Salt Sustainable Growth Fund Fact Sheet – February 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 28 February 2025

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$72.03 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 28 February 2025

Application	1.1663
Redemption	1.1616

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 31.1.25. 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 28 February 2025

Global Fixed Interest	16%
Australasian Shares	20%
International Shares	34%
Global Listed Property	15%
Global Listed Infrastructure	12.5%
Alternative Diversifiers	1.5%
Cash or cash equivalents	1%
Asset allocation to Fixed Interest + Cash	**17%**

Fund Performance 28 February 2025

Period	Fund Return (before tax and fees)	Gross Reference Portfolio Return*
1 month	0.25%	-0.12%
3 months	1.33%	0.68%
6 months	6.47%	6.40%
1 year	14.91%	14.83%
2 years p.a.	13.66%	12.52%
3 years p.a.	7.67%	7.38%
Since inception p.a.	5.97%	5.57%

Performance is before fees and PIE tax and is adjusted for imputation credits. Reference Portfolio return is also gross. * at 28 February.

Top Individual Holdings as at 28 February 2025

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

Holdings stated as at 28.02 2025.

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Market Commentary

- After a strong start to the year, equity markets lost their momentum in February. Uncertainty about the Trump policy agenda and re-emergent concerns about US growth was the key negative catalyst. The weak US market performance saw developed market equities down -0.7% over the month (in USD).
- Global bonds benefitted from the weaker growth sentiment despite the broader concern that tariffs would lead to higher inflation. We think there was also a geo-political "flight to safety" element in the stronger bond market performance. Treasury yields fell over the month, helping the global aggregate bond index to a +1.4% return (in USD).
- US consumer and business sentiment surveys weakened over the month. A survey of consumer confidence saw its biggest decline since August 2021 as inflation expectations spiked sharply higher. That will be of concern to the US Federal Reserve. Weaker Purchasing Manager Index (PMI) data has raised the risk of firms pulling back on or delaying hiring and investment intentions.
- European equities reacted positively to the prospects of a ceasefire in Ukraine. Defence stocks benefitted from a renewed focus on defence spending. Weak growth and favourable inflation data points to further easing in monetary conditions.
- Japan's GDP expanded at an annualised rate of 2.8% in the December 2024 quarter, significantly exceeding consensus analyst estimates and marking the third straight quarter of expansion. Stronger growth and rising inflation reinforce expectations of further interest rate increases ahead.
- Activity data in China continues to improve, though we think much of this improvement is due to manufacturing exporters front-running US tariffs. A more sustained improvement is still required, and we continue to believe that further consumption-focussed stimulus required.
- 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 RBA's caution was driven by the fact that while inflation has fallen faster than expected, the labour market remains tight at levels well beyond estimated full employment. We are expecting a short, shallow cutting cycle with probably one or at most two 25bp cuts to come.
- 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% and signalled 2-3 more cuts at a more subdued 25bp pace in the months ahead.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose by 0.25% (before fees) in February. The fund rose 1.33% (before fees) for three-month period. For the six-month period, the Growth Fund gained 6.47% and for the year, 14.91% with the two-year annualised return at 13.66% 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 US Federal Reserve, 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. 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, which has kept the headline US equity indices around record highs over the last month. The ebullience in the aftermath of the Republican victories in the November 5th elections has not persisted, however, and February closed with rising investor concern about the direction of US policies emerging from the Trump Administration.

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% marginal underweight, at 34% of the Fund. We anticipate lowering the overweight to global infrastructure following its very strong performance, and to reduce the Growth Fund's underweighting of New Zealand equities in March.

Domestic assets made up 22.5% of the Fund, reflecting our preference for International Assets (77.5% of Growth Fund assets.) NZ shares' allocation remained -5% underweight relative to the Strategic Asset Allocation level In February. Overweight positions in global property and infrastructure were retained, for superior value and quality cashflows.

The largest individual positive contribution in February month came from the Sustainable Global Infrastructure fund which added 0.30%, while the Salt Sustainable Global Property fund contributed 0.26% for the month. The Sustainable Global Fixed Income Opportunities fund contributed 0.18%, and Sustainable Global Shares, 0.01%. NZ Shares detracted -0.57% in February while the Carbon Fund had a neutral impact with a -0.02% contribution last month.

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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. 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 in recent months.

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 last two months, there has been less unbounded enthusiasm for "all things Trump-themed" and the actual corporate earnings results for Q4 2024 have been reported, leading to a more sceptical mindset from fundamentals-focussed investors with respect to AI-driven profit growth. Chip demand remains strong, but developing profitable front-end applications is still in its infancy.

A set of positive outcomes for some key holdings in the Sustainable Global Shares Fund in the three months to February assisted the fund to achieve significant gains compared to its benchmark, which has closed up 2024's benchmark lag for the rolling 3-month period into a small lead of 1.96%. For longer periods, the Global Shares fund remains behind benchmark due to the legacy of 2024's "one-sector (IT) market dominance and to not holding all the companied in the "Magnificent 7."

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.

It is still too early to tell what effects the election of Donald Trump to the US Presidency, supported by a Republican Senate majority, will have on US economic prospects in the years ahead. We are very cautious on this, but policy moves so far in the post-inauguration period are informative. It is fair to say that the coherence level is deteriorating.

The initial investor reaction 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 the scope for higher international tensions, particularly if more and higher import tariffs become reality.

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

The asset allocation to NZ Equities in February was still at 20% compared to its 25% neutral strategic weighting. Our underweight portfolio exposure to NZ equities within the Growth Fund was trimmed during Q4 24 and again at the beginning of March 2025, but is still seen as appropriate, as parts of the NZ economy and listed equities are being impacted by the Reserve Bank's former stance which is only now meaningfully easing. This headwind should progressively shift as the RBNZ is moving toward less restrictive policy settings, as the recent OCR rate cut suggests. 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. 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 will lower the longstanding overweighting to Global Listed Infrastructure as the exposure has performed extremely well over the last year, with our specialised fund gaining 19.7% (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.

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. 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 still argues for a degree of caution, given rich market valuations and unpredictable political initiatives affecting the dominant US equity market.