
# Salt Sustainable Global Fixed Income Opportunities Fund Fact Sheet – August 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 August 2023

| | |
|---|---|
| **Benchmark for ESG purposes** | Bloomberg Global Aggregate Index (NZD hedged) |
| **Fund Assets** | $61.97 million |
| **Inception Date** | 10 February 2023 |
| **Underlying Manager** | Morgan Stanley Investment Management |
| **Average credit rating** | Standard & Poor's A- / Moody's A3 |
| **Effective Duration** | 3.2 years |

## Unit Price at 31 August 2023

| | |
|---|---|
| **Application** | 1.0113 |
| **Redemption** | 1.0102 |

## 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 August 2023

| | |
|---|---|
| **Global fixed income securities** | 97.98% |
| **Cash** | 2.02% |

## Fund Performance to 31 August 2023

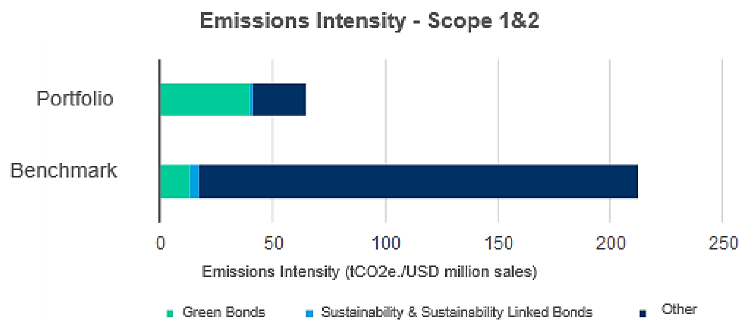
| Period | Fund Return (Gross incl. ICs) |
|---|---|
| **1 month** | -0.14% |
| **3 month** | 0.92% |
| **Since inception cumulative** | 1.42% |

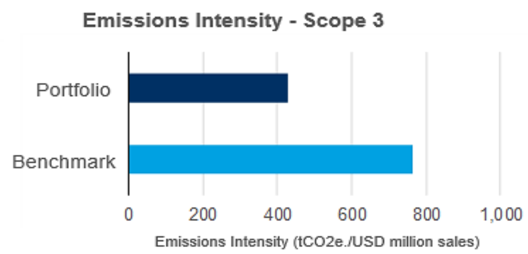
Performance is gross of fees and tax. Data as of 31 August 2023.

| Fund ESG Dashboard | Portfolio | Index | YTD change |
|---|---|---|---|
| MSCI ESG Score (MV%.) | 98.4% | 91.5% | - |
| Exposure to Corporates with CO2 footprint reduction targets | 94% | 88% | - |
| Green, plus Social, Sustainability and Sustainability-linked bonds | 22.7% | 2.6% | - |
| Sustainable SBTi approved / committed targets | 60.5% | 37.4% | - |
| CO2 Footprint Scope 1&2 (tCO2e/$mn emission intensity) | 64 | 212 | - |
| CO2 Footprint Scope 3 (tCO2e/$mn emission intensity | 428 | 764 | - |
| MSCI ESG Score (Adjusted) | 7.60 | 6.32 | 7.60 |
| - Environment score | 7.51 | 6.12 | 7.51 |
| - Social score | 5.60 | 5.52 | 5.60 |
| - Governance score | 6.24 | 5.72 | 6.24 |

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

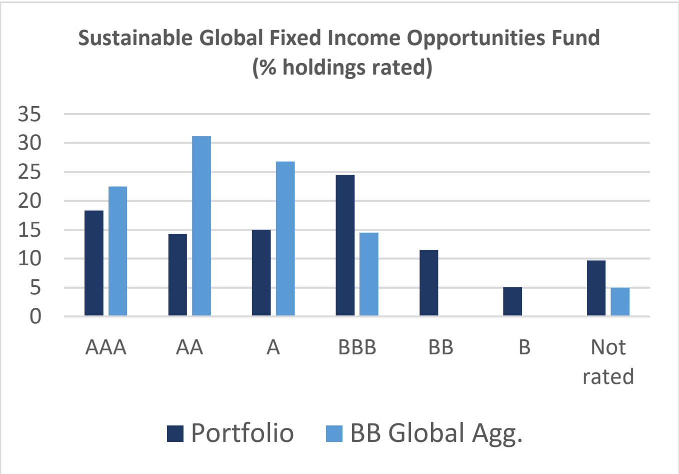
## Fund CO2 Emissions Intensity characteristics at 31 Aug. 2023




Source: MISM

### Fund credit ratings vs. Bloomberg Barclays Global Agg.




Source: MISM as at 31 August 2023

### Portfolio Review

- In the one-month period ending August 31, 2023, the portfolio returned -0.14% (gross.) The performance can be attributed to the following factors:
- The portfolio's positioning in DM rates (EUR, USD) was positive, partially offset by exposure to New Zealand dollar rates.
- Emerging Markets external contributed negatively on wider spreads.
- 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 as spreads widened overall.
- Within securitized assets, the allocation to ABS and non-agency RMBS was positive.
- Within currencies, the long position in EM FX expressed versus USD was positive with most gains seen in the long Indian rupee (INR) expressed versus USD.

### Strategy Changes

There were no material changes in strategy during August month.

### Portfolio Commentary & Outlook

Developed market rates were mixed in August with idiosyncratic factors driving each country's yields; however, yield curve steepening was a consistent theme. Central banks and economic data reinforced the idea that economies were near the end of the cycle, but factors also indicated that long term yields may be structurally higher, pushing up the long end of the curve as term premium rose. As a result, while 2-year yield changes were mixed across developed markets, 30-year yields were broadly higher. In the US, the 10-year yield rose 15bps. At the Jackson Hole meeting, Powell largely reiterated the same cautious and balanced message from the July FOMC meeting.

Eurozone yields outperformed as economic data continued to show signs of weakness. The central bank meeting calendar for August was light with no surprises. The RBA held rates the same with a dovish bias. The RBNZ kept policy rates at 5.5%. The BoE and Norges bank both raised rates by 25bps.

Overall, the goldilocks scenario where inflation falls without requiring a recession still appears plausible. Central bankers can be comforted with slowing inflation data while labour markets and growth data remain resilient. Most central bankers are fully in a data dependent mode, remaining open to a hawkish shift provided inflation proves stickier than expected. Given the uncertainty, it is difficult to concretely express an outright view on interest rates; however, with signs that central bankers are nearing the end of the cycle and with catalysts to drive term premium higher (QT, risk of Japanese selling, inflation risks), we continue to find steepeners attractive at certain parts of the curve. In terms of foreign exchange, the dollar strengthened again during August.

US IG spreads outperformed Euro IG spreads this month as August saw credit markets reverse some of the July rally, driven by several factors. Firstly, there were increasing concerns that central banks would retail base rates higher for longer. Secondly forward-looking economic indicators particularly in Europe (IFO, PMI's) and China signalled growth expectations were weakening. Finally, a weaker technical driven by supply re-opening in the last week of August (potentially creating expectations for strong supply in September) while demand remains muted due to the summer holiday month. The U.S. and global high yield markets recorded modest gains this month. The lower-rated, higher-beta segments of the high yield market continued to outperform with the higher quality.

Our base case remains unchanged with credit expected to range trade around current levels (having widened from the summer tights at the end of July) making carry an attractive return opportunity but spread duration offering capital gains less likely to be a material contributor. We remain cautious on the high yield market. It appears the average spread in the high yield market could grind even lower driven by temporarily supportive technical conditions.

The US securitized credit market had a good month relative to corporate credits as fundamentals in the asset class, particularly in the residential mortgage market remained strong. Relatively low historic delinquency levels remaining subdued, the asset class grinded tighter over the month. The European market marginally widened as the economic picture continued to deteriorate.

US residential credit remains our preferred sector, with a strong preference for seasoned loans. While we remain more cautious of commercial real estate, especially office, which continues to be negatively impacted in the post-pandemic world.

Emerging Markets Debt (EMD) sold off across all segments of the asset class for the month. Brazil cut rates by a larger-than-expected 50bps, which followed the lead of Chile and a handful of other Latin American countries over the past few months. In contrast, other emerging markets countries suffered currency weakness and high inflation during the month.

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.