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Salt Sustainable Income Fund Fact Sheet – October 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 31 October 2023

Benchmark	Bank deposit rates (BNZBIL Index)
Reference portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$41.74 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Prospective distribution yield (cents per unit) / based on Unit Price of 1.11.23	1.125 cents per unit per Quarter / 5.50% per annum

Unit Price at 31 October 2023

Application	0.8170
Redemption	0.8137

Sustainability Metrics

Fund ESG Scores	Portfolio	Category avge
Morningstar ESG score	21.21	22.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 31.10.23. 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	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 31 October 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 31 October 2023

Period	Fund Return (before fees and tax)	Gross Reference Portfolio Return
1 month	-1.92%	-2.51%
3 months	-6.96%	-7.23%
6 months	-5.25%	-7.19%
Year to date	-1.93%	-3.95%
1 year	-0.73%	-2.55%
Since inception p.a.	-2.99%	-4.31%

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
OSFI Futures Offset	Spark NZ
Fisher & Paykel Healthcare	DEGV 0% 15/05/2024
US 5Yr Note (CBT) Dec23	Auckland International Airport
Precinct Properties NZ	Infratil

Market Commentary

October month, and the last three months overall, saw global equities retreat after strong July returns. Growth and inflation signals remained of concern to investors, undermining expectations for reduced monetary tightening from central banks. Higher bond yields caused interest-rate sensitive asset declines, though a reversal seems likely.

- Stocks and bonds fell in unison through October as geo-political tensions weighed on market sentiment following the start of Israel-Hamas hostilities. Bond yields rose sharply in response to buoyant economic data which supported the "higher for longer" mantra, coupled with rising concerns about fiscal sustainability. Developed market equities fell 2.9% (in USD) over the month while global bonds were down 1.2% (in USD) over the same period.
- In the United States, markets had to contend with the implications of a plethora of data pointing to the continued resilience of the US economy including strong retail sales, and blowout jobs and GDP reports. Inflation data also came in higher than expected. This resilience in the data suggests the US Federal Reserve may have to keep interest rates at these higher levels longer than investors were anticipating.
- Meanwhile, there are increasing signs of fragility across the Eurozone economies. Latest bank surveys by the European Central Bank highlight a contraction in the supply of credit to businesses and households over the September quarter. At the same time, forward looking indicators such as PMI surveys continue to weaken, with the composite index down a further 0.7 points to 46.5 in October.
- In Japan, 10-year Government Bond yields moved higher over the month as persistent price pressure led markets to question the ongoing sustainability of the Bank of Japan's Yield Curve Control Policy. Despite earlier attempts to defend it accommodative position, the BoJ made a further tweak to its YCC policy with the 1.0% upper limit now being referred to a "reference".
- Better looking industrial production, retail sales and GDP data out of China suggests policy easing efforts are starting to have some stabilising effect on the economy. However, continued weakness in the beleaguered property sector suggests the economy is not out of the woods yet and further policy easing and debt restructuring efforts will be required.
- The Reserve Bank of Australia left interest rates unchanged at the start of the month. This was the first meeting under new Governor Michele Bullock, so a semblance of continuity was not surprising. However, since then activity and inflation data have printed stronger than expected. That has led to the rising expectation over the month that the RBA will move back to interest rate increases at its November meeting.
- In New Zealand the General Election delivered a change of government, although the final shape was yet to be determined by the counting of Special Votes. National's Christopher Luxon will be the new Prime Minister in a coalition arrangement.

Economic data continued to soften over the month and the labour market saw a noticeable easing in pressures over the September quarter as the unemployment rate rose from 3.6% in June to 3.9%. This continues to support our view that the RBNZ has tightened enough and now just needs to be patient.

Salt Sustainable Income Fund Commentary

The Sustainable Income Fund experienced a negative return of -1.92% (before fees/tax) in October month, which lowered its one-year return to -0.73% (before fees/tax.) The fall in October mainly reflects weak returns in the domestic equity components of the portfolio. For the full year to 31 October, the portfolio's reference index declined by -2.55%, which lagged the gross portfolio return, as was also true since inception.

Despite a range of headwinds for markets, 2023 has so far proved a somewhat 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, with periodic interruptions. Volatility across markets is ever-present and sentiment is still fragile. Central banks around the world remain resolute.

October month saw negative returns from most of the Income Fund's component assets. The more resilient components were the Salt Sustainable Global Listed Infrastructure Fund which added 0.05% and the Sustainable Global Fixed Income Opportunities fund, which contributed a flat 0.0%. The Salt Sustainable Global Property Fund subtracted -0.14% over the month, while Enhanced Property had a more negative month's impact of -0.88%, and the NZ Dividend Appreciation Fund subtracted -1.07%.

Salt Sustainable Income Fund outlook

We believe bond yields have now adjusted upwards 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 supressing 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 will only become apparent only from late in 2023, or even early in 2024.

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.

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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 be re-asserted in coming months through continuing positive demand for these specific "Real Asset" equity types, along with the sustainable dividend-payers in the broader Australasian market.

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