

SALT

Salt Sustainable Growth Fund Fact Sheet – March 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 31 March 2024

Benchmark	NZ CPI +5% over 5 years
Reference Portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	\$60.80 million
Inception Date	15 September 2021
Portfolio Manager	Greg Fleming

Unit Price at 31 March 2024

Application	1.0526
Redemption	1.0483

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 31.03.24. Sustainability 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 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 31 March 2024

Period	Fund Return (before fees)	Gross Reference Portfolio Return
1 month	2.28%	3.52%
3 months	5.58%	6.39%
6 months	12.43%	13.16%
1 year	12.05%	13.20%
2 years p.a.	3.47%	5.10%
Since inception p.a.	2.04%	3.14%

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 31 March 2024

Microsoft	Infratil
Fisher & Paykel Healthcare	US 5Yr Note (CBT)
SAP	OSFI Futures Offset (Intl Bonds)
Visa	Auckland Intl. Airport
Accenture	Carbon Fund

Holdings stated as at 31.03.2024.

SALT FUNDS MANAGEMENT

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Market Commentary

- The first quarter of 2024 was a positive period for equity markets as activity data around the world was supportive of a soft landing. In response, developed market equities rose 9.0% (in USD) over the quarter. A 5% fall in NZD/USD boosted unhedged returns in Q1 2024.
- It was a more challenging period for bond investors as the resilient growth along with sticky inflation prints and a less dovish Federal Reserve saw the global aggregate bond index returning -2.1% (in USD) over the three-month period.
- The most obvious implication of the strong activity/sticky inflation scenario was reflected in the shift in market pricing of the number of US rate cuts expected in 2024. At the end of 2023 seven rate cuts were expected in the US in 2024. By the end of the quarter that had been brought into line with the Fed's "dot plot" of three cuts.
- The best performing equity market of the quarter was once again Japan, with the Topix up 18.1% over the three months. That's despite the Bank of Japan beginning normalisation of its monetary policy in March. The central bank announced the end of its negative interest rate policy, yield curve control, and its purchases of equity exchange traded funds and real estate investment trusts.
- Inflation in the Euro area continued its downward trajectory, coming in at 2.6% in February. The ECB left interest rates on hold in March, with President Lagarde saying the ECB was unlikely to be able to cut rates in April, though June remains live for a first cut.
- The Swiss National Bank became the first developed central bank to ease policy, surprising the market with a 25bps cut in its policy rate to 1.5%. This was in the context of inflation already having fallen back to below the central bank's 2% target. The annual rate of increase in headline inflation came in at 1.2% in February.
- The Chinese economy appears to be responding to recent stimulus. Official data on retail sales, industrial production and fixed asset investment for January and February beat expectations across the board. However, we continue to believe further stimulus will be required if the official target of around 5% GDP growth in 2024 is to be met.
- In Australia, Q4 GDP data confirmed a subdued end to 2023. More recent partial indicators point to ongoing below-trend growth in early 2024. With the effects of tight monetary policy increasingly evident in activity data and inflation trending in the right direction, monetary policy is expected to remain on hold for the foreseeable future.
- In New Zealand, December 2023 quarter GDP came in at -0.1% q/q and -0.3% y/y. The economy has now contracted in four of the last five quarters. This justified the RBNZ's decision to keep rates on hold at its February Monetary Policy Statement, where it also signalled a reduced probability of future interest rate increases. We continue to believe the next move is a cut, but not until November.

Salt Sustainable Growth Fund Commentary

The Sustainable Growth Fund rose 2.3% (before fees) in March, and by 5.6% for the first three months of 2024. For the six-month period, the Growth Fund gained 12.4% and for the year, 12.1% (before fees.)

The fund's net return was below its Reference Index' gross return for the quarter by 81bps (before fees.)

Over the 3 months to March, the 5.58% fund return lags the gross Reference index return of 6.39%. The quarter's underperformance was due primarily to a lag within global equities which developed in March month, and was largely due to stock selection, in particular weakness in Financials and, to a lesser extent, Industrials, Health Care and Consumer Staples. Sector allocation was also negative as the benefit from the underweight in Consumer Discretionary was more than offset by the Portfolio's lack of exposure to Energy and a combination of other smaller sector effects. In addition, 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 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 but also in the EU, Japan and Taiwan.

Fixed interest value increased with higher bond yields prevailing, and selective bond exposure within the fund was lifted in late 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 March month again came from the Sustainable Global Shares fund which added +0.75% for the month. The Salt Sustainable Global Property fund was the second-strongest monthly contributor at +0.61%. The Sustainable Global Infrastructure Fund contributed 0.49% in March, just ahead of the Salt Core NZ Shares fund (0.45%).

After performing strongly late in 2023 as interest rates dropped, unclear direction in global bond yields constrained Fixed Interest assets in 2024. Sustainable Global Fixed Income contributed 0.1% in March month.

The diversifying Carbon Fund is still subject to uncertainties in the global and NZ carbon emissions regulatory environment and detracted -0.13% last month.

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 Q1 2024, although it lagged its benchmark, contributing +4.52% to the Salt Sustainable Growth Fund's quarterly return.

A substantial cause for the benchmark lag in Global Shares for Q1 overall, was attributable to stock selection, where Financials, Health Care, Consumer Staples and Industrials underperformed. Encouragingly, sector allocation was positive due to the overweight in Information Technology, the underweight in Consumer Discretionary and the Portfolio's avoidance of the lower quality, more cyclical sectors – Materials, Real Estate and Utilities.

The "Magnificent Seven" technology-themed stocks have diverged in 2024, with talk of the "Fabulous Four" emerging, but it is really the "Omnivorous One", **Nvidia**, up another 89% in Q1 to a \$2.3tn market capitalisation on the back of 2023's 239% return. For anyone benchmarked against the MSCI World Index, not owning Nvidia cost 151 basis points (bps) of relative performance in Q1 2024, on top of 155 bps in 2023, a relative hit of over 300 bps in 15 months. The largest five stocks now make up 17% of the MSCI World Index and tend to be both fairly volatile and correlated.

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-restrictive stance, and by negative sentiment given risks of elevated lending interest rates across the board.

The Salt Core NZ Shares Fund contributed 0.45% to the Salt Sustainable Growth Fund's Q1 2024 gross return. 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. For the Quarter, the Global Infrastructure Fund contributed 0.47% and the Global Property Fund, 0.16% to the Sustainable Growth Fund's gross return.

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. Sustainable Global Fixed Income Opportunities contributed 0.14% to the Growth Fund in Q1 2024.