Salt Sustainable Income 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 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 December 2024

Benchmark	Bank deposit rates (BNZBIL Index)
Reference portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$47.49 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Prospective distribution yield (cents per unit) / based on Unit Price of 03.01.25	1.125 cents per unit per Quarter / 5.03% per annum

Unit Price at 31 December 2024

Application	0.8951
Redemption	0.8914

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	19.50	21.00

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	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 December 2024

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 December 2024

Period	Fund Return (before fees and tax)	Gross Reference Portfolio Return*
1 month	-1.33%	-1.91%
3 months	0.60%	-0.35%
6 months	8.49%	6.91%
1 year	9.46%	7.55%
2 years p.a.	7.88%	6.28%
3 years p.a.	1.37%	0.00%
Since inception p.a.	2.71%	1.51%

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

Top Individual Holdings as at 31 December 2024

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

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

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 Income Fund Commentary

The Sustainable Income Fund declined in December month, with a return of -1.33% (before fees / tax) in the month, which lowered its three-month gain to +0.60% and its one-year return to 9.46% (before fees / tax.)

The sole positive portfolio contributor in December month and quarter was the NZ domestic equities holding. Markets continue to focus on inflation risks affecting central bank interest rate reductions. Data affecting 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.

If inflation progressively confirms a definitive down-shift, we expect component asset classes to improve further, as more 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 an often-interrupted process.

December saw NZ domestic equities recording further positive returns, The NZ Dividend Appreciation Fund was the strongest component in December, contributing +0.11%. The Enhanced Property Fund by contrast detracted -0.27%. The Salt Sustainable Global Infrastructure Fund detracted -0.92% and the Sustainable Global Property Fund -0.25%. The Global Fixed Interest Opportunities Fund made a small negative monthly contribution of -0.13% as bond interest rates remain volatile in the USA.

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 around mid-year but others signalling more. 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 was "on hold" until August with the Official Cash Rate, so domestic yields and discount rates were until recently fairly elevated. Now that the domestic easing cycle is well underway, there is 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 may 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 has now improved. Income yields remain attractive by historical standards.

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 yielding securities.

The phase of meaningful interest rate reductions from central banks is however well underway, and when economies respond with asset revaluations, we expect more beneficial capital growth impacts. 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 November.

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 should progress incrementally, depending on data, in 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 above 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 fall. 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 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.