Salt Sustainable Growth Fund Fact Sheet – October 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 October 2024

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$68.05 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 October 2024

Application	1.1248
Redemption	1.1116

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	16.76	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 30.09.24. 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 October 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 October 2024

Period	Fund Return (before tax and fees)	Gross Reference Portfolio Return*
1 month	1.08%	1.41%
3 months	3.23%	2.33%
6 months	10.51%	8.73%
1 year	23.40%	22.44%
2 years p.a.	12.92%	11.55%
3 years p.a.	5.22%	4.92%
Since inception p.a.	5.25%	4.80%

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

Top Individual Holdings as at 31 October 2024

Fisher & Paykel Healthcare	VISA
US 5Yr Note (CBT) Dec14	Auckland Intl. Airport
Infratil	NZD Cash
SAP	Carbon Fund
Microsoft	AON

Holdings stated as at 31.10.2024.

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Market Commentary

- October was a volatile month for markets. Developed market equities gave back some of their gains of 2024 thus far, falling -2.0% over the month. The global aggregate bond index also posted a negative return for the month, falling -1.5% (NZD-hedged.) This was largely on the back on the recalibration of the likely pace of interest rate cuts by the US Federal Reserve.
- In the US, inflation data for September came in hotter than expected. Headline CPI posted its lowest annual rate in over three years, though core remained sticky at 3.3% y/y. Activity and labour market data also came in stronger than expected. This has seen markets pare back the likely pace of US interest rate cuts. After cutting the Fed Funds rate by 50bp in September, markets now expect the Fed to deliver smaller 25bp moves in November and December.
- US election uncertainty also contributed to higher bond yields. Market focus is on fiscal sustainability and likely bond issuance, as well as the prospect of tariffs after a Trump victory.
- In Europe, annual inflation moved up to 2.0% in October, but this was primarily due to energy base effects. There were signs of weakening economic momentum over the month, particularly in the manufacturing sector. This prompted the European Central Bank to deliver a third 25bp cut in the deposit rate, taking it to 3.25%.
- In the UK, headline inflation fell to 1.7% y/y, though core remained higher at 3.2%. The labour market remains tight with the unemployment rate falling to 4.0%, while the UK Budget announcement put upward pressure on Gilts.
- The Bank of Japan left interest rates unchanged in October, though the tone of the statement was hawkish. Annual Tokyo inflation came in at 1.8% y/y, supporting the case of higher wage increases flowing through into more generalised inflation.
- The Chinese authorities announced further support measures for the ailing property market over the month. Collective stimulus measures to-date should result in improved activity levels, but we still think more is required, particularly more meaningful action to boost consumption.
- The labour market remains tight in Australia. Jobs growth beat expectations for the sixth consecutive month in September. For now, that demand is being met by increased labour supply. The disinflation process is continuing, but the risk for the central bank is that labour supply growth cools before demand does, reigniting wage inflation. No interest rate cuts are expected here until next year.
- In New Zealand annual CPI inflation came in at 2.2% in the year to September, the first time it has been in the RBNZ's 1-3% target band since the March quarter of 2021. Most of the work has been done by the lower cost of imports and import competing goods (-1.6% y/y), while non-tradeable inflation remains too high (+4.9% y/y). The RBNZ will be watching the latter closely as they now muse on the challenge of sustaining inflation within the target band.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose by 1.08% (before fees) in October, building on the fund's gain in May-September months. The fund gained 3.23% (before fees) for three-month period. For the six-month period, the Growth Fund gained 10.51% and for the year, 23.40% with the two-year annualised return at 12.92% p.a. (before fees.)

The fund's net return was above its Reference Index' gross return for the three months, due to strong real asset gains and a rebound in performance within the large International Shares allocation during the market rotation as investors positioned for lower interest rates.

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 staged a "relief rally," generating strong gains in equities, especially in the US which reached new highs in the immediate aftermath of the Republican victories in the November 5th elections.

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 mid-October, Global equities' weighting was lowered by 2% to a -1% marginal underweight, at 34% of the Fund.

That is appropriate, as while economies are slowing in late-2024, fears of recession, as well as of aggressive interest rate easings, have been proven to be premature. Domestic assets make up 22.5% of the Fund, reflecting our preference for International Assets (77.5% of Growth Fund assets.) NZ shares' allocation have been raised by 2% in October but remain underweight relative to the Strategic Asset Allocation level.

The largest individual positive contribution came from the Sustainable Global Shares fund which added 1.32%, while the Salt Core NZ Shares fund contributed 0.34% for the month. The Carbon Fund added 0.07%.

Higher bond interest rates led to a performance drag from yield-sensitive asset types. Salt Sustainable Global Infrastructure fund made a -0.11% negative monthly contribution. The Salt Sustainable Global Property fund detracted by -0.46% for the month, and the Sustainable Global Fixed Income fund contributed -0.14% in October.

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 has 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 gap has narrowed in the three months to October, with a small gross outperformance logged, but Global Shares' returns remain below benchmark on a year-to-date basis, reflecting uneven outcomes for Quality compounders and crowding in AI-themed momentum stocks.

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 abates.

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.

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 has been 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 October rate cut of -50bps suggests. 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 began falling, listed Real Assets recovered sharply. We expect the Real Asset rebound to retain some momentum into 2025, 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 higher sovereign yields.

With higher 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 at present.

Deteriorating global geopolitics affecting prices and trade flows are a significant risk to markets, though specific shocks are unpredictable, and a beneficial environment could resume in early 2025. By early next year, 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 scope for instability which argues for caution.