Salt Sustainable Global Fixed Income Opportunities 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 primary objective of the Fund is to target and generate an attractive rate of return over a full three-to-five-year market cycle. To achieve this, the Fund targets a portfolio of global fixed income securities with enhanced total return potential and superior Sustainability characteristics.

The objectives of this top-down selection process are to:
1. Reduce exposure to material ESG risk and negative sustainability impacts, through restriction screening of controversial sectors such as weapons, tobacco and some fossil fuels, as well as international norms violations;
2. Tilt the portfolio in favour of the 80% strongest sustainability performers across corporates, by sub- sector, and sovereigns; and
3. Contribute to positive outcomes based on key sustainability themes, with a particular focus on low carbon intensity.

The Fund will invest at least 50% in investment grade bonds, and a minimum of 15% in sustainable bonds. The fund targets its returns to be 100% hedged to the New Zealand dollar.

Fund Facts at 31 October 2023

Benchmark for ESG purposes	Bloomberg Global Aggregate Index (NZD hedged)
Fund Assets	$65.70 million
Inception Date	10 February 2023
Underlying Manager	Morgan Stanley Investment Management
Average credit rating	Standard & Poor's A- / Moody's A3
Effective Duration	2.76 years

Unit Price at 31 October 2023

Application	1.0047
Redemption	1.0036

Investment Guidelines

The guidelines for the Sustainable Global Fixed Income Opportunity Fund are:

Global Fixed Income securities	95% – 100%
Cash	0% – 5%

Fund Allocation at 31 October 2023

Global fixed income securities	96.8%
Cash	3.2%

Fund Performance to 31 October 2023

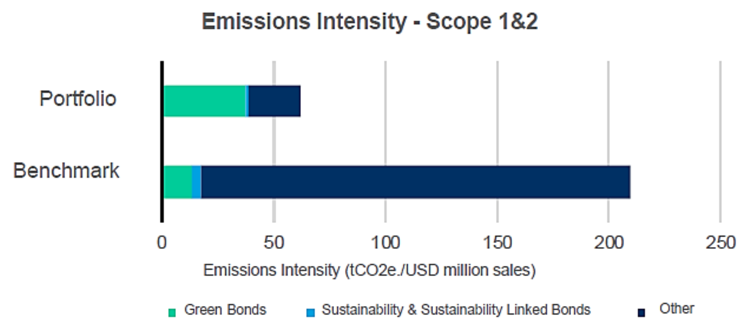
Period	Fund Return (Gross incl. ICs)
1 month	0.01%
3 month	-0.70%
6 month	0.22%
Since inception cumulative	0.85%

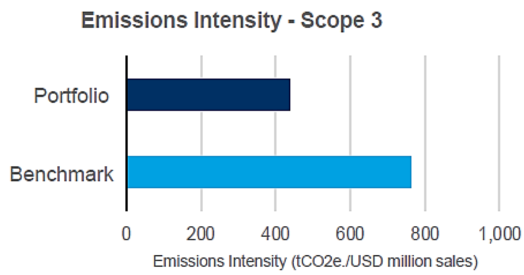
Performance is gross of fees and tax. Data as of 31 October 2023.

Fund ESG Dashboard	Portfolio	Index	QTD change
MSCI ESG Score (MV%.)	98.5%	91.4%	+2.3%
Exposure to Corporates with CO2 footprint reduction targets	95%	88%	+1.0%
Green, plus Social, Sustainability and Sustainability-linked bonds	22.6%	2.6%	-1.1%
Sustainable SBTi approved / committed targets	57.8%	37.6%	-6.3%
CO2 Footprint Scope 1&2 (tCO2e/$mn emission intensity)	62	209	-25.3%
CO2 Footprint Scope 3 (tCO2e/$mn emission intensity	438	764	-9.3%
MSCI ESG Score (Adjusted)	7.60	6.30	+0.09
- Environment score	7.57	6.12	+0.18
- Social score	5.63	5.53	+0.03
- Governance score	6.28	5.72	+0.09

Source: MISM Monthly Investment Report/ MSCI ESG Research as at 31 Oct. 23.

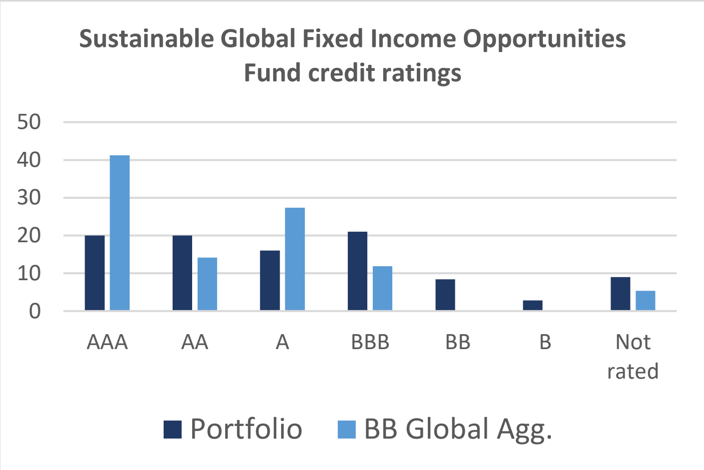
Fund CO2 Emissions Intensity characteristics at 31 Oct. 2023





Source: MISM Monthly Investment Report 31 Oct. 23

Fund credit ratings vs. Bloomberg Barclays Global Agg.



Source: MISM as at 31 October 2023

Portfolio Review

- In the one-month period ending October 31, 2023, the portfolio return was flat, although result this may be viewed positively in the context of a -0.75% decline in the Bloomberg Barclays Global Aggregate Bond Index (NZD-hedged.) The performance can be attributed to the following factors.
- Given rising yields and a risk-off tone in global markets on the back of the Middle East conflict, both macro decisions and sector spreads contribution were negative this month.
- The portfolio's positioning in US rates was negative as yields rose on strong growth numbers (in the US) and persisting market view of "higher for longer" rates.
- Within the European periphery, the underweight to Italy also detracted on tighter spreads vs bund.
- The allocation to investment grade (preference for EUR over USD, bias to financials, focused on significantly important institutions), and high yield corporates (predominantly industrials) both detracted given wider spreads in the US and Europe.
- Within securitized assets, the allocation to ABS was positive, while the allocation to CMBS detracted.

Market Review

- October was another challenging month for global fixed income assets as yields continued to rise, curves bear steepened, and spreads widened. As war broke out in the Middle East and economic data remained resilient in the US and inflation remained sticky across the globe, it was evident that rates were to remain higher for longer. Yields in the Eurozone were more mixed, with parts of the curve shifting lower as data came in softer than expected. The ECB also opted to stay on hold with the market interpreting the commentary as marginally dovish.
- A key theme again in October was 'steeper curves', as the back end came under pressure while the front end remained largely locked. While attributed to many things, the still resilient economy, the shift in central bank guidance, and an increase in term premium are likely sources. Given the uncertainty, it is difficult to concretely express an outright view on interest rates; however, we continue to find steepeners attractive at certain parts of the curve.
- We remain more neutral on the U.S. dollar, preferring to focus on other attractive opportunities.
- Euro IG spreads marginally outperformed US IG spreads this month as October saw credit market spreads widen, with single name volatility increasing where Q3 results missed expectations. Market tone in the month was driven by several factors including the geo-political escalations and resilient US data. Q3 reporting while on aggregate ahead of expectations saw weakness in Energy and Chemicals relative to expectations. Finally, the macro environment led the market to demand increased risk premium driving credit spreads wider. The U.S. and global high yield markets recorded a weak month in October due to a combination of the above macro environment and generally disappointing high yield.
- Our base case remains unchanged with credit expected to trade around current levels making carry an attractive return opportunity. We expect supply to rebound in November but disappoint relative to expectations in aggregate for Q4. Although, we do see risks of pre-financing 2024 supply needs given the inverted yield curve. Finally, there are several factors we are closely watching that could shift the narrative: remaining Q3 reporting, the potential for economic policy support in China and higher energy prices. The high yield market ended the month of October with a historically attractive yield; however, our outlook and positioning remain somewhat cautious.
- Securitized credit spreads remained largely unchanged in October despite an uptick in supply. European securitized market activity slowed in October as new issuance remains historically light.
- Securitized yields remain at historically wide levels, and we believe these wider spreads offer more than sufficient compensation for current market risks. We continue to most favour shorter maturity securitized credit (Residential Mortgage-Backed Securities (RMBS), Asset Backed Securities (ABS), selected CMBS). That said, the outlook has modestly deteriorated as household balance sheets come under more pressure and excess savings are run down.
- Emerging Markets Debt (EMD) produced negative returns across all segments of the asset class for the month. Spreads widened for both sovereign and corporate credit, and most EM currencies weakened.

Portfolio Commentary & Outlook

- There were no material changes in strategy during the month. Overall, the duration of the portfolio was kept constant from September at 2.76 years.
- We remain cautiously optimistic about Emerging Market Debt (EMD.) Longer term, many EM bond markets look attractive, but for now the pincer of stronger U.S. growth, weaker Chinese growth, and a stronger U.S. dollar undermines their case.
- Selective EM bond markets look attractive as recent US economic data released in November suggest the tightening in financial conditions in Q3 is working to slow the economy. Stable, lower yields, and a weaker dollar are good for EM in general.