Salt Sustainable Income Fund Fact Sheet – January 2025

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 gross fixed quarterly income (after fees and expenses but before tax) in excess of bank deposit rates, along with a positive return on capital on a rolling three-year basis. Deposit rates are proxied by the NZ Bank Bill Index.

A Reference Portfolio is provided, medium-term outperformance of which is a secondary objective, consisting of the weighted sum of components.

The Fund targets a diversified mix of growth and defensive assets, with a focus on securities with Environmental, Social and Governance features & reliable income generation. The Fund's strategy is to invest in a quality asset mix to provide regular, sustainable income and a positive return on capital. The value of the fund will fluctuate in line with listed market developments, but the primary focus is enhanced income and thus, shorter-term variability is an expected feature. Income is prioritized above capital gain 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 January 2025

Benchmark	Bank deposit rates (BNZBIL Index)
Reference portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$47.68 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Prospective distribution yield (cents per unit) / based on Unit Price of 03.02.25	1.125 cents per unit per Quarter / 5.04% per annum

Unit Price at 31 January 2025

Application	0.8979
Redemption	0.8943

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	19.82	21.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 31.12.24. 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	35%	0% – 60%
Australasian Shares	30%	15% – 45%
Global Listed Property	15%	0% – 35%
Global Listed Infrastructure	15%	0% – 35%
Cash or cash equivalents	5%	0% – 20%

See "Salt Statement of Investment Policy and Objectives, 30 June 2022"

Fund Allocation at 31 January 2025

Global Fixed Interest	35.0%
Australasian Shares	30.0%
Global Listed Property	17.0%
Global Listed Infrastructure	17.0%
Cash or cash equivalents	1.0%
Asset allocation to Fixed Interest + Cash	**36.0%**

Fund Performance 31 January 2025

Period	Fund Return (before fees and tax)	Gross Reference Portfolio Return*
1 month	0.40%	0.22%
3 months	0.70%	0.60%
6 months	4.29%	2.73%
1 year	10.01%	8.37%
2 years p.a.	6.61%	4.56%
3 years p.a.	3.07%	1.59%
Since inception p.a.	2.76%	1.54%

Performance is before fees and tax, adjusted for imputation credits. * at 31 Jan.

Top Individual Holdings as at 31 January 2025

Fisher & Paykel Healthcare	Precinct Properties NZ
US 5Yr Note (CBT) Mar25	US 10Yr Ultra Fut Mar25
Infratil	Contact Energy
Goodman Property Trust	Kiwi Property Group
Auckland International Airport	FNCL CB9239 5.500 09/01/54

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Market Commentary

- It was a strong start to 2025 for developed market equities with a rise of 3.6% (in USD), led by Europe. Bond yields were volatile over the month with the global aggregate index eking out a +0.6% return (in USD) on tighter credit spreads.
- The return of Donald Trump to the White House and his “America First” agenda was positive for US equities, but the policy detail of tax cuts, immigration curbs and tariffs fuelled expectations of higher US inflation in the period ahead, pushing up sovereign yields.
- The emergence of the Chinese artificial intelligence company Deepseek challenged the already stretched valuations of the US technology sector. Market concentration in the US tech sector is at record levels and is vulnerable to disruption or earnings disappointment.
- Europe’s equity market outperformance over the month was aided by better economic data with the composite Purchasing Managers’ Index (PMI) nudging into positive territory at 50.2 in January. The market was also helped by its lower exposure to technology. The European Central Bank cut the deposit rate 25bp to 2.75% at the end of the month.
- The Bank of Japan raised interest rates by 25bp to 0.5% at its January meeting. This reflects the Bank’s growing confidence of sustained increases in wages and core inflation. Further interest rate increases appear likely.
- China saw more positive economic news over the month, suggesting past stimulus measures are having an impact. We also attribute some of the better manufacturing data to the front loading of exports to the US ahead of tariffs being imposed, which may not be sustained. Indications are that tariffs on China may be less aggressive than suggested prior to the US election.
- In Australia, better than expected inflation data has opened the door to first interest rate cut by the Reserve Bank of Australia in February. The interest rate cutting cycle appears likely to be short and shallow, especially given the ongoing tightness in the labour market.
- Activity data was mixed in New Zealand over the month, but on balance supportive of a bottoming out of the recent sharp decline in aggregate activity. Developments have been broadly in line with RBNZ projections, thereby providing nothing to dissuade the Bank from proceeding with the already flagged 50bp cut in the Official Cash Rate at its next meeting in February.

Salt Sustainable Income Fund Commentary

The Sustainable Income Fund gained modestly in January month, with a return of +0.4% (before fees / tax) in the month, which lifted its three-month gain to +0.7% and its one-year return to 10.0% (before fees / tax.) The fund gross return is ahead of its Reference Portfolio for all periods.

Most Sustainable Income Fund components made positive returns contributions in January. The Salt Enhanced Property Fund and the Salt Sustainable Global Fixed Income Opportunities Fund each contributed 0.26% for the month, while the Global Property Fund added 0.06% and the Global Infrastructure Fund, 0.03%.

The sole positive negative contributor in January month and quarter was the NZ domestic equities holding, which detracted by -0.29%. Continued weaknesses in the NZ economy and sticky bond yields were a challenge.

Markets continue to focus on inflation risks affecting central bank interest rate reductions. Data impacting central banks’ easing timing has influenced the listed Real Asset and Bond returns within the portfolio. However, a pronounced easing path from the RBNZ can assist NZ equity assets and allow additional catch-up with global asset returns. Diversification of income sources remains very effective, as not all asset yields are equally defensible.

If inflation progressively confirms a definitive down-shift, we expect component asset classes to improve further, as global central banks advance their interest rate easings. Volatility across markets is ever-present with sentiment somewhat hostage to US political dynamics. We expect value gains in interest-rate sensitive assets to continue through 2025. However, this will continue to be a tentative and at times interrupted process, given that US inflation dynamics have ceased improving recently.

Salt Sustainable Income Fund outlook

Central bank rate cuts are continuing to broaden this year, with the Federal Reserve expected to deliver just one more rate cut at most, but others signalling more reductions. We believe bond yields adjusted sufficiently (via a volatile and uncertain route in the last 24 months) for us to have instituted a neutral bond positioning within the Sustainable Income Fund. We consider inflation risk now poses a reduced danger to the capital valuations of bond portfolios. The allocation to bonds is now at the neutral 35% SAA weight. Due to fiscal risks, particularly surrounding the policies of the incoming Trump administration, we would move overweight only incrementally. Recent economic data in the US is less dovish for inflation.

The NZ economy is still straining under mild recessionary forces. The Reserve Bank of New Zealand is now advancing the domestic easing cycle, which is well underway, giving scope for improved NZ returns, and the latest RBNZ Official Cash Rate Review confirmed the policy rate reduction path ahead. The next RBNZ meeting is taking place on 19 February, and should likely see a -0.5% OCR cut.

Diversified Income Funds containing an allocation to domestic equities generally experienced limited capital value gains in the first part of 2024, but that reversed positively in the second half year. Income yields remain attractive by historical standards and Term Deposit rates are falling fast.

We anticipate the longer-term capital growth strategies within the Sustainable Income Fund will boost performance, as inflation and domestic growth conditions are improving. However, there is still a recessionary period to traverse en route to that outcome in New Zealand. Hence, the sourcing of Fund income from a globally-diversified set of stable yielding securities.

When economies respond to a degree of stimulus with asset revaluations, we expect more beneficial capital growth impacts to flow through. This positive portfolio role will likely be a key feature of total returns into 2025.

As the primary objective of the Salt Sustainable Income Fund is to invest in quality sustainable yield payers, minimizing short-term capital price fluctuation is secondary. Market volatility allows us to acquire high quality and defensible dividend-paying assets for the Fund at better prices.

Distribution of 1.125 cents per unit / quarter retained

Higher component asset yields enabled us to retain the quarterly cents-per-unit distribution from the fund, at 1.125 cpu, for the latest quarterly distribution which was paid out / reinvested in February.

The silver lining in the bond market's repricing is that the yield received from bond investments shifted into a higher range and that supports the Sustainable Income Fund's forward distribution path. This is characteristic of a transition into a mid-level interest rate regime which may endure for years, rather than months, ahead.

Internationally, major central banks are now communicating the phase of interest rate adjustments, sufficient to anchor inflation expectations, has been successful. Recently, the balance of evidence has been on the better side globally, particularly suggesting that the US Federal Reserve is well on track to deliver an economic "soft landing," though activity is still a touch warmer than the Fed governors would probably desire to see. Rate reductions now could progress incrementally, after a pause, in later 2025.

While the data-driven market volatility at times requires fortitude from investors, the objective of securing an inflation-resilient income level means that equity market fluctuations and corrections over short periods are inevitable. Over the medium-term, moderate capital gains in addition to income advantages are expected, and the Sustainable Income Fund is positioned to harvest them.

It is crucial to note that the Income level from equity dividends and bond coupons received into the fund has been commensurately stable through periods of market turbulence. This trend exemplifies the incremental return of some "risk premia" into certain asset classes, which had previously been unappetizing compared with risk-free assets. However, global credit spreads are now very narrow, limiting potential revaluation upside from both Investment Grade and lower rated bonds.

The fund's modelled income received from coupons and dividends is still aligned with its prospective distribution yield. We regard this as prudent, in a still-uncertain environment.

The Real Asset components of Infrastructure and Property are well-suited to the immediate period ahead, as central bank policy rates progressively stablise at lower levels. Defensive merit should continue to be asserted in coming months through renewed demand for these specific "Real Asset" equity types, along with the sustainable dividend-payers in the broader Australasian market.

Finally, the lowering of the NZ Official Cash Rate has substantially reduced the Term Deposit rates being offered by domestic banks, and we anticipate the downtrend in the indicative benchmark of the NZ Bank Bill rate and the 6-month Term Deposit rates to persist throughout 2025.

6-month TD rates are now converging on 4.7% but seeing rates move into the lower 4's in the first half of 2025 is entirely foreseeable.