Salt Sustainable Growth Fund Fact Sheet – April 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 30 April 2025

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$69.12 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 30 April 2025

Application	1.1153
Redemption	1.1108

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	16.55	25.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 31.03.25. 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 30 April 2025

Global Fixed Interest	16.5%
Australasian Shares	23%
International Shares	33%
Global Listed Property	15%
Global Listed Infrastructure	10%
Alternative Diversifiers	1%
Cash or cash equivalents	1.5%
Asset allocation to Fixed Interest + Cash	**18%**

Fund Performance 30 April 2025

Period	Fund Return (before tax and fees)	Gross Reference Portfolio Return*
1 month	-2.15%	-1.84%
3 months	-3.89%	-4.61%
6 months	-0.16%	-0.52%
1 year	10.33%	8.16%
2 years p.a.	9.12%	8.40%
3 years p.a.	6.30%	6.07%
Since inception p.a.	4.57%	4.07%

Performance is before fees and PIE tax and is adjusted for imputation credits. Reference Portfolio return is also gross. * at 30 April.

Top Individual Holdings as at 30 April 2025

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

Holdings stated as at 30.04 2025.

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Market Commentary

- Markets were volatile in April as the implications of the evolving changes to the global trade environment impacted on share, bond and currency markets. The month started badly as President's Trump's Liberation Day tariffs surprised in both scale and scope. Share markets recovered later in the month as some measures were softened or delayed. Developed market equities ended the month up +0.9% (in USD terms) but were down -3.7% in NZD terms, with the US underperforming.
- Bond markets were similarly volatile as the yield on 10-year US Treasuries reached 4.6% in the immediate aftermath of Liberation Day, before recovering to 4.2% at the end of the month. The global aggregate bond index returned +0.9% (fully hedged to NZD) over the month. This was helped by a rally in Euro area bond yields over the month.
- US data over the month supported the case of an emerging slowdown in activity. The flash composite Purchasing Managers' Index (PMI) fell to 51.2, while the University of Michigan consumer sentiment index fell to levels not seen since the pandemic. Inflation data came in better than expected with markets pricing in up to 4 interest rate cuts from the Fed this year, which is too aggressive in our view.
- The Eurozone flash composite PMI came in at 50.1 in April. The manufacturing index was largely unchanged as the negative impact of tariffs was offset by expectations of easier fiscal policy. The European Central Bank cut the discount rate 25bp to 2.25%, with the statement noting the disinflationary process remained "well on track". The EU has not retaliated on tariffs, instead hoping to create conditions favourable to a constructive conversation with the US.
- In Japan, a rebound in the services sector saw the all-industry flash PMI rise to 51.1, however, the manufacturing index remained in contractionary territory. This reflects the heightened risks related to the expected negative impact of US tariffs on Japan's export-oriented companies.
- In the first part of the month, tit-for-tat retaliation saw US tariffs on Chinese goods increase to 145%. The US administration's apparent willingness to negotiate helped to ease tensions later in the month. A better-than-expected first quarter GDP print of 5.4% y/y also helped support a rebound in Chinese stocks.
- Global trade disruptions and the implications for Chinese growth saw markets pricing in a significant easing in monetary policy by the Reserve Bank of Australia.
- NZ March quarter CPI was at the top end of market expectations, with inflation ticking higher to 2.5%. Activity data was broadly consistent with the theme of a stabilisation seen in recent months. The RBNZ cut the Official Cash Rate 25bp, lower than their recent pace of 50bp cuts, to 3.5%. The accompanying statement outlined that downside risks to inflation and growth had risen from tariffs, but there is scope to lower the OCR further should it be deemed appropriate.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund declined by -2.15% (before fees) in April and by -3.89% for three-month period (before fees). For the six-month period, the Growth Fund declined -0.16%% but for the year, gained 10.33% (before fees) with the two-year annualised return at 9.12% p.a. (before fees.)

The fund's gross return was above its Reference Index' gross return for rolling periods beyond 3 months. Recent outperformance is due mainly to stock selection in global bonds, property and infrastructure equities, while outperformance by NZ equities has also aided the fund to outperform its reference index for all periods longer than 3 months.

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 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 elections has not persisted, however, and the last three 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. As trade deals became somewhat more possible in May, the markets stabilised and began to recover, however, much detail remains unclear.

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 82%. Global equities' weighting was moved to -2% underweight, at 33% 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% underweight relative to the Strategic Asset Allocation level. 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 only positive contributions to returns in April month came from the Sustainable Global Property fund which added +0.07% for the month and the Sustainable Global Fixed Income Opportunities fund also contributed +0.07%. Sustainable Global Shares subtracted -1.57% in April month, whilst NZ Shares detracted -0.56%. The Carbon Fund had a small negative impact with a -0.13% contribution last month, and Global Infrastructure subtracted -0.12% in April.

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. That has not persisted so far this year.

In the first four months of 2025, to 30th April, there has been less unbounded enthusiasm for "all things Trump-themed," leading to a more sceptical mindset from fundamentals-focused investors. The danger for investors is being "whip-sawed" by attempting to adjust too quickly to the blizzard of Trumpian disruptive announcements. We do not have much confidence that either the positive or the negative bombshells of the US Administration will settle in a coherent manner for some time, so prefer a prudent slightly defensive portfolio positioning with Growth-asset exposure tilted in favour of Real assets.

After a good First Quarter period for our Sustainable Global Shares Fund with substantial benchmark outperformance, April saw a more mixed set of outcomes for some key holdings in the Sustainable Global Shares Fund. While SAP and other selected IT-related stocks performed very well, weakness in some HealthCare selections offset the positives.

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 directions of Donald Trump in the US Presidency, supported by a Republican Senate majority, and its 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. Nevertheless, market participants are still "clutching at straws" with respect to the few putatively good news items that the Administration wants to deliver.

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 then began 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. At the time of writing, China and the US are in very early-stage talks. It seems costs to US importers of Asian manufactures will assuredly be higher, with just the quantum of the tariffs still uncertain.

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 had concerns about the NZ market, given suppressed domestic economic conditions. Further Reserve Bank easing has improved domestic business confidence, and the equity market rallied until end-2024 and again from mid-April, but this is not (as yet) properly supported by significant improvement in the earnings outlook. As global equities have entered an uncertain phase, NZ shares are not immune to a potential additional 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 in 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 last OCR rate cuts and track 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. Given the disruptions to broad global equities under the Trumpian tariff regime, listed Real Assets have proved more resilient as 2025 has progressed. We expect the Real Asset rebound to continue its 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 yet on the table from central banks. Risks arise on the US front, given currently higher sovereign yields and policy swings.

We lowered the longstanding overweighting to Global Listed Infrastructure as the exposure has performed extremely well over the last year. Th high double-digit level of return seen last year is less probable going forward, though we still support a substantial allocation to the sector within our diversified Growth portfolio. Infrastructure 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 continuing degree of caution, given market valuations that still lack widespread value and unpredictable political initiatives affecting the dominant US equity market.