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Salt Sustainable Growth Fund Fact Sheet – January 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 31 January 2024

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$58.21 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 January 2024

Application	1.0099
Redemption	1.0058

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	17.27	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 31.01.24. 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 2024

Global Fixed Interest	14%
Australasian Shares	18%
International Shares	38%
Global Listed Property	15%
Global Listed Infrastructure	12%
Alternative Diversifiers	2%
Cash or cash equivalents	1%
Asset allocation to Fixed Interest + Cash	**15%**

Fund Performance to 31 January 2024

Period	Fund Return (before fees)	Gross Reference Portfolio Return
1 month	1.29%	1.14%
3 months	9.28%	9.30%
6 months	2.95%	2.77%
1 year	7.39%	8.14%
2 years p.a.	0.36%	1.94%
Since inception p.a.	0.40%	1.17%

Performance is before fees and PIE tax and is adjusted for imputation credits. Reference Portfolio return is also gross. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.

Top Individual Holdings at 31 January 2024

Fisher & Paykel Healthcare	Carbon Fund
Microsoft	Intercontinental Exchange
SAP	Infratil
Visa	US 5Yr Note (CBT)
Accenture	Auckland International Airport

Holdings stated as at 31.01.2024.

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Market Commentary

- After a strong December month, markets were more circumspect in the New Year. Strong activity data, particularly in the US, was received favourably by equity markets, but that came with push-back from central banks of early expectations of rate cuts, which wasn't viewed favourably by fixed income markets. Developed market equities rose 1.2% (in USD) over the month while the global aggregate bond index was down by -1.4% (also in USD).
- In the US, data was more in line with a "no landing" than a "soft landing" scenario. The first estimate of December 2023 GDP data was exceptionally strong (+3.3%, q/q annualised), as was the December labour market report (unemployment rate unchanged at 3.7%). The euphoria was tempered somewhat later in the month by a hawkish tone to the Fed's January statement.
- The European Central Bank left interest rates unchanged in January and reiterated they would remain data dependent. That was followed by the composite purchasing managers index (PMI) rising to 47.9 in January. That's its highest level in three months, but still well below the benchmark 50 that separates expansion from contraction.
- In Japan, the TOPIX was the best performing major equity market over the month. This was helped by the Bank of Japan leaving monetary policy unchanged amid speculation (including ours) that we would soon see an end to their Negative Interest Rate Policy (NIRP) and Yield Curve Control (YCC). That now appears more likely in April.
- In China, December 2023 quarter GDP growth came in at 5.2% y/y, broadly in line with expectations but soft relative to history. Partial activity data also remained weak. The PBoC continued to add stimulus over the month, but this remains largely reactive and somewhat timid. We expect a fiscal package to support consumption in the next few months.
- In Australia, December 2023 quarter inflation came in below expectations at both the headline and core (trimmed mean) level. This followed weaker-than-expected retail sales and employment data. This combination of news means the RBA is more-than-likely done with interest rate hikes and will adopt a neutral bias at its February meeting.
- In New Zealand, December 2023 quarter inflation data also came in below expectations, but in a somewhat unbalanced fashion. All the downside surprise came in tradeable goods (imported inflation), while non-tradeable (domestic inflation) came in stronger than expected. This prompted a warning to markets from the RBNZ's Chief Economist, that while progress was being made in the disinflation journey, there was still a long way to go, effectively pushing back on early rate cut expectations. We don't expect a first OCR cut until November.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose 1.29% (before fees) in January, and by 9.28% for the three months. The fund's net return was above its Reference gross return for the month by 15bps (before fees.)

Over the 6 months to January, the 2.95% fund return leads the Gross Reference index return by 0.18%. Over 12 months, however, the fund return lags its Reference Index by 0.75%, on an after-fees basis. The Fund is behind the Reference index's gross return, due to soft Property returns early last year, and a lag within global equities which developed as the "Magnificent 7" Information Technology stocks starkly outperformed the broader market. While the Fund has selected exposures, it does not invest in all seven US mega cap tech, companies and can lag at times when this segment is as dominant.

Internationally, major central banks are communicating to investors that they have now carried through sufficient interest rate increases, to anchor inflation expectations. Many have signalled a "pause" in monetary policy adjustment, to determine whether its impact on inflation will last. Caution and volatility have diminished. At times, there have been phases of strong market optimism about a pause in the interest rate tightening cycle evolving quickly into a moderate easing cycle and a benign outcome for the underlying economies affected. Since November markets have staged a "relief rally," generating strong gains in equities, especially in the US.

Fixed interest value increased with higher bond yields prevailing, and the time to buy additional, selective bond exposure within the fund arrived. The Global Bond asset class will remain slightly underweight (by just 1%, for now) relative to the Reference Portfolios neutral weighting, at a 14% allocation. This leaves "Growth" asset types in the fund at a dynamic allocation of 85%. That is appropriate, as economies are expected to slow in mid-2024, but fears of widespread recessions, as well as of aggressive interest rate easings, are premature.

The main positive individual contributions to the Sustainable Growth fund's performance for January month came from the Sustainable Global Shares fund which added +1.84% for the month. The Salt Core NZ Shares fund was the second-strongest monthly contributor at +0.19% After performing strongly late in 2023 as interest rates dropped, January's reversal in global bond yields upwards constrained the Real Asset funds last month. The Sustainable Global Property fund detracted -0.51% in January, while the Sustainable Global Infrastructure fund impacted by -0.26% on last month's fund return.

The diversifying Carbon Fund is still subject to uncertainties in the global and NZ carbon emissions regulatory environment, and contributed just 0.01% last month, while the Sustainable Global Fixed Income Opportunities fund had small positive portfolio impact of 0.03%.

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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 fund, whilst logging strong absolute returns in 2023, lagged its benchmark its benchmark last year, returning +22.4% (Gross) as compared to +23.6% from the MSCI World Index in NZD through to 31 December. A substantial cause for the lag has been the extraordinary proportion of the US' share market's recent return that derived from the so-called "Magnificent 7" mega cap technology-linked corporations: Apple, Amazon, Alphabet, Meta, Microsoft, NVIDIA, and Tesla, which together now account for 28% of the S&P 500 Index.

In January, the performance of the Sustainable Global Shares fund broke into outperformance, however, logging a gross monthly gain of 5.08% as compared to 4.09% from the benchmark. This has lifted the Global Shares fund component to 0.8% ahead of benchmark for the 12 month period, and has strongly contributed to the Sustainable Growth fund's moving ahead of its own Reference Index over the last 6 months.

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 will give them comparative resilience to changes in the global economic cycle, including inflation and interest rates for an extended period, as the global economy slows progressively through 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.

As a result, we lowered the weighting to this NZ equity fund within our Sustainable Growth portfolio in 2023, and the asset allocation currently is set at 18% compared to its 25% neutral strategic weighting. An underweight portfolio exposure to NZ equities within the Growth Fund is seen as appropriate, as parts of the NZ economy and listed equities are being impacted by the Reserve Bank's still-hawkish stance, and by negative sentiment given risks of elevated lending interest rates across the board.

The NZ economy is not yet generating earnings gains in most equity sectors and high, if volatile, interest rates raise the appeal of term deposits and cramp the scope for NZ equity returns.

Sustainable Global Infrastructure and Sustainable Global Property are also sizeable Growth Fund components. As long duration bond interest rates around the world spiked, and then began falling rapidly from November, listed Real Assets recovered sharply from weaker performance accrued earlier in 2023. We expect the rebound to continue in 2024, as some valuations in these sectors are attractive. However, this will come in fits and starts, as interest rates remain very volatile, and easing is not imminent.

While still holding below-neutral portfolio allocations to Fixed Interest plus Cash, we are moving the weight upward progressively in those portfolio components, as the interest rate environment has improved (from an expected returns perspective) and negative repricing risk is much lower for bond markets than was the case previously.

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