

SALT

Salt Sustainable Income Fund Fact Sheet – November 2023

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 gross fixed quarterly income (after fees and expenses but before tax) in excess of bank deposit rates, along with a positive return on capital on a rolling three-year basis. Deposit rates are proxied by the NZ Bank Bill Index.

A Reference Portfolio is provided, medium-term outperformance of which is a secondary objective, consisting of the weighted sum of components.

The Fund targets a diversified mix of growth and defensive assets, with a focus on securities with Environmental, Social and Governance features & reliable income generation. The Fund's strategy is to invest in a quality asset mix to provide regular, sustainable income and a positive return on capital. The value of the fund will fluctuate in line with listed market developments, but the primary focus is enhanced income and thus, shorter-term variability is an expected feature. Income is prioritized above capital gain 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 November 2023

Benchmark	Bank deposit rates (BNZBIL Index)
Reference portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	\$43.12 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Prospective distribution yield (cents per unit) / based on Unit Price of 1.12.23	1.125 cents per unit per Quarter / 5.34% per annum

Unit Price at 30 November 2023

Application	0.8402
Redemption	0.8367

Sustainability Metrics

Fund ESG Scores	Portfolio	Category ave
Morningstar ESG score	21.29	22.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 30.11.23. 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	35%	0% – 60%
Australasian Shares	30%	15% – 45%
Global Listed Property	15%	0% – 35%
Global Listed Infrastructure	15%	0% – 35%
Cash or cash equivalents	5%	0% – 20%

See "Salt Statement of Investment Policy and Objectives, 30 June 2022"

Fund Allocation at 30 November 2023

Global Fixed Interest	29.5%
Australasian Shares	29.0%
Global Listed Property	23.5%
Global Listed Infrastructure	17.0%
Cash or cash equivalents	1.0%

Asset allocation to Fixed Interest + Cash 30.5%

Fund Performance to 30 November 2023

Period	Fund Return (before fees and tax)	Gross Reference Portfolio Return
1 month	4.35%	5.07%
3 months	0.13%	-0.17%
6 months	0.35%	-0.49%
1 year	1.13%	-0.64%
2 years p.a.	-2.58%	-4.29%
Since inception p.a.	-1.25%	-2.28%

Performance is before fees and tax, adjusted for imputation credits. Reference Portfolio return is gross.

Top Individual Holdings at 31 October 2023

Goodman Property Trust	Kiwi Property Group
DEGV 0% 15/05/2024	Spark NZ
Fisher & Paykel Healthcare	OSFI Futures Offset (Global Bonds)
US 5Yr Note (CBT) Mar24	Infratil
Precinct Properties NZ	Auckland International Airport

SALT FUNDS MANAGEMENT

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Market Commentary

- After a tough October for markets, November provided a degree of respite with developed market equities and bonds both making gains over the month.
- Data over the month supported the soft-landing scenario for the US with a broader easing in inflation readings across developed markets. Developed market equities rose 9.4% (in USD) over the month with the global aggregate bond index up 5.0% (also in USD).
- In the US, still resilient though cooling data supported hopes of a soft landing in the US. Payrolls expanded at a slower rate in October while retail sales fell over the same month, suggesting consumers are moderating their spending after a stronger-than-expected run of gains. At the same time, October CPI inflation came in softer than expected. This lowered investor expectations of a final rate hike at the Fed's December meeting. However, while we may have seen the peak in rates, the minutes of the November FOMC meeting make it clear not to expect early cuts.
- Activity data in Europe remains weak, particularly for industrial production and manufacturing activity. However, the labour market continues to buck the weakening trend with a modest rise in employment over the September quarter. Lower energy price was the major contributor to the decline in the annual rate of headline CPI inflation to 2.4%. The core measure remains at a more worrisome 3.6%, prompting the European Central Bank to comment that it remains vigilant to upside inflation risks.
- Activity data in Japan remained somewhat sluggish. September quarter GDP data showed weaker-than-expected domestic demand, consumption, and capital expenditure. The focus remains on wage growth where the strength of corporate earnings supports the expectation of further wage growth next year. This should see the Bank of Japan continuing to relax its Yield Curve Control policy and end its Negative Interest Rate Policy as early as its January meeting.
- China activity data continued its improved run with retail sales up 7.6% y/y in October, however the housing market remains a source of concern. New home sales continued their year-on-year decline in October. The People's Bank of China injected further liquidity into the banking system over the month and we expect further fiscal stimulus will be provided to support consumer demand.
- As we expected, the Reserve Bank of Australia resumed rate hikes in November following a run of stronger than expected activity, labour market and inflation data. The 25bp hike took the cash rate to 4.35%. We expect one further hike to 4.6%, most likely at the February meeting.
- In New Zealand, there was a meaningful softening in labour market pressures with a decline in employment and a rise in the unemployment rate from 3.6% to 3.9% over the September quarter. Wage growth also moderated.

Salt Sustainable Income Fund Commentary

The Sustainable Income Fund rebounded with a return of 4.35% (before fees) in November month, which lifted its one-year return to 1.13% (before fees/tax.) The gain in November mainly reflects sharp price gains in the listed Real Asset and equity returns of the portfolio, which were enabled by a shift lower in global interest rates, lifting bond returns.

For the full year to 30 November, the portfolio's reference index declined by -0.64% which was below the fund's +1.13% 1-year gross return.

Despite a range of headwinds for markets, 2023 largely proved a much better investing environment than 2022. As inflation progressively shows signs of a definitive peak, we expect component asset classes to improve, as indeed occurred in the first part of 2023, and has again since October ended. Volatility across markets is ever-present but sentiment is less fragile. Central banks around the world remain resolute, but now have scope to pause and assess the impact of the furious pace of rate rises on inflation. We expect value recoveries in interest-rate sensitive assets.

November month saw positive returns from all of the Income Fund's component assets. The strongest components were the Salt NZ Dividend Appreciation fund, which contributed 1.51% in November. The Sustainable Global Infrastructure fund rebounded as interest rates fell, contributing 0.98% to the Income fund for the month. The Salt Enhanced Property fund similarly responded to lower rates and contributed 0.63% in November. International listed real estate was extremely strong in November, and the small exposure held in the Income fund provided a 0.29% positive return.

The Sustainable Global Fixed Income Opportunities fund contributed 0.63% for the November month, and is now the largest Sustainable Income fund component, at 29.5%.

Salt Sustainable Income Fund outlook

We believe bond yields have now adjusted (via a volatile and uncertain route, to be certain) enough to have lowered our previous underweight bond positions within the Sustainable Income Fund. The allocation to bonds is now 29.5% vs a 35% SAA. Our next step will be to increase this even closer toward a Neutral allocation.

The Reserve Bank of New Zealand has paused in lifting the Official Cash Rate though core inflation is persisting, so domestic yields and discount rates are likely to stay quite elevated. This is suppressing returns from NZ equities this year, and the relative weakness of NZ shares compared to global equities is now notable. Diversified Income Funds containing an allocation to domestic equities have generally experienced a downward capital value move, although their income yields may well have been enhanced recently.

We anticipate the longer-term capital growth strategies within the Sustainable Income Fund to boost performance, as inflation conditions stabilize. However, there could be a mild recessionary period to traverse en route to that outcome. The phase of actual interest rate reductions from central banks is still some time into the future and we expect a major beneficial capital growth impact of such - while becoming apparent in late in 2023 - will mainly be a feature of total returns in 2024-5.

As the primary objective of the Salt Sustainable Income Fund is to invest in quality sustainable yield payers, minimizing short-term capital price fluctuation is secondary. Market volatility allows us to acquire high quality and defensible dividend-paying assets for the Fund at better prices.

Distribution of 1.125 cents per unit / quarter retained

Higher component asset yields enabled us to retain the quarterly cents-per-unit distribution from the fund, at 1.125 cpu, for the quarterly distribution date paid out in November. This will be updated again in February 2024, dependent on the outlook for overall Fund income at that time.

As noted earlier, the silver lining in the bond market's repricing is that the yield received from bond investments is also now higher and supports the Sustainable Income Fund's forward distribution path. This is characteristic of a transition into a mid-level interest rate regime which may endure for years, rather than months, ahead.

Internationally, major central banks are now communicating the last phase of interest rate adjustments, sufficient to anchor inflation expectations, and this does unnerve markets at times. Recently, the balance of evidence has been on the better side internationally, particularly suggesting that the US Federal Reserve is well on track to engineer an economic "soft landing."

While the data-driven market volatility requires fortitude from investors, the objective of securing an inflation-resilient income level means that equity market fluctuations and corrections over short periods are inevitable. Over the medium-term, moderate capital gains in addition to income advantages are expected, and the Sustainable Income Fund is positioned to harvest them.

It is crucial to note that the Income level from equity dividends and bond coupons received into the fund has indeed been commensurately rising through the recent periods of market turbulence. This trend exemplifies the incremental return of some "risk premia" into asset classes, though this has further to go. The fund's income is still modestly above its prospective distribution yield. We regard this as prudent in an uncertain environment.

The equity capital value components of the Income Fund have adjusted downward to reflect weaker economies in the year ahead, yet the Real Asset components of Infrastructure and Property are well-suited to an inflation-affected period, once central bank policy rates begin to fall or there is a downward shift at the short end of the yield curve. As global central banks increasingly pause their interest rate tightening cycles, defensive merit should continue to be re-asserted in coming months through renewed positive demand for these specific "Real Asset" equity types, along with the sustainable dividend-payers in the broader Australasian market.