# SALT

## Salt Sustainable Global Fixed Income Opportunities Fund Fact Sheet – September 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 30 September 2023

| | |
|---|---|
| Benchmark for ESG purposes | Bloomberg Global Aggregate Index (NZD hedged) |
| Fund Assets | $61.82 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 30 September 2023

| | |
|---|---|
| Application | 1.0051 |
| Redemption | 1.0040 |

### 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 30 September 2023

| | |
|---|---|
| Global fixed income securities | 98.5% |
| Cash | 1.5% |

### Fund Performance to 30 September 2023

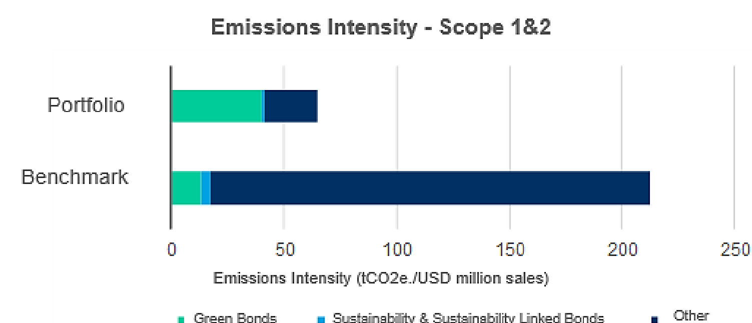
| Period | Fund Return (Gross incl. ICs) |
|---|---|
| 1 month | -0.57% |
| 3 month | 0.18% |
| 6 month | 0.64% |
| Since inception cumulative | 0.84% |

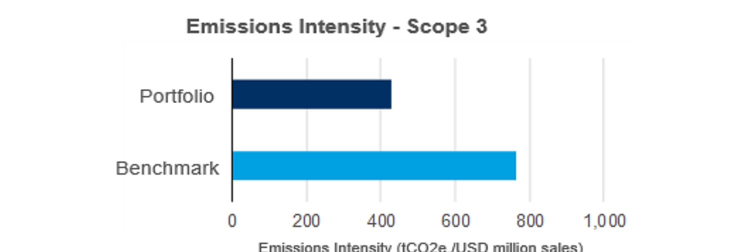
Performance is gross of fees and tax. Data as of 30 September 2023.

| Fund ESG Dashboard | Portfolio | Index | YTD change |
|---|---|---|---|
| MSCI ESG Score (MV%.) | 98.4% | 91.4% | - |
| Exposure to Corporates with CO2 footprint reduction targets | 94% | 88% | - |
| Green, plus Social, Sustainability and Sustainability-linked bonds | 22.2% | 2.6% | - |
| Sustainable SBTi approved / committed targets | 58.7% | 37.4% | - |
| CO2 Footprint Scope 1&2 (tCO2e/$mn emission intensity) | 64 | 212 | - |
| CO2 Footprint Scope 3 (tCO2e/$mn emission intensity | 429 | 764 | - |
| MSCI ESG Score (Adjusted) | 7.59 | 6.32 | 7.59 |
| - Environment score | 7.52 | 6.12 | 7.52 |
| - Social score | 5.63 | 5.53 | 5.63 |
| - Governance score | 6.26 | 5.72 | 6.26 |

Source: MISM Monthly Investment Report/ MSCI ESG Research as at 30 Sep. 23.

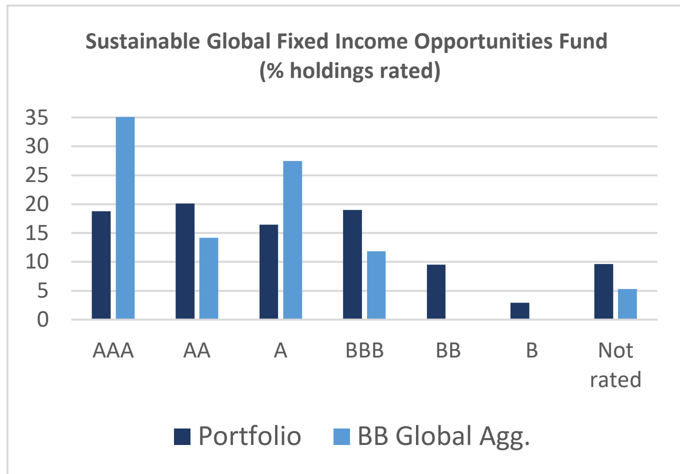
### Fund CO2 Emissions Intensity characteristics at 30 Sep. 2023



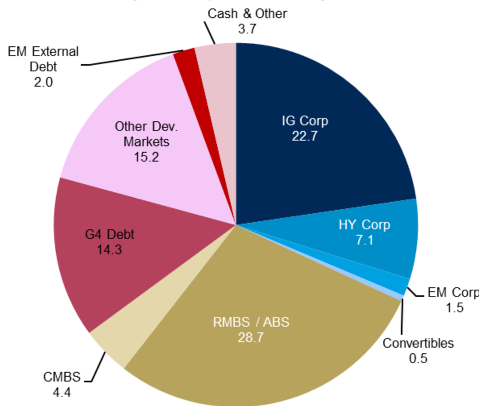

Source: MISM

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




Source: MISM as at 30 September 2023

## Fund fixed income segment positioning




Source: MISM as at 30 September 2023

## Portfolio Review

- In the one-month period ending September 30, 2023, the portfolio's positioning in Developed Markets (DM) rates (EUR, USD, NZD) was negative, as yields rose on rising oil prices and as Central Banks signalled rates will be "higher for longer".
- The contribution to Emerging Markets (EM) Local rates was negative overall, with the main drivers being the exposure to China and Mexico.
- Exposure to European periphery (Greece) also detracted on wider spreads.
- The allocation to investment grade (preference for EUR over USD, bias to financials, focused on significantly important institutions) contributed positively given tighter spreads in Europe, while exposure to high yield corporates (predominantly industrials) detracted.
- Within securitized assets, the allocation to ABS, CMBS and non-agency RMBS was positive.
- Within currencies, the long position in USD contributed positively overall. Within EM FX was mixed with the negative contribution from the long positions in BRL and IDR expressed versus USD offsetting the positive contribution from the short CNY position.

## Market Review

- The key theme that drove markets in September was the steep sell-off on the back end of the U.S. yield curve. While the move was attributed to many things, the still resilient U.S. economy and an increase in term premium likely explain most of it. Going forward, it's unclear if the full extent of selling is done. The curve is still inverted and term premium, while elevated in the context of the negative levels of the past decade, is still well below the +1% to 3% levels found before the post-Global Financial Crisis period.
- Simultaneously, higher yields should feed through to tighter financial conditions, putting further pressure on the economy. 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 as they can keep benefiting from further increases in term premium and/or a more typical bull steepening if the Fed pivots in the face of economic weakness. In terms of foreign exchange, the dollar again strengthened during September. We are neutral on the U.S. dollar, preferring to focus on other attractive opportunities.

## Portfolio Commentary & Outlook

- There were no material changes in strategy during the month.
- Overall, the duration of the portfolio was decreased by 0.33 years, closing at 2.76 years given rising yields.
- Within Developed Market (DM) rates, we reduced exposure to Australia on stronger than expected CPI as well as UK duration given hawkish stance from the Bank of England.
- Within European Sovereign, we reduced our exposure to Greece amid pressure on European peripheral spreads.
- We maintain 2/10-year, 5/10-year and 5/30-year steepening trades in the US, Europe in the UK. Better than expected growth data and high fiscal deficits may continue to reprice term premium higher at the back end, while high front-end rates provide a hedge in case growth disappoints to the downside in 2024 (which would cause Central Banks to cut policy rates).
- We have been trimming our long positions in EM local rates post strong relative performance in the first half of the year, particularly Mexico, South Africa.
- Within credit, we maintain a long position in Investment Grade (IG) predominantly through financials and a preference for EUR relative to USD, with an overall focus on the intermediate part of the curve vs the short end. In September, we trimmed long positions in high quality US non-financials A+ given tight spreads and in some tighter idiosyncratic names in HY credit.
- Within securitized, there were no major changes. Overall, we maintain a positive view to securitized credit given attractive valuations, low supply and strong underwriting.

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- Regarding currency positioning, we no longer have strong conviction in the weakening trend for US dollar given the upside growth surprises over the past few months. We have closed our long CAD versus USD trade. Within EM FX we reduced our long PLN position while increasing exposure to BRL given high carry. We are also long INR vs CNY given the strong secular trends in India against China.
- 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.

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