Salt Sustainable Growth Fund Fact Sheet – February 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 29 February 2024

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$59.45 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 29 February 2024

Application	1.0292
Redemption	1.0250

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	17.42	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 29.02.24. 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 29 February 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 29 February 2024

Period	Fund Return (before fees)	Gross Reference Portfolio Return
1 month	1.91%	1.61%
3 months	6.14%	6.35%
6 months	5.17%	5.54%
1 year	10.91%	10.44%
2 years p.a.	2.83%	3.92%
Since inception p.a.	1.21%	1.86%

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 29 February 2024

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

Holdings stated as at 29.02.2024.

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Market Commentary

- February was a good month for equity market returns, reflecting generally resilient economic data and solid earnings reports, especially in the United States. Developed market equities rose 4.3% over the month (in USD). It was not such a good month for fixed income markets as the stronger data saw an ongoing pullback in interest rate reduction expectations, both in terms of quantum and timing. The global aggregate index was down -1.3% (in USD) over the month.
- Economic data was strong in the US. The US composite Purchasing Managers Index (PMI) remained in expansion territory in February, and the economy added 353,000 jobs in January. The unemployment rate has now remained unchanged for 3-months at 3.7%. Stronger than expected outcomes for both the CPI and PPI led to expectations of a strong core PCE result after 3-months of more muted increases.
- In Europe, the composite PMI rose more than expected to 48.9 in February. That is still in contraction but suggests the worst of the downturn may be over. January inflation came in at 2.8%, still above the ECB's 2% target. Expectations for a first interest rate cut from the ECB next quarter have grown stronger recently, however, interest rate markets scaled back their bets on the magnitude of cuts this year after the PMI result.
- In Japan, the Topix saw another healthy rise of 4.9% over the month. That was despite a weaker-than-expected GDP print for the December quarter of -0.1%, placing the economy in a technical recession. It should be noted that the economy's reopening drove strong GDP growth in the first half of the year, so Japan's average annual growth for 2023 was strong both on a real basis (+1.9%) and on a nominal basis (+5.7%).
- The Chinese share market had a better month in February. Activity data over the Lunar New Year resulted in stronger economic activity while the authorities announced several stimulus measures, including a larger than expected cut to the 5-year loan prime rate. Speculation was also building through the month about the likelihood of some form of fiscal measures to be announced at the National People's Congress in early March.
- The Reserve Bank of Australia kept rates on hold in February and softened its tightening bias, but by less than expected. While risks are viewed as balanced, there is still concern about resilient inflation, especially services, which is contributing to cautious guidance. We think the RBA will be one of the last central banks to start cutting interest rates.
- In New Zealand, December quarter labour market was not as soft as expected. The unemployment rate rose from 3.9% to 4.0% over the quarter, but this was less than the 4.2% forecast by the RBNZ. This saw a significant change in market expectations of the next move in interest rates from a cut to further hikes. In the end, sense prevailed and the RBNZ left interest rates unchanged at the February Monetary Policy Statement. They also flagged less probability of future hikes.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose 1.91% (before fees) in February, and by 6.14% for the three months. The fund's net return was above its Reference Index' gross return for the month by 30bps (before fees.)

Over the 3 months to February, the 6.14% fund return lags the gross Reference index return by 0.2%. Over 12 months, the fund return of +10.91% (gross) is ahead of its Reference Index by 0.47%, on a pre-fees basis. Over longer periods, 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 (IT) stocks starkly outperformed the broader market. While the Fund has selected IT 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 selective bond exposure within the fund has been lifter in later 2023. 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 from mid-2024, but fears of widespread recessions, as well as of aggressive interest rate easings, have been proven to be premature.

The main positive individual contributions to the Sustainable Growth fund's performance for February month again came from the Sustainable Global Shares fund which added +1.87% for the month, supplementing the +1.84% contribution in January. The Salt Sustainable Global Infrastructure fund was the second-strongest monthly contributor at +0.24%. After performing strongly late in 2023 as interest rates dropped, unclear direction in global bond yields constrained real estate last month. The Sustainable Global Property fund added only 0.07% in February. Sustainable Global Fixed Income contributed 0.01%.

The diversifying Carbon Fund is still subject to uncertainties in the global and NZ carbon emissions regulatory environment, and detracted -0.08% last month, while Salt Core NZ Shares fund reflected the anaemic domestic economy and mixed company reports, with a negative monthly portfolio impact of -0.20%.

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 logged strong absolute returns in 2023, although it lagged 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 2024, 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. In February, resumed strength displayed by IT-sector mega caps led to a 0.3% monthly underperformance by the Global Shares fund. Nevertheless, the Global Shares fund component has moved to 2.9% ahead of its benchmark (gross) for the 12-month period to 29 February and has strongly contributed to the Sustainable Growth fund's moving ahead of its own Reference Index for the year.

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 began falling 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.