Salt Sustainable Growth Fund Fact Sheet – November 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 30 November 2024

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$70.56 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 30 November 2024

Application	1.1549
Redemption	1.1502

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	17.10	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 30 November 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 30 November 2024

Period	Fund Return (before tax and fees)	Gross Reference Portfolio Return*
1 month	2.78%	3.46%
3 months	5.07%	5.68%
6 months	12.83%	11.48%
1 year	20.76%	21.29%
2 years p.a.	12.76%	12.37%
3 years p.a.	6.24%	6.06%
Since inception p.a.	6.02%	5.80%

Performance is before fees and PIE tax and is adjusted for imputation credits. Reference Portfolio return is also gross. * at 30 November.

Top Individual Holdings as at 30 November 2024

Fisher & Paykel Healthcare	VISA
US 5Yr Note (CBT) Mar 25	Auckland Intl. Airport
Infratil	Carbon Fund
Microsoft	AON
SAP	Procter and Gamble

Holdings stated as at 30.11.2024.

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Market Commentary

- Markets were dominated in November by the Republican clean sweep of US elections. This had markets contemplating a more expansionary US fiscal policy and a more nationalist trade policy. US equities gained +6.3%, contributing to a 4.6% rise in developed market equities.

- Bond markets were less enamoured with the potential inflationary implications, with the global aggregate bond index returning +0.3%.

- Solid economic data also contributed to positive equity markets, feeding the theme of US exceptionalism. The Fed cut by 25bp, citing further progress on disinflation.

- In Europe, the ECB is contending with weak economic fundamentals, while inflation is proving resilient. Political uncertainty in Garmany and France also impacted markets.

- In Japan, expectations of another interest rate hike are building, with a further 25bp increase possible before Christmas although a January hike is more likely.

- In China, highly anticipated fiscal stimulus disappointed the market. While a debt swap arrangement for local governments was welcome, a lack of meaningful stimulus aimed at boosting consumption was well short of expectations.

- The RBA maintained its hawkish bias in November, stating it needs to remain vigilant to upside risks to inflation. The tight labour market saw the unemployment rate remain at 4.1%.

- In NZ, weak labour market data saw the unemployment rate rise to 4.8%, with a decline in the participation rate preventing a sharper rise. Activity data remained weak, though increasing signs of a bottoming out of recent declines are starting to emerge. The RBNZ cut the OCR by 50bp to 4.25%.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose by 2.78% (before fees) in November, building on the fund's gain in May-October months. The fund gained 2.78% (before fees) for three-month period. For the six-month period, the Growth Fund gained 12.83% and for the year, 20.76% with the two-year annualised return at 12.76% 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 real asset gains (particularly in Infrastructure) and outperformance within these asset types 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 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%. Global equities' weighting was lowered commensurately to 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 have been raised by 2% in October but remain -5% underweight relative to the Strategic Asset Allocation level.

The largest individual positive contribution In November came from the Sustainable Global Shares fund which added 1.18%, while the Salt Core NZ Shares fund contributed 0.60% for the month. The Carbon Fund added 0.09%.

Volatile bond interest rates led to the Sustainable Global Fixed Income fund contributing just 0.12% in November given a performance drag from yield-sensitive asset types. Salt Sustainable Global Infrastructure fund made a +0.37% negative monthly contribution. The Salt Sustainable Global Property fund detracted by -0.46% for the 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. 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 has been 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 .

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 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 of -50bps each 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 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 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, and we prefer to be slightly defensive to year-end.

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.