Salt Sustainable Growth Fund Fact Sheet – March 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 March 2025

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$70.54 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 March 2025

Application	1.1410
Redemption	1.1364

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	16.74	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 28.02.25. 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 March 2025

Global Fixed Interest	16%
Australasian Shares	22.5%
International Shares	33%
Global Listed Property	15%
Global Listed Infrastructure	10%
Alternative Diversifiers	1.5%
Cash or cash equivalents	2%
Asset allocation to Fixed Interest + Cash	**18%**

Fund Performance 31 March 2025

Period	Fund Return (before tax and fees)	Gross Reference Portfolio Return*
1 month	-2.02%	-2.70%
3 months	0.05%	-1.87%
6 months	3.14%	2.78%
1 year	9.94%	7.92%
2 years p.a.	11.73%	10.44%
3 years p.a.	6.54%	5.97%
Since inception p.a.	5.22%	4.62%

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

Top Individual Holdings as at 31 March 2025

Fisher & Paykel Healthcare	SAP
Infratil	Microsoft
Auckland Intl. Airport	Welltower
US 5Yr Note (CBT) Jun 25	Contact Energy
VISA	Aon

Holdings stated as at 31.03 2025.

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Market Commentary

- As we entered 2025, US markets were upbeat about the prospects of the new Trump administration's ability to offset growing global growth challenges by implementing a range of "America First" polices that would build on and extend the theme of US exceptionalism. The reality has been quite different.
- Heightened uncertainty stemming from the erratic on-again-off-again nature of the President's tariff announcements has seen a dramatic deterioration in "soft" data such as business and consumer confidence, along with a sharp rise in consumer inflation expectations. Markets are concerned this will soon impact the "hard" data, realising fears of a stagflation-like environment. Furthermore, the President's antagonism towards Europe has elicited a strong fiscal response, particularly from Germany, that has added to fiscal sustainability concerns and stubborn inflation.
- In this environment developed market equities ended the quarter -2.9% lower (in NZD terms), while the NZD-hedged global aggregate bond index rose +1.1%. The stronger bond market performance appears to reflect an expectation that central banks will be able to respond to lower growth. That expectation could yet be challenged by stubborn inflation.
- It is therefore unsurprising that the US Federal Reserve left interest rates unchanged at its March meeting. The economic forecasts were given a tweak in a stagflationary direction, showing slower growth and more stubborn inflation. It is notable that nearly every participant now says risks to inflation are to the upside, risks to growth are to the downside, and risks to the unemployment rate are to the upside.
- President Trump's somewhat combative approach toward Europe has resulted in a dramatic, constitutional change to Germany's fiscal settings. Bund markets were surprised by proposals by Germany's likely incoming chancellor Friedrich Merz's proposals to ease off the legislated "debt brake" for defence spending, as well as a new €500bn infrastructure spending plan.
- Activity data in China continues to improve, though we think much of this improvement is due to manufacturing exporters front-running US tariffs.
- The Reserve Bank of Australia cut interest rates for the first time in February, reducing the cash rate 25bp to 4.1%. The accompanying Statement was hawkish, pushing back on expectations of more to come, at least automatically. The Federal Budget spent the recent tailwind revenue gains, cementing in structurally higher spending and persistent budget deficits. An election has been called for May 3rd.
- Economic data in New Zealand continues to point to a stabilisation in activity following the weak June and September quarters. The Reserve Bank of New Zealand cut the Official Cash Rate 50bps to 3.75% in February and signalled 2-3 more cuts at a more subdued 25bp per-meeting pace in the months ahead.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund declined by -2.02% (before fees) in March and was flat for three-month period, returning 0.05% (before fees). For the six-month period, the Growth Fund gained 3.14% and for the year, 9.94% with the two-year annualised return at 11.73% p.a. (before fees.)

The fund's gross return was above its Reference Index' gross return for all rolling periods. Recent outperformance is due mainly to stock selection in global bonds, infrastructure and equities, while outperformance by NZ equities has also aided the fund to outperform its reference index.

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 impact on consumer and producer prices from President Trump's tariff initiatives remains to be seen but will concern the Federal Reserve. The US central bank, the 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 finally did so in February (but paused in April.)

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. The ebullience in the aftermath of the Republican victories in the November 5th elections has not persisted, however, and the last two months have been characterised by rising investor concern about the direction of US policies emerging from the Trump Administration. In early April, that triggered a sharp equity market correction, and volatility will persist in the near-term.

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% underweight, at 34% of the Fund. We lowered the overweight to global infrastructure following its strong performance and also anticipate further lowering the Growth Fund's underweighting of New Zealand equities, but will pause implementation of adjustments until current global volatility is lower.

Domestic assets made up 25% of the Fund, reflecting our preference for International Assets (75% of Growth Fund assets.) NZ shares' allocation was increased to -2.5% underweight relative to the Strategic Asset Allocation level in March. An overweight position in global property was retained, for superior value and quality cashflows, as well as low exposure to international trade / tariff risks compared to other sectors.

The single positive contribution in March month came from the Sustainable Global Infrastructure fund which added 0.10% for the month and 0.41% for the Quarter. The Salt Sustainable Global Property fund subtracted -0.43% for the month but made a small positive contribution of 0.08% for the Quarter. The Sustainable Global Fixed Income Opportunities fund contributed -0.03% in March month but had a positive impact of +0.27% for the Quarter. Sustainable Global Shares subtracted -1.15% in March month, but added 0.46% for the March Quarter. NZ Shares detracted -0.57% in March month while the Carbon Fund had a neutral impact with a -0.08% contribution last month, subtracting -0.12% for the three-month period.

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 last year.

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 first three months of 2025, to 31 March, there has been less unbounded enthusiasm for "all things Trump-themed," leading to a more sceptical mindset from fundamentals-focused investors.

A set of positive outcomes for some key holdings in the Sustainable Global Shares Fund in the three months to March assisted the fund to achieve significant gains compared to its benchmark, which has closed the Fund's benchmark lag for the rolling 3-year period into a small lead of 0.23% p.a (gross.) The degree of outperformance in the International Equity component in Q1 2025 as a whole was strong, at over 4% in excess of benchmark.

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.

We remain very cautious on the effects the election of Donald Trump to the US Presidency, supported by a Republican Senate majority, and their capacity to negatively impact US economic prospects in the years ahead. Policy moves so far in the post-inauguration period are informative. It is fair to say that the coherence level is deteriorating, and markets are perplexed at the poor level of economic understanding shown by key Administration officials.

The initial investor reaction to Trump's inauguration in January 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 much higher international tensions are now weighting on investor sentiment. Conditions are set to remain volatile and unpredictable and could deteriorate, particularly if more and higher import tariffs become reality after the "pause on reciprocal tariffs" expires, presumably in early July.

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 recently suppressed domestic economic conditions. Further Reserve Bank easing has improved domestic business confidence, and the equity market rallied until end-2024, but this is not (as yet) properly supported by significant improvement in the earnings outlook. As global equities have entered an uncertain phase since February, NZ shares are not immune to a negative sentiment shift from abroad. However, a reduction in our underweight has been warranted.

Our long-standing underweight portfolio exposure to NZ equities within the Growth Fund was trimmed during Q4 24 and again at the beginning of March 2025. Parts of the NZ economy and listed equities are being impacted by the legacy of the Reserve Bank's campaign on lowering inflation, which is now meaningfully easing. This headwind should progressively shift as the RBNZ is closing in on less restrictive policy settings, as the recent OCR rate cuts suggest. 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 some of their prior declines, listed Real Assets gave back some of 2024's solid performance. However, give n the disruptions to broad global equities under the Trumpian tariff regime, listed Real Assets have proved more resilient as Q1 2025 and April have progressed. 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.

We lowered the longstanding overweighting to Global Listed Infrastructure as the exposure has performed extremely well over the last year, with our specialised fund gaining 16.5% (gross) in 12 months. This level of return is less probable going forward, though we still support a substantial allocation to the sector within our diversified Growth portfolio. It is currently held at a 10% neutral allocation.

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 and a further -1% in Q1 2025. Market euphoria was 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 argues for a degree of caution, given rich market valuations and unpredictable political initiatives affecting the dominant US equity market.