Salt Sustainable Global Fixed Income Opportunities Fund Fact Sheet – February 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 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 29 February 2024

Benchmark for ESG purposes	Bloomberg Global Aggregate Index (NZD hedged)
Fund Assets	$84.61 million
Inception Date	10 February 2023
Underlying Manager	Morgan Stanley Investment Management
Average credit rating	Standard & Poor's A- / Moody's Baa1
Effective Duration	2.96 years

Unit Price at 29 February 2024

Application	1.0321
Redemption	1.0310

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 29 February 2024

Global fixed income securities	95.3%
Cash, Short term & Sundry	4.7%

Fund Performance to 29 February 2024

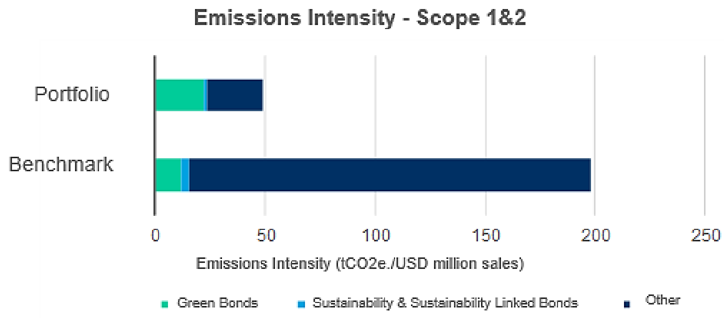
Period	Fund Return (Gross incl. ICs)
1 month	0.14%
3 month	2.55%
6 month	4.19%
1 year	6.78%
Since inception cumulative	5.67%

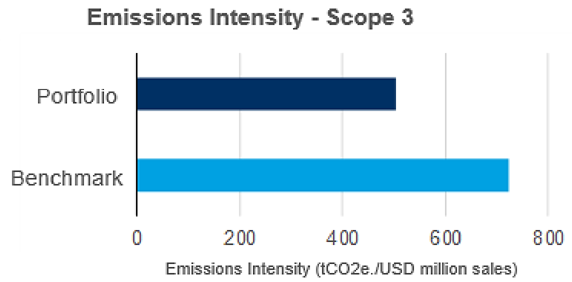
Performance is gross of fees and tax. Data as of 29 February 2024.

Fund ESG Dashboard	Portfolio	Index	2024 YTD change
MSCI ESG Score (MV%.)	98.3%	91.8%	0.0%
Exposure to Corporates with CO2 footprint reduction targets	95%	89%	
Green, plus Social, Sustainability and Sustainability-linked bonds	21.8%	3.0%	+4.3%
Sustainable SBTi approved / committed targets	47.4%	37.7%	+0.7%
CO2 Footprint Scope 1&2 (tCO2e/$mn emission intensity)	49	198	+0.5%
CO2 Footprint Scope 3 (tCO2e/$mn emission intensity	503	723	+2.3%
MSCI ESG Score (Adjusted)	7.53	6.34	-0.08
- Environment score	7.86	6.13	+0.06
- Social score	5.50	5.52	-0.06
- Governance score	6.26	5.78	-0.01

Source: MISM Monthly Investment Report/ MSCI ESG Research as at 29 Feb. 24

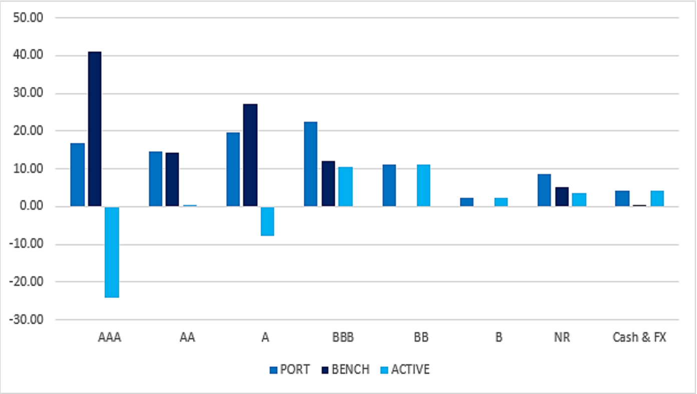
Fund CO2 Emissions Intensity characteristics at February 2024





Source: MISM Monthly Investment Report as at 29 February 2024

Fund credit ratings vs. Bloomberg Barclays Global Agg.



Source: MISM as at 29 February 2024

Portfolio Review

- In the one-month period ending February 29, 2024, the portfolio returned 0.14%. The performance can be attributed to the following factors:
- Macro Decisions (long duration) were negative, while sector spreads (long credit risk) contribution was positive this month on tighter spreads.
- The portfolio’s duration positioning in Developed Markets (DM) rates (EUR, USD) was negative as yields rose.
- The long position in Emerging Markets (EM) External spreads was positive. The allocation to European Sovereign supranationals (quasi spreads) was also positive.
- 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 contributed given tighter spreads in the US and Europe.
- Within securitized assets, the allocation to ABS and non-agency RMBS was positive.

Market Review

- In February, developed market government bond yields rose and yield curves bear-flattened, as market participants re-assessed the likely pace of central bank rate cuts this year and next. Economic data remained strong, and policymakers signalled caution as to the timing of cuts.
- In the U.S., a blockbuster January payrolls report was followed mid-month by a consumer price index (CPI) print showing sticky inflation in services components. Money markets have now moved to price 82 basis points (bps) of cuts by the Federal Open Market Committee by end-2024 – about half the magnitude priced a month ago.
- In the eurozone, European Central Bank (ECB) speakers repeatedly stressed that the bank is not confident it can start easing policy yet, pointing to still-high inflation and strength in wage growth, and suggesting the first rate cuts may not be before the summer. Markets have now priced 91 bps of cuts for this year – down from 160 bps at the end of January – with even the more dovish ECB members suggesting a cut in June at the earliest.
- Going forward, markets will be especially sensitive to the strength of economic data, given that policymakers have stressed a data-dependent approach. In the U.S., still-stubborn inflationary pressures, particularly in core services and rents, means policymakers will want more confidence that inflation is converging to its target before cutting rates.
- In the eurozone, the timelier wage indicators have been encouraging, though the ECB has stressed that it is waiting for more clarity on the deceleration path. Euro area purchasing managers indexes (PMIs), while still in contraction territory, suggest the activity slowdown has bottomed out.
- We remain modestly underweight duration, particularly in euro; central bank expectations seem more reasonable to us now, but longer-maturity valuations are still demanding, carry is negative and sentiment poor.

Portfolio Commentary & Outlook

- There were no material changes in strategy during the month. Overall, the duration of the portfolio was reduced by 0.09 years, closing February at 2.96 years, on rising yields resulting from markets lowering expectations of Central Banks dovish pivot.
- Within Developed Markets rates (DM), most of the duration reduction was made in the NZD and EUR rates. Within Emerging Markets (EM) Local rates, we maintain exposure to Mexico, Brazil.
- Within credit, we maintain a long position in Investment Grade (IG) predominantly through financials and a preference for EUR relative to USD. In February we topped up our long exposure to European IG credit.
- Securitized credit positioning has been increased through non-agency RMBS and ABS top-ups. Overall, we maintain a positive view to securitized credit given attractive carry and technicals.
- Regarding currency positioning, US dollar moves have been closely tied to rates and with no strong conviction there, we have reduced our US dollar shorts and now fund our EM FX longs (BRL, MXN) with shorts in low yielding currency basket of CHF, CNH and THB.
- In February, euro investment grade spreads outperformed U.S. investment grade spreads, as credit market spreads broadly tightened on the back of strong demand for fixed income and a continued belief that the “Goldilocks soft landing” was the most likely economic backdrop that companies would be operating against. Market sentiment in the month was driven by several factors:
- Firstly, inflation data printed above expectations, supporting the argument that the move lower from 3% to 2% would be tough and rate hikes would likely start later than previous market predictions. However, markets focused on the fact the next move would be lower and that European economic surprises suggested the impact of high rates/tight monetary policy was not having a significant impact on the economy.

Disclaimer: The information in this publication has been prepared from sources believed to be reliable and accurate at the time of preparation but Salt Funds Management Limited, its officers, directors, agents, and employees make no representation or warranty as to the accuracy, completeness, or currency of any of the information contained within, and disclaim any liability for loss which may be incurred by any person relying on this publication. All analysis, opinions and views reflect a judgment at the date of publication and are subject to change without notice. This publication is provided for general information purposes only. The information in this publication should not be regarded as personalised advice and does not take into account an individual investor’s financial situation or goals. An individual investor should, before making any investment decisions, seek professional advice. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.

- Secondly, there was no further escalation in geopolitical concerns, with news in the Middle East/Red Sea viewed as a regional and a non-systemic event. Thirdly, fourth quarter corporate reporting was positive for credit, with the confirmation that corporates were seeing limited stress in their business and the majority were running low-risk strategies.

- Finally, the technical was supportive, driven by strong inflows into investment grade credit alongside the large new issue pipeline matched with strong demand. The U.S. and global high yield markets recorded a choppy first two weeks in February as U.S. Treasury yields leapt. After the average yield in the U.S. high yield market briefly touched 8% mid-month, performance quickly improved amid resilient growth, corporate earnings that, on average, exceeded conservative expectations, and modestly lower U.S. Treasury yields in the bottom half of February.

- Looking forward, our base case remains constructive for credit against an improving macro backdrop for credit following the central bank pivot from concerns about inflation to concern about growth and the positive momentum driven by inflows into the asset class. Considering valuation, we see a market that is fairly priced but cheap relative to other markets, and hence we see carry as an attractive return opportunity. But, given the uncertain medium-term fundamental backdrop, we have less confidence in expected spread tightening.

- The high yield market once again ended February with the unique combination of a still historically attractive yield and an average spread that ranked near cycle lows, tightening further in February. Our outlook remains relatively cautious given the high yield valuations that, on average, nearly fully reflect a perfectly soft economic landing. The silver lining is the historically high all-in yield that supports a positive return for high yield investors in 2024, even in our bear case scenario analysis.

- Securitised credit spreads continued to tighten in February as demand remained very strong, and new issue deals were consistently oversubscribed. Specifically, agency mortgage-backed securities (MBS) spreads are now 17 bps wider in 2024, higher coupon MBS outperformed lower coupon MBS based on rumours of banks selling lower coupons. Securitised new issuance remained high February, but the increased supply continues to be easily absorbed.

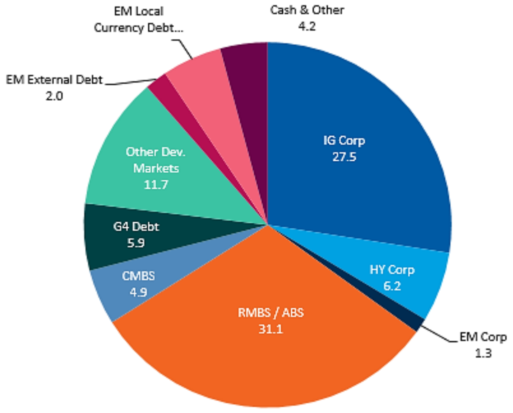
- After several months of spread tightening across securitised products, we expect spreads to stabilise at current levels in March. Overall demand levels remain strong, but we believe it will be challenging to push spreads much tighter from current levels.

- We also believe that rates will likely remain range-bound for much of 2024, and that returns will likely result primarily from cash flow carry in the coming months.

- Performance was mixed for emerging markets debt in the month of February. Timing for the first U.S. Federal Reserve rate cut has been pushed out to mid-year; previously the market indicated that the March meeting was still on the table. The pushed-out timeline for rate cuts caused emerging markets currency weakness year-to-date. Sovereign and corporate spreads, however, tightened for the month. Emerging markets central banks continued to cut rates, although at a slower rate, with only the Czech Republic and Hungary cutting rates.

- The macro environment is supportive for emerging markets, but a key risk is if U.S. rates stay higher for longer. We believe valuations remain attractive, and once developed markets start to cut rates this will help create a favourable environment for emerging markets to continue their rate-cutting path. Although local assets have weakened year-to-date, we believe local rates continue to be attractive.

Portfolio sectoral positioning at February 2024



Source: Morgan Stanley Investment Management February 2024 report

Disclaimer: The information in this publication has been prepared from sources believed to be reliable and accurate at the time of preparation but Salt Funds Management Limited, its officers, directors, agents, and employees make no representation or warranty as to the accuracy, completeness, or currency of any of the information contained within, and disclaim any liability for loss which may be incurred by any person relying on this publication. All analysis, opinions and views reflect a judgment at the date of publication and are subject to change without notice. This publication is provided for general information purposes only. The information in this publication should not be regarded as personalised advice and does not take into account an individual investor's financial situation or goals. An individual investor should, before making any investment decisions, seek professional advice. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.