SALT

Salt Sustainable Global Listed Infrastructure Fund Fact Sheet – July 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's investment objective is to outperform (after fees and expenses but before NZ tax) the total return of its benchmark, the FTSE Global Core Infrastructure 50/50 Net Tax Index on a rolling three-year basis. The Fund targets a portfolio of global infrastructure companies with sustainable total return potential and superior Environmental, Social and Governance (ESG) credentials and factor scores with respect to the benchmark index.

Fund Facts at 31 July 2024

Benchmark	FTSE Global Core Infrastructure 50/50 Net Tax Index
Fund Assets	$54.90 million
Inception Date	18 August 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 July 2024

Application	1.0433
Redemption	1.0390

Investment Guidelines

The guidelines for the Sustainable Global Listed Infrastructure Fund are:

Global equities	95% – 100%
Cash	0% – 5%

Target investment Mix

The target investment mix for the Global Sustainable Listed Infrastructure Fund is:

Global equities	100%

Fund Allocation at 31 July 2024

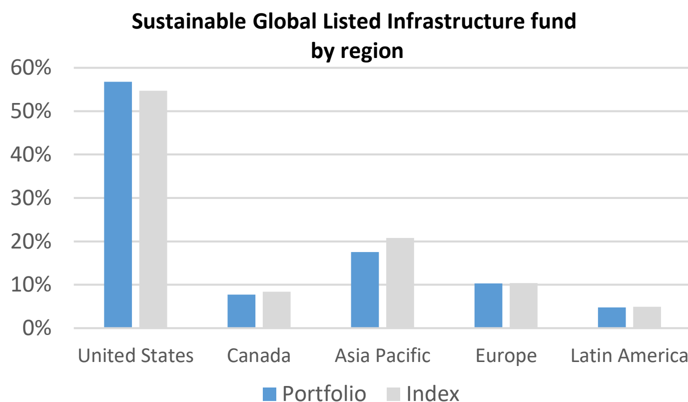
Global equities	97.15%
Cash, Short term, Sundry	2.85%

Fund Performance to 31 July 2024

Period	Fund Return	Benchmark Return
1 month	6.43%	6.50%
3 month	9.50%	8.75%
6 month	15.09%	13.03%
1 year	12.64%	10.64%
2 years p.a.	3.88%	2.30%
Since inception p.a.	6.04%	3.97%

Performance is before fees and PIE tax and adjusted for imputation credits. Benchmark performance is gross.

Fund regional weightings as at 31 July 2024*



Source: Cohen & Steers, Salt *data to 31 July 2024

Top 10 holdings	sector		sector
Next Era Energy	Electric	NiSource	Gas Distr.
American Tower	Towers	PPL	Electric
TC Energy	Midstream	PG & E	Electric
Duke Energy	Electric	Pembina Pipeline	Midstream
Public Service Enterprise Group	Electric	Norfolk Southern	Freight Rail

The fund's top 10 holdings comprise 38.3% of the portfolio.
Source: Cohen & Steers Monthly Investment Report, 31 July 2024

Sustainability metrics

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.71	6.43
MSCI ESG score	6.41	6.28

Source: Cohen & Steers Investment Report, 31 July 2024

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Market Review

Listed infrastructure posted strong gains in July and outperformed the broader equity market. Investors reacted positively to generally better-than-expected corporate earnings outlooks and better-than-anticipated inflation. The U.S. Federal Reserve kept interest rates steady but are gradually adopting a more dovish tone, which we expect to support assets. Over the last year, two years, and since inception, the fund has remained comfortably ahead of its benchmark.

- July was a volatile month for markets. Weaker US labour market data and a weaker than expected US CPI set the tone and saw markets bring forward expectations of rate cuts by the US Federal Reserve. The Global Aggregate Bond Index returned 2.8% (in USD) and 1.9% in NZD over the month.
- Equities were more muted as investors became more skeptical about the ability of artificial intelligence and growth stocks more generally to continue to drive markets higher. Developed market equities rose 1.8% (in USD) and 4.4% in NZD over the month.
- In the US the July labour market report showed slowing employment growth, a higher unemployment rate and moderating wage growth. GDP data came in stronger than expected at an annualised 2.8% in Q2, but more recent higher frequency data pointed to a slowdown ahead. June CPI data came in under expectations, and just a few hours later the Fed opened the door to a September rate cut.
- In Europe, Purchasing Manager Index (PMI) data was weak, suggesting a moderation in growth over the summer. This also bolstered expectations of further rate cuts from the European Central Bank.
- The Bank of Japan continued its gradual normalisation of monetary policy in July, raising its policy rate 15 basis points from 0.10% to 0.25%. The BoJ is clearly comfortable with recent developments in wage growth and inflation expectations.
- July was also a busy month for northern hemisphere politics. The second round of French legislative elections turned the first round on its head. In the US there was an assassination attempt on the presumptive Republican nominee Donald Trump and President Biden decided not to see re-election.
- In China, ongoing problems in the property sector continue to impact activity in the broader economy. Private consumption remains particularly weak. The authorities continued their reactive and gradual approach to easing.
- In Australia the focus was on inflation and whether the Reserve Bank of Australia would resume interest rate hikes. It all hinged on the June quarter CPI outcome which was released on the last day of the month. While it came in higher than the most recent set of RBA forecasts, it was below market expectations and probably not sufficiently bad for the RBA to hike in August.
- In New Zealand, the key development was a dovish pivot from the Reserve Bank of New Zealand which was all the more surprising given it was only six weeks after their surprisingly hawkish outing in May. The change in tone clearly reflects the recent run of weak activity data, and signs from business surveys that firms pricing power is dramatically reduced given the weakness in activity. We see no reason why the RBNZ shouldn't start the unwinding of current restrictive monetary conditions in August.

Portfolio Review July 2024

Listed infrastructure rose strongly in July and outperformed the broader equity market. Global equities posted gains for the month, partly driven by better-than-expected inflation data. As optimism ramped up about the potential for the U.S. Federal Reserve to begin easing—with an interest rate cut as early as September—more interest-rate sensitive sectors outperformed growth-oriented sectors, in a sharp reversal from recent months.

Within listed infrastructure, communications, water utilities and electric utilities outperformed, while airports, marine ports, and gas distribution underperformed.

Communications, water and electric utilities were strong amid the decline in interest rates. The prospect of lower interest rates and strong earnings reports benefited the communications sector, which posted double-digit gains in July.

Water utilities and electric utilities were also solid performers, as investors favoured more rate-sensitive, defensive sectors. Gas distribution companies rose but lagged other utilities sectors, partly due to concerns over fewer new customer gas connections incoming from China.

Commercial infrastructure sectors were mixed. Railways outperformed overall, but disparate earnings reports resulted in significant performance dispersion within the sector. Midstream energy and marine ports did not keep pace with the broader asset class in the month, as investors took profits and rotated into more defensive sectors.

Passenger transportation–related sectors were weak. Despite the tailwind of lower interest rates, toll roads lagged as the dominant index constituent underperformed. The Australia-based company was hampered by concerns about the potential for increased government oversight of toll road operators.

The airports sector was the only sector to post negative returns this month, as stock-specific factors and concern over passenger traffic weighed on several of the larger airport operators.

Portfolio performance

Key contributors

• Stock selection in railways: An overweight position in U.S.-based Norfolk Southern and a lack of exposure to Canadian National Railway contributed positively to relative performance. Shares of Norfolk Southern rose after the company released a solid earnings report showing better-than-expected improvement in its operating ratio.

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Conversely, shares of Canadian National Railway declined after the firm reported disappointing earnings and lowered its full-year guidance.

• Overweight allocation and stock selection in communications: A sector overweight was beneficial, as the communications sector was the strongest performer in the asset class in July. A decline in interest rates and increased optimism that the Fed would begin easing in the coming months buoyed the sector.

• Stock selection in midstream energy: A substantial overweight position in a Canada-based oil and gas pipeline company TC Energy aided relative performance. The shares rose in July as the company continued to make progress on its asset sale-driven deleveraging plan.

Key detractors

• Underweight allocation to electric utilities: Electric utilities outperformed in July, and a sector underweight hurt relative performance. The group benefited as the market rotated out of more growth-oriented sectors toward more defensive sectors, especially those—such as electric utilities—that are well positioned to benefit from the expected return to an environment of monetary easing.

• Overweight allocation and stock selection in marine ports: A sector overweight hurt relative performance, as marine ports underperformed alongside a pullback in other commercial infrastructure sectors. An overweight position in Santos Brasil was detrimental, despite the company increasing its dividend and share buyback program. The shares saw some profit-taking after recent strong performance.

• Out-of-index allocation to environmental services: An out-of-index holding in an Australia-based Cleanaway Waste Management detracted. The shares declined after the firm announced an acquisition at the end of June, a transaction that was met with some skepticism from investors.

Investment Outlook (Cohen & Steers commentary)

We seek to maintain a generally balanced portfolio, although with a somewhat defensive tilt given the current environment of mixed economic data. We maintain a preference for higher-quality businesses that we believe can perform relatively well in a below-trend growth environment. We are also focused on the potential capital needs of individual companies to strengthen their balance sheets.

We believe that we are at a positive inflection point for power demand, as we see an increasingly important relationship between power generation, grid reliability and rapid data centre growth. The need for electric and gas infrastructure to support data centre demand is expected to drive significant investment opportunities within the asset class, although we are also closely monitoring customer affordability.

Despite the recent easing in financial conditions, we continue to closely monitor the impact of the cost of capital on companies in our infrastructure universe. We remain focused on infrastructure companies that have strong balance sheets, with limited near-term maturities and manageable refinancing schedules. Persistent inflation and “higher for longer” interest rates may be a headwind for certain sectors. However, most infrastructure businesses can generally pass rising costs along to consumers; as a result, they have tended to perform well during periods of above-average inflation.

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