Salt Sustainable Growth Fund Fact Sheet – September 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 September 2024

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$66.47 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 30 September 2024

Application	1.1138
Redemption	1.1093

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 30 September 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 30 September 2024

Period	Fund Return (before tax and fees)	Gross Reference Portfolio Return*
1 month	1.14%	0.72%
3 months	7.63%	5.49%
6 months	6.59%	5.00%
1 year	20.61%	18.64%
2 years p.a.	13.53%	12.26%
3 years p.a.	5.32%	4.83%
Since inception p.a.	5.03%	4.45%

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

Top Individual Holdings as at 30 September 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 30.09.2024.

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Market Commentary

- The September quarter was a good one for diversified investors with solid returns across most major asset classes. However, it was not a smooth ride with several bouts of volatility along the way. A weak labour market report out of the US combined with an interest rate hike by the Bank of Japan saw stocks hit hard in August. That was soon followed by the long-awaited start of the US rate cutting cycle, a less hawkish tone from the BoJ and a super-sized stimulus package in China that all helped sentiment and paved the way for a strong rally in stocks by quarter end.
- Developed market equities rose 6.4% over the quarter, while the global aggregate bond index rose 7.0%. Interest rate sensitive asset classes did particularly well with global REITs up 16.2%. All percentages are in USD terms.
- The US Federal Reserve began its easing cycle with a 50bp cut at its September meeting. While a cut had been well-telegraphed, the quantum was a surprise. Various FOMC member comments had increasingly focussed on the softening labour market, though markets weren't of the opinion that the deterioration had been sufficiently significant to warrant a super-size cut. While 25bp cuts appear likely from here, the Fed has demonstrated a willingness to be more aggressive if needed.
- The European Central Bank has been taking a "cut at every other meeting" approach, cutting in June and September while skipping August. Ongoing disinflation and recent weak activity data could see them stepping up to cuts at every meeting from October. The Bank of England has taken a similarly cautious approach by cutting in July but skipping September on the back of persistent strength in wage growth.
- In Japan a rate hike by the BoJ along with hawkish guidance from Governor Ueda led to a sharp appreciation in the Yen and a sudden unwinding of "carry trades" that rely on cheap Japanese borrowing costs. Stocks fell sharply, though pared those losses as Ueda struck a less hawkish tone later in the quarter.
- The Chinese authorities announced a raft of easing measures in September. None of them were significant in themselves, but the fact they were all announced together as a package was welcomed as a sign the authorities were taking China's challenges more seriously.
- The Reserve Bank of Australia continues to take a hawkish tone in its Statements. While some progress has been made in the disinflation process, it has been too slow and of insufficient magnitude. The labour market is the key concerned where renewed demand for labour has stalled the opening up of spare capacity.
- In New Zealand, data continued to point to the dire state of the economy. June quarter GDP growth came in at -0.2% q/q which was better than expected but underlined the ongoing weakness in activity. The unemployment rate rose to 4.6%, also in the June quarter, and is expected to head sharply higher over the next few months. The RBNZ cut the Official Cash Rate by 25bp to 5.25% in August and signalled further cuts to come in the months ahead.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose by 1.14% (before fees) in September, building on the fund's gain in May-August months. The fund gained 7.63% (before fees) for third quarter. For the six-month period, the Growth Fund gained 6.59% and for the year, 20.61% with the two-year annualised return rising to 13.53% 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.

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 distinct, easing bias. 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 ahead. 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 which reached new highs.

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 being lowered to a -1% underweight in October, given US / geopolitical risks.

That is appropriate, as while economies are slowing in late-2024, 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 Sustainable Growth fund components were positive contributors to the Sustainable Growth fund's performance for the September (Third) quarter, with equities making the stronger contributions overall.

The largest individual contribution in the quarter came from the Sustainable Global Property fund which added 1.99%, while the Global Infrastructure fund made a 1.54% contribution. Smaller positive portfolio returns were provided by the Salt Sustainable Global Shares fund, at 1.64%, the Salt Core NZ Shares fund, at 1.15%, while the Sustainable Global Fixed Income fund contributed 0.51% and the Carbon Fund, 0.23%.

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 international equity fund logged strong absolute returns in early 2024, although it lagged its benchmark, for reasons described earlier, which related to the dominance of large IT-related companies in global equity returns in recent months. This has resolved in the third quarter period.

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 through late 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. 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 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 prior restrictive stance, which is only now meaningfully easing, and by still fairly elevated lending interest rates prevailing, weakening both activity and earnings. This should shift if the RBNZ is now moving into less restrictive policy settings, as the October rate cut of 50bps suggests.

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 have recovered sharply. We expect the Real Asset rebound to retain some 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.

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, implemented for fourth quarter, by instituting a -1% underweight.

This reflects a more elevated risk scenario which may affect international equities in the period leading into the US election in November. Deteriorating global geopolitics affecting prices and trade flows is also a significant risk to markets, though specific shocks are unpredictable and a beneficial environment could resume in early 2025.