Sustainable Growth Fund: asset allocation change notification

- **We note global equities have rallied significantly beyond expectations in 2024 YTD, to a level we consider to be too optimistic on H2 2024 corporate profits and growth. We reduce our overweight equity position.**
- **Global Fixed Interest assets are offering historically-advantageous yields, while credit risks are not expected to become a meaningful drag on returns. We have lifted our allocation to global bonds from a -1% underweight to a +1% overweight position, to reflect bonds' improved valuation and cyclical status.**

Dynamic Asset Allocation change – Salt Sustainable Growth Fund

Salt's Sustainable Growth Fund (SSGF) aims to deliver returns in excess of New Zealand CPI inflation on a rolling five-year basis. This is challenging while NZ inflation is running as high as presently; however, the 7.4% one-year gross return to 30 June 2024 indicates that as inflation continues to gently decline, the objective remains achievable.

After a nine-month period in which the yields on international bonds have fluctuated, reflecting market perceptions of the gradual fall in future inflation rates, and a less-restrictive global monetary policy orientation, we consider that prior upward risks to bond yields have now diminished considerably. Meantime, very strong returns from global equities markets have continued, and our successful overweighting in this component asset class can be scaled back from +3% to +1%, without compromising the Growth Fund's capacity to achieve its returns goals in future.

We adjusted our asset allocation accordingly in mid June, increasing the allocation to Global Fixed Income securities to a +1% overweight, whilst lowering the Fund's overall tactical bias to Global Equities, resulting in a +1% overweighting.

The dynamic allocation split between Growth: Income assets in the Fund shifts from a ratio of 85:15 to 83:17.

Adjustment to Asset Allocations implemented 18 June 2024

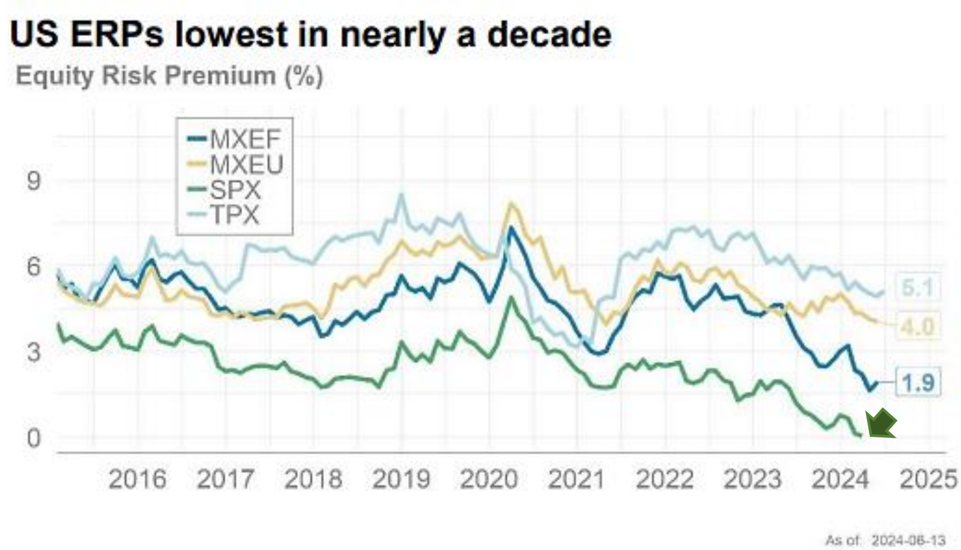
Sector	SAA Target	Range	New allocation	Change	DAA tilt
Global Fixed Interest	15%	0% – 60%	16%	+2%	o/weight
Global Shares	35%	20 % - 50%	36%	-2%	o/weight
Australasian Shares	25%	10% – 40%	18%	-	u/weight
Global / NZ Listed Property	10%	0% – 25%	15%	-	o/weight
Global Listed Infrastructure	10%	0% – 25%	12.5%	-	o/weight
Alternatives	0%	0% - 15%	1.5%		o/weight
Cash or cash equivalents	5%	0% – 30%	1.0%	-	u/weight

Source: Salt Funds Management

Dynamic Asset Allocation change rationale

- On a 12-month view, the expected total return from Global bonds (7-8%) is now superior to the prospective return from Global equities (5-6%). The expected 12-month return from US equities alone is now just 3%.
- As Global equities' expected volatility is in line with historical norms at 17%, while the volatility for Global bonds is anticipated to decline somewhat, to 5-7%, the prospective *risk-adjusted* return for Global bonds has improved, and is now significantly superior to that of Global equities.
- The US consumer confidence level has fallen, and spending / profit levels in several key countries are peaking. At the same time, the rally in US equities has become increasingly narrow and focussed on AI and microchips.
- As bond yields are close to 4.2% for the UST 10-year, having moved downwards by 0.4% since peaking in late-April (through yields remain higher by 0.3% in 2024 YTD,) we think this is a good opportunity to close out the Sustainable Growth Fund's longstanding underweight to International Fixed Interest, and move to a small overweight position (i.e. a 16% weighting within the Growth Fund, vs its 15% Neutral SAA weighting.)
- The additional International Fixed Income allocation required is funded by a reduction of -2% in the Global equities allocation, which falls from 38% to 36% within the Growth Fund (vs its 35% Neutral SAA weighting.)

Equity Risk Premium of Stocks over Sovereign Bonds in the US (in green) is now negligible



Source: Morgan Stanley Research; Note: Calculated as earnings yield - bond yield.

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