiatives and the scope for higher international tensions, p[particularly if the threatened import tariffs become reality.

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. We have had concerns about the NZ market, given currently suppressed domestic economic conditions. Further 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 20% compared to its 25% neutral strategic weighting. Our underweight portfolio exposure to NZ equities within the Growth Fund was trimmed during October but is still seen as appropriate, as parts of the NZ economy and listed equities are being impacted by the Reserve Bank’s prior restrictive stance which is only now meaningfully easing. This headwind should progressively shift as the RBNZ is now moving into less restrictive policy settings, as the latest OCR rate cuts suggest. However, it will take time for the impact on the domestic economy to be felt.

Sustainable Global Infrastructure and Sustainable Global Property are also sizeable Growth Fund components. As long duration bond interest rates around the world reversed their Q3 declines, listed Real Assets gave back some of 2024’s solod performance. We expect the Real Asset rebound to regain some momentum into 2025-2026, 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. Risks arise on the US front, given currently higher sovereign yields.

With elevated 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, by instituting a -1% underweight position in mid-October. A clear-cut US election result has slightly diminished sources of risk, but market euphoria is concerningly elevated, and we prefer to be slightly defensive until greater clarity on economic policy emerged in the US.

By February, we will know more about the scale of the new US administration’s tariff and macro policy shifts and will re-assess strategy on Global Equities. Presently we see continuing scope for instability which still argues for a degree of caution, given rich market valuations.