Salt Sustainable Growth 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 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 January 2025

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$71.49 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 January 2025

Application	1.1645
Redemption	1.1598

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	16.92	25.00

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	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 January 2025

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 January 2025

Period	Fund Return (before tax and fees)	Gross Reference Portfolio Return*
1 month	1.86%	0.98%
3 months	3.88%	4.29%
6 months	7.23%	6.72%
1 year	16.93%	16.83%
2 years p.a.	12.82%	12.31%
3 years p.a.	6.55%	6.62%
Since inception p.a.	6.04%	5.74%

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

Top Individual Holdings as at 31 January 2025

Fisher & Paykel Healthcare	Auckland Intl. Airport
Infratil	US 5Yr Note (CBT) Mar 25
SAP	Contact Energy
Microsoft	L'Oreal
Visa	Aon

Holdings stated as at 31.01 2025.

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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 Growth Fund Commentary

The Sustainable Growth Fund rose by 1.86% (before fees) in January, more than recovering the fund's decline in December month. The fund rose 3.88% (before fees) for three-month period. For the six-month period, the Growth Fund gained 7.23% and for the year, 16.93% with the two-year annualised return at 12.82% p.a. (before fees.)

The fund's gross return was above its Reference Index' gross return for the month, due mainly to stock selection in global equities, while outperformance in real assets and NZ equities aided the fund to match or outperform its reference index over six months and longer periods.

Internationally, major central banks are communicating to investors that they remain on defined policy easing paths, although these will not be automatic as inflation risks remain. 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 the Reserve Bank of Australia is expected to. 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 more recently revised and reduced the scale of likely easings in the US, which has kept the headline US equity indices stable around record highs over the last month. The ebullience in the aftermath of the Republican victories in the November 5th elections has not persisted.

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 kept at 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 remain -5% underweight relative to the Strategic Asset Allocation level. Overweight positions in global property and infrastructure were retained, for superior value and quality cashflows.

The largest individual positive contribution in January month came from the Sustainable Global Shares fund which added 1.62%, while the Salt Sustainable Global Property fund contributed 0.24% for the month. The Carbon Fund detracted -0.02%. Global bonds contributed 0.12%, and global infrastructure, 0.02%. NZ Shares detracted -0.24% in January.

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 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 was 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 lead to a benchmark index lag . In the last month, there has been less unbounded enthusiasm for "all things Trump-themed" and the actual corporate earnings results for Q4 2024 have begun to be reported, leading to a wait-and-see mindset from fundamentals-focussed investors.

A set of positive outcomes for some key holdings in the Sustainable Global Shares Fund assisted the fund to achieve significant gains compared to its benchmark in January month (+214bps) which has closed up the benchmark lag for the 3-month period into a small lead.

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 stabilises.

It is still 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, but policy moves so far in the post-inauguration period are informative.

The initial investor reaction was 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, particularly if more and higher 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 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 to NZ Equities 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 Q4 24 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 again moving toward less restrictive policy settings, as the upcoming OCR rate cut suggests. However, it will take time for the impact on the domestic economy to be fully felt.

Sustainable Global Infrastructure and Sustainable Global Property are also sizeable Growth Fund components. As long duration bond interest rates around the world reversed their Q3 declines, listed Real Assets gave back some of 2024's solid performance. We expect the Real Asset rebound to regain momentum into 2025-2026, 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 currently higher sovereign yields.

With elevated geopolitical risk 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 Q4 24. Market euphoria is concerningly elevated, and we prefer to be slightly defensive until greater clarity on economic policy and the future interest rate track emerge in the US.

Presently we see continuing scope for instability which still argues for a degree of caution, given rich market valuations.