

SALT

Salt Sustainable Global Fixed Income Opportunities Fund Fact Sheet – November 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 November 2023

Benchmark for ESG purposes	Bloomberg Global Aggregate Index (NZD hedged)
Fund Assets	\$67.17 million
Inception Date	10 February 2023
Underlying Manager	Morgan Stanley Investment Management
Average credit rating	Standard & Poor's A- / Moody's A3
Effective Duration	3.05 years

Unit Price at 30 November 2023

Application	1.0078
Redemption	1.0067

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 November 2023

Global fixed income securities	97.1%
Cash	2.9%

Fund Performance to 30 November 2023

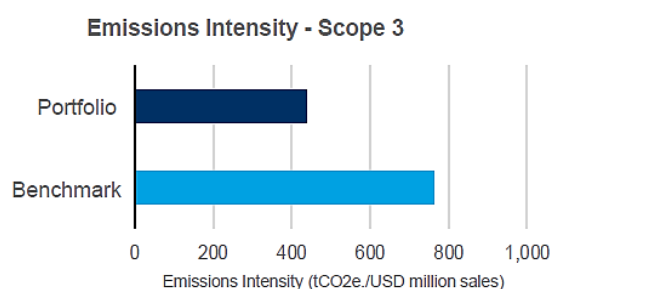
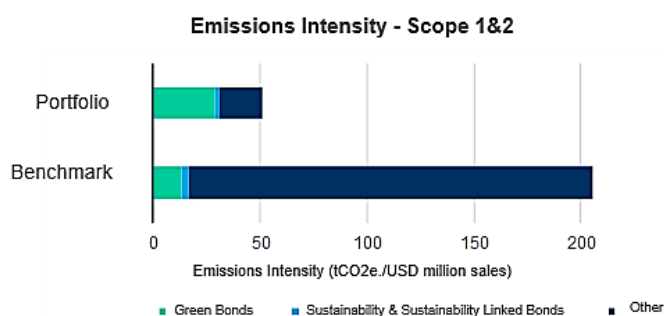
Period	Fund Return (Gross incl. ICs)
1 month	2.16%
3 month	1.59%
6 month	2.53%
Since inception cumulative	3.03%

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

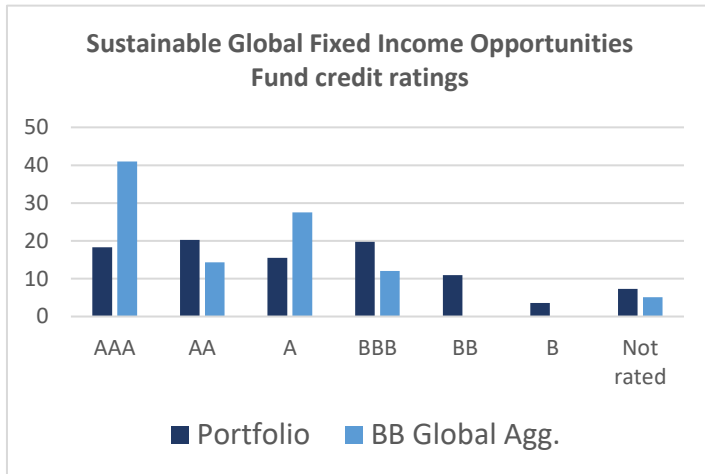
Fund ESG Dashboard	Portfolio	Index	Since-inception change
MSCI ESG Score (MV%.)	97.9%	91.6%	+1.7%
Exposure to Corporates with CO2 footprint reduction targets	93.3%	88%	
Green, plus Social, Sustainability and Sustainability-linked bonds	22.3%	2.6%	-4.8%
Sustainable SBTi approved / committed targets	52.2%	37.8%	-7.6%
CO2 Footprint Scope 1&2 (tCO2e/\$mn emission intensity)	51	205	-6.9%
CO2 Footprint Scope 3 (tCO2e/\$mn emission intensity)	429	754	-9.8%
MSCI ESG Score (Adjusted)	7.63	6.32	+0.20
- Environment score	7.71	6.14	+0.37
- Social score	5.71	5.53	+0.12
- Governance score	6.29	5.74	+0.08

Source: MISM Monthly Investment Report/ MSCI ESG Research as at 1 Dec. 23.

Fund CO2 Emissions Intensity characteristics at November '23



Fund credit ratings vs. Bloomberg Barclays Global Agg.



Source: MISM as at 30 November 2023

Portfolio Review

- In the one-month period ending November 30, 2023, the portfolio return was a strong 2.2% gain, although result this can be viewed in the context of a 3.2% gain in the Bloomberg Barclays Global Aggregate Bond Index (NZD-hedged.) The performance can be attributed to the following factors.
- Given falling yields and tighter spreads in response to lower inflation data, both macro decisions (long duration) and sector spreads (long credit risk) contribution were positive this month.
- The portfolio's duration positioning in Developed Markets (DM) rates (USD, EUR, NZD) was positive as yields fell and curve steepened.
- The contribution to Emerging Markets (EM) Local rates 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 non-agency and agency RMBS was positive.
- Positioning in currencies was broadly flat, with the long position in EM FX negative overall (short CNH) offset by a positive long AUD versus CAD.

Market Review

- Rates: a strong rally on the decreasing inflation trend leading to increased expectations of Central Banks cuts in 2024.
- For instance, the US 10yr moved 60bps lower at 4.33%. The German Bund 10yr, 36bps lower at 2.45% and the UK 10yr, 34bps lower at 4.18%

- Credit:** November saw credit market spreads tightening and risk-free yields rally as markets interpreted economic data and central bank comments as signalling the risk of further rate hikes was low and the probability of a soft landing occurring had risen.
- Specific factors included (1) No escalation in geo-political concerns resulting in a lower oil price (2) Inflation data below expectation suggesting monetary policy was working and no further rate hikes were necessary (3) Q3 reporting that while on aggregate ahead of expectation saw weakness in Energy and Chemicals relative to expectations and some downgrades to growth expectations and (4) China headlines that policy measures supportive of growth and the housing sector were being planned and implemented.
- Investment Grade:** EUR spreads moved 13bps tighter at 147bps and US spreads, 25bps tighter at 104bps.
- High Yield:** EUR spreads moved 47bps tighter at 426bps and US spreads, 67bps tighter at 370bps.
- Securitized:** Agency MBS spreads tightened in November, reversing several months trends of widening as markets continue to struggle with absorbing the supply in the absence of Fed MBS purchases and the decline of US banks' MBS purchases.
- Securitized credit spreads continued to tighten in November despite strong new issue supply.

Portfolio Commentary & Outlook

- There were no material changes in strategy during the month. Overall, the duration of the portfolio was extended slightly (+0.29 years) from October to 3.05 years.
- Most of the duration change was made in EUR, US and UK duration in the first half of the month to capture the broad-based rally in yields triggered by lower inflation prints, leading to market expectations that Central Banks were done hiking and increasing expectations on rate cut next year. Towards the end of the month however we tactically trimmed the duration positioning to take profit. Elsewhere within Developed Markets (DM) rates we trimmed exposure to New Zealand duration.
- We maintain 2/10-year, 5/10-year and 5/30-year steepening trades in the US, Europe in the UK. 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 November, we marginally reduced credit risk taking advantage of the strong technical bid towards month end as levels reached long term targets. We implemented the reduction through selling senior financials ahead of new issuance early in 2024.
- We also trimmed long positions in high yield names on valuations post rally to take profit. We made no major changes in securitized. Overall, we maintain a positive view to securitized credit given attractive valuations, low supply and strong underwriting.
- Regarding currency positioning, we reduced our USD exposure as the markets is increasingly pricing Fed cuts in 2024. We eliminated our long Indian rupee (INR) versus Chinese yuan (CNH). We also initiated a long Australian dollar (AUD) versus Canadian dollar.

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