Salt Sustainable Global Fixed Income Opportunities Fund Fact Sheet – January 2025

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 January 2025

Benchmark for ESG purposes	Bloomberg Global Aggregate Index (NZD hedged)
Fund Assets	$167.97 million
Inception Date	10 February 2023
Underlying Manager	Morgan Stanley Investment Management
Average credit rating	Standard & Poor's A / Moody's A2
Effective Duration	2.65 years

Unit Price at 31 January 2025

Application	1.0498
Redemption	1.0487

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 January 2025

Global fixed income securities	97.5%
Cash, FX, short term & sundry	2.5%

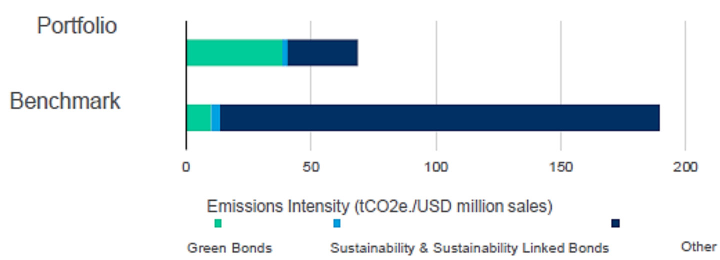
Period	Fund Return (Gross incl. ICs)
1 month	0.82%
3 month	1.28%
6 month	2.39%
1 year	5.65%
Since inception p.a.	5.71%
Since inception cumulative	11.48%

Performance is gross of fees and tax. Data as of 31 January 2025.

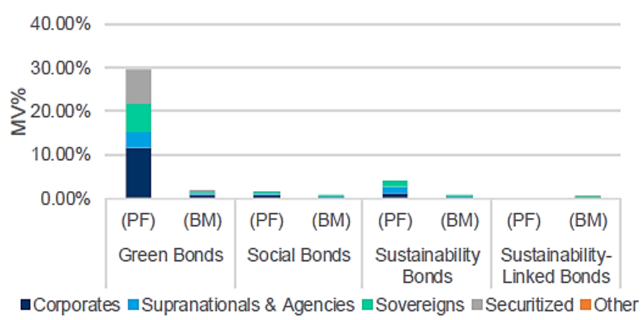
Sustainability scoring and Emissions intensity

Fund ESG Dashboard	Port.	Agg	MTD change
Exposure to Corporates with CO2 footprint reduction targets	96%	90%	-
Green, plus Social, Sustainability and Sustainability-linked bonds	35.4%	2.9%	-1.1%
Sustainable SBTi approved / committed targets	51.1%	39.0%	-3.4%
CO2 Footprint Scope 1&2 (tCO2e/$mn emission intensity)	74	188	8.2%
CO2 Footprint Scope 3 (tCO2e/$mn emission intensity	504	702	0.8%
MSCI ESG Score (Adjusted)	7.13	6.06	-0.05
- Environment score	7.27	5.90	-0.03
- Social score	5.94	6.64	-0.05
- Governance score	6.35	6.47	-0.02

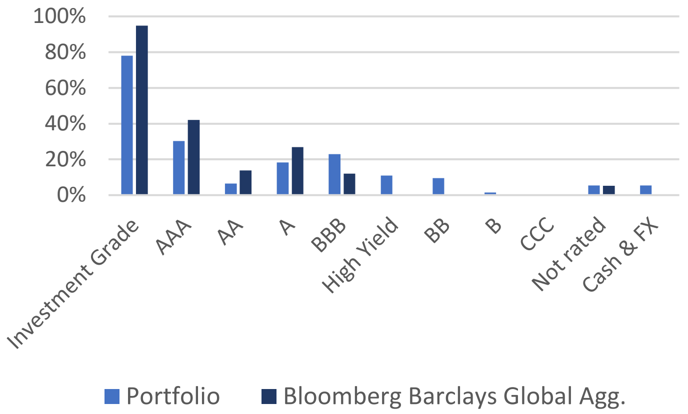
Source: MISM Monthly Investment Report/ MSCI ESG Research at 31 Jan. 2025



Portfolio versus Bloomberg Global Agg. Index labelled bonds



Fund credit ratings vs. Bloomberg Barclays Global Agg.



Source: MISM as at 31 January 2025

Portfolio Review

- In the one-month period ending 31 January 2025, the portfolio returned 0.82% (gross.) The performance can be attributed to the following factors:
- Both macro decisions and sector spreads had a positive impact on performance in January.
- Regarding macro decisions, the long exposures to the US and short exposure to Japan had a positive impact on performance. Higher "risk-free" rates continued to contribute to performance. Exposure to Euro-Area spreads had a small positive impact on performance.
- Both external and quasi spread added to performance in January.
- Within FX, the short EUR and CAD positions added to performance.
- Regarding the portfolio's positioning within sector spreads, the exposure to investment grade and high yield corporates added to performance as both euro investment grade corporate and U.S. investment grade corporate spreads tightened in January.
- The long exposure to securitized credit added to performance, mainly within Agency/Non-Agency RMBS and Non-Agency CMBS.

Strategy changes

- Overall, duration exposure was reduced to 2.65 years, this was achieved by reducing the long exposure to US duration and increasing the short exposure to Japan. The portfolio also increased the long exposure to New Zealand duration. Within FX, increased long NZD and USD positions and closed the short COP position.
- Increased exposure to Euro-area spreads by increasing the allocation to Greek spreads. Increased exposure to EM hard currency government debt by initiating a position to Indonesia. Reduced exposure to investment grade corporates.

Market Review and Outlook

Markets are now faced with the challenge of becoming proficient at reading/understanding President Trump's modus operandi and ultimate goals, as policy directives so far have been issued — and rescinded or postponed — at a rapid pace. In the first few days in office, the administration signalled its intent to execute as many campaign promises as possible, with a flurry of executive orders. Markets were initially pleased that the early efforts focused on immigration and government efficiency while steering clear of tariffs. Unfortunately, that reprieve did not last long. On the last day of January, President Trump announced an immediate 25% blanket tariff on all Mexican and Canadian goods, with a 10% carve out for Canadian energy, and an additional 10% tariff on China.

Although campaign rhetoric pointed to an aggressive stance on tariffs, the markets were nonetheless caught off guard by the announcement, unsettled by the magnitude of the levies and timing of their targeted effective date. Fortunately, but perhaps unsurprisingly, Mexico and Canada were able to defuse the immediate risk and negotiate with the U.S. administration to postpone implementation for one month. Although China's tariff increase remains on the table, that in itself is not surprising or overly worrisome given the U.S. government's desire to "delink" from China.

While financial markets had a good January, overcoming angst about the incoming U.S. administration, the future remains quite murky. The complication is that the U.S. economy has, in effect, "landed" — meaning that for all the talk of entrenched inflation and incipient recession risk, the economy's performance was remarkably stable. It is possible that growth has reached a new higher equilibrium, call it 2.5% real growth and 2.5% inflation with a stable, full employment labour market. And Federal Reserve (Fed) policy may have, by skill and/or luck, arrived at the appropriate policy rate to maintain that stability.

So, if all looks good for the U.S. economy (with or without further rate cuts), the president's ardent desire to disrupt trade policy and potentially trigger a change in Fed policy is not good for asset prices, which by most calculations are highly or fully valued for both credit and equities. Outside the U.S., the 10-year government bond yields in most countries look okay given economic and policy trajectories. There is an old adage that business cycles don't die of old age, they are "murdered", typically by shocks from policy mistakes, exogenous events or bubbles. In this case, market pricing on a whole host of assets is dependent on the absence of policy errors. With the Trump administration's seemingly relentless focus on immigration and trade, the risk of policy upsetting the current equilibrium has been growing. That said, U.S. Treasury 10-year yields are likely to remain range-bound with the caveats noted.

The central question is whether the Trump administration can implement its policies without causing a pullback in asset prices. Initially, the market's reaction to Trump's victory was positive; the thinking was that although trade and immigration policies were not positives for growth and low inflation, they would be offset by other positives in the policy basket (deregulation, tax cuts) that would, on balance, benefit the economy. This assumption is now being challenged as the administration is implementing the economically negative components of the policy basket first, with the pro-growth elements taking longer to be implemented and their impact therefore delayed.

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In addition, given a narrow Republican majority in Congress it is difficult to be too confident about how much of the pro-growth agenda will be passed. And, specifically regarding trade policy, we still do not know the ultimate objective(s). The administration has laid out three goals: (1) establish a negotiating tool to achieve other goals, like drug interdiction and illegal immigration; (2) raise money, to either pay for other tax cuts or spend elsewhere; and (3) reduce trade dependency to transition to a more autarkic economy. It is not yet clear which one of these is most important to the administration; this uncertainty will make investing challenging in the months ahead as the "true colours" of the administration's aims come to light.

What does this mean for monetary policy?

Tariff uncertainty means less certain U.S. monetary policy.

Tariffs — and potentially large ones as directed by the Trump administration — should be viewed as a consumer tax (like the value-added tax, VAT, used in much of the world) and a negative supply shock. This would be a growth-reducing, inflation-enhancing shock to the U.S. economy, while the added uncertainty alone could keep inflation higher than otherwise. This scenario is likely to make the Fed cautious about further rate cuts. While we have been sceptical that the Fed would deliver two rate cuts in 2025, it had remained a distinct possibility.

Now, two cuts look even less likely and, assuming tariffs are eventually implemented (we think a 10% levy across the board does not look out of line with administration rhetoric or goals), the impact could cause the Fed to stop cutting rates entirely. Notably, the opposite is true for most other countries.

As we saw with Canada, the market immediately priced in additional aggressive rate cuts to offset the deflationary impact of tariffs on the Canadian economy. This relative response rate would, on the surface, suggest a preference for non-U.S. government bonds (except for Japan, whose central bank is raising rates no matter what). But, the increasing headwinds for the world economy and a likely stronger dollar usually means falling prices for risky assets and, importantly, lower U.S. Treasury yields. Netting these forces out leaves us with a small underweight to U.S. interest rate risk relative to the rest of the world. Given all the uncertainty with economic and policy outcomes, we think running a conservative interest rate strategy makes the most sense for now.

Credit market impact in 2025

Credit markets wobbled a bit on the tariff news but quickly regained their equilibrium, attesting to the still-strong fundamentals underlying credit. With the future murkier and valuations high, we think it is prudent to be prudent. It continues to be true — maybe even more so given uncertainty surrounding the Trump administration — that it will be difficult for spreads to tighten much from current levels. However, we believe that does not detract from the overall total return possibilities of these bonds. With fundamentals still strong, a seemingly voracious investor appetite for taking down supply, and central banks still in easing mode, it is difficult to be underweight. This backdrop requires being highly selective and actively managing rating, country and industry holdings to avoid the inevitable problems likely to arise in the next 12 months.

We remain focused on avoiding companies and industries at risk (either from idiosyncratic underperformance, secular challenges or from increased management aggressiveness) while building as much yield as is reasonable into the portfolio without jeopardizing returns from credit losses or spread widening. We still identify better opportunities in U.S. names and European banks in euro-denominated bonds, although we have been selectively reducing overweight positions on outperformance.

Securitized credit remains our go-to overweight sector. But even here, the recent streak of strong performance is reducing its relative and absolute performance. While many components of this sector (commercial mortgage-backed securities, residential mortgage-backed securities, asset-backed securities) look attractive on an equal ratings comparison to credit, absolute spreads, like in credit, are — relative to their own history — nearing levels where it is less attractive to be long. That said, we believe the technical dynamics and fundamentals remain compelling. New issues are frequently multiple times oversubscribed, making it difficult to accumulate large positions. Amid the current noise and uncertainty in the world, we believe this sector can continue to perform well. In the agency sector, higher coupon securities continue to be attractive compared to investment grade corporates and other agency coupon structures, and we believe they are likely to outperform U.S. Treasury securities. Selectivity remains key.

Emerging market (EM) bonds have performed well in early February as the trade war with Mexico was (temporarily) defused. How long this can last is an open question. It is still very possible that postponed tariffs could eventually come into effect. As such, we do not expect the current lull in negativity or the recently good price performance to continue unabated. Nevertheless, we believe that countries with solid economic outlooks, decent growth, falling inflation, high real yields and central banks willing and able to cut interest rates — despite policy changes in the U.S. — are likely to perform well. Country and security selection remain critical. We are keeping an eye on Brazilian local bonds as the fiscal and monetary outlook evolves in 2025. We also think some of the higher-yielding countries with weaker trade linkages to the U.S., like Egypt, are likely to continue to perform relatively better.

In currency markets, the U.S. dollar is likely to remain firm in the months ahead despite its recent correction after the Mexico and Canada tariff postponement. Dollar weakness is likely to be transitory. While the dollar's valuation is high, its fundamental support remains robust, and most other currencies around the world look significantly more challenged. A potentially aggressive U.S. tariff policy would exacerbate the dollar's strength, especially if other countries let their currencies depreciate to offset higher tariffs. However, caveats to this optimistic narrative could be a deterioration in the U.S. labour market, a general weakening in growth, or diminishing confidence in U.S. budget policy.

The U.S. economy thrives on capital flows, the mirror image of the trade deficit. If non-U.S. investors lose confidence in the U.S., financing the investment surge alongside the quite outsized public sector deficits may become problematic. These events might pressure the Fed to become more aggressive in cutting interest rates given its dual mandate. The more likely cause of the dollar falling would be something going wrong on the U.S. side of the equation. But, with tariffs imminent, this is difficult to see. We believe avoiding underweight U.S. dollar positions versus other developed market currencies makes sense. That said, we also believe more idiosyncratic positions in selective EM currencies do have merit — selectivity being the key word.

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