SALT

Salt Sustainable Global Fixed Income Opportunities Fund Fact Sheet – May 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 31 May 2024

Benchmark for ESG purposes	Bloomberg Global Aggregate Index (NZD hedged)
Fund Assets	$87.23 million
Inception Date	10 February 2023
Underlying Manager	Morgan Stanley Investment Management
Average credit rating	Standard & Poor's A / Moody's A3
Effective Duration	2.57 years

Unit Price at 31 May 2024

Application	1.0225
Redemption	1.0214

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 May 2024

Global fixed income securities	91.1%
Cash, Short term & Sundry	8.9%

Fund Performance to 31 May 2024

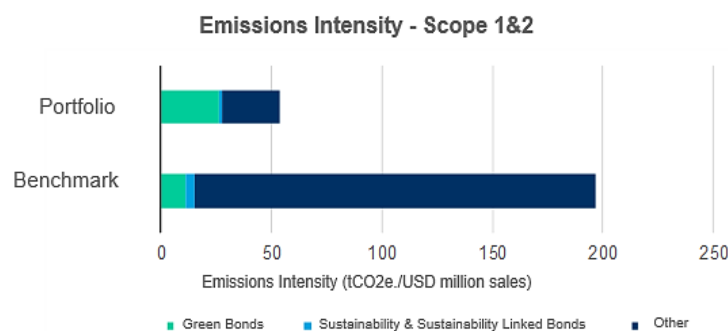
Period	Fund Return (Gross incl. ICs)
1 month	0.75%
3 month	0.93%
6 month	3.51%
1 year	6.13%
Since inception p.a.	5.13%
Since inception cumulative	6.64%

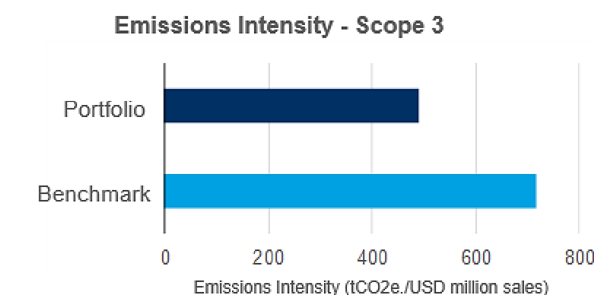
Performance is gross of fees and tax. Data as of 31 May 2024.

Fund ESG Dashboard	Portfolio	Index	2024 YTD change
Exposure to Corporates with CO_2 footprint reduction targets	95%	89%	-
Green, plus Social, Sustainability and Sustainability-linked bonds	21.8%	3.1%	+3.2%
Sustainable SBTi approved / committed targets	50.9%	38.8%	+4.2%
CO_2 Footprint Scope 1&2 (tCO2e/$mn emission intensity)	54	197	+10.9%
CO_2 Footprint Scope 3 (tCO2e/$mn emission intensity	489	718	-0.4%
MSCI ESG Score (Adjusted)	7.09	6.09	-0.15
- Environment score	7.36	5.95	+0.48
- Social score	5.98	6.63	-0.10
- Governance score	6.42	6.46	-0.14

Source: MISM Monthly Investment Report/ MSCI ESG Research at 31 May 2024

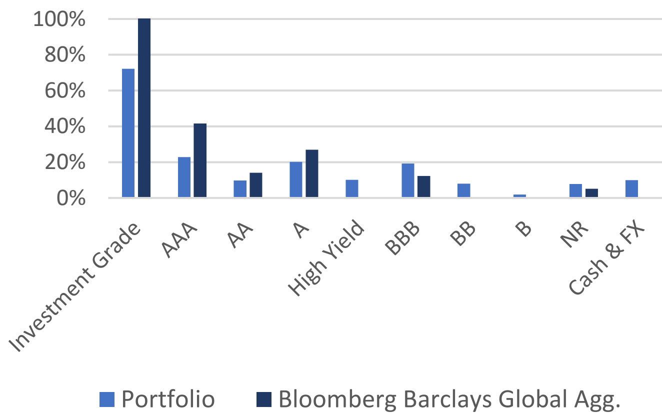
Fund CO_2 Emissions Intensity characteristics as at 31 May 2024





Source: MISM Monthly Investment Report as at 31 May 2024

Fund credit ratings vs. Bloomberg Barclays Global Agg.



Source: MISM as at 31 May 2024

Portfolio Review

- May month's positive performance can be attributed to the following factors:
- Macro Decisions contributed to performance, while sector spreads (long credit risk) contribution were positive this month.
- The portfolio's duration positioning in Developed Markets (DM) rates (EUR, USD) were positive, particularly in the US where yields fell during the month.
- The contribution from Emerging Markets (EM) Local rates was also positive overall, with the main positive drivers being the exposure to Mexico and Brazil.
- The allocation to Investment Grade (preference for EUR over USD, bias to financials, focused on significantly important institutions) contributed positively given tighter spreads in the US and Europe.
- The small allocation to high yield also contributed positively.
- Within securitized assets, the allocation to ABS and RMBS was positive.
- There were no material changes in strategy during the month.
- Overall, the duration of the portfolio was reduced by 0.46 years, closing May at 2.57 years.

Market Review

- May was a month of two halves in the developed markets rates markets. Bond markets rallied in the first half of the month as the Federal Reserve (Fed) leaned dovish at its May meeting, continuing to signal an intention to cut interest rates. Economic data, such as U.S. retail sales, also came in weaker than expected while the April U.S. consumer price index (CPI) print ended a string of upside inflation surprises, with services inflation in particular moderating.
- Later in the month, however, policymakers turned less dovish and data came in stronger. Various Fed speakers also began to explicitly reference further policy tightening, though they were quick to stress rate hikes were not in their base case, while minutes from the May meeting revealed that a few policymakers doubted just how restrictive current policy is. Inflation in other markets – most notably, Australia, the U.K. and the eurozone – was also higher than expected and showed signs of price pressures reaccelerating.
- While several DM central banks are widely expected to cut rates in the coming months, the depth of the cutting cycle is more important for fixed income markets than the timing of the first cut. Recent data and policy communications suggest central banks will likely adopt a cautious approach. We have stayed short duration as momentum is bearish, carry is negative and valuations in longer maturities are unattractive, in our view.
- Cross-market, we prefer to be short Australian vs. U.S. rates due to evidence of still-sticky inflation and the Reserve Bank of Australia turning more hawkish. We also remain underweight duration in Japan, where communication has turned less dovish amid concern about the weak yen, and confidence has grown that positive wage-price dynamics will likely lead to sustainably higher inflation.

Portfolio Commentary & Outlook

During the month, investment grade credit spreads continued to grind tighter, with euro spreads outperforming the U.S., and credit volatility remained low. Market sentiment was dominated by several factors: Firstly, inflation and growth data surprised to the upside in Europe but was in line with expectations in the U.S.

Secondly, central bank policy continues to diverge as the European Central Bank (ECB) is expected to cut rates in June while the Fed remains hawkish. Thirdly, first quarter corporate reporting was positive for credit with the confirmation that corporates were seeing limited stress in their businesses with the majority running low risk strategies. Merger and acquisition (M&A) activity continues to be conservatively funded from a bondholder perspective.

Finally, the technical remains strong as higher-than-expected supply is met with strong demand.

May was a modestly strong month for the U.S. and global high yield markets. The average yield in the U.S. high yield market fell by more than 35 basis points (bps) over the first two weeks of the month before gradually climbing in the second half as spreads modestly widened. Ultimately, the average spread ended the month only slightly higher while the average yield was modestly lower on the back of lower U.S. Treasury yields.

The technical conditions in high yield strengthened in May as retail demand was notably stronger, gross issuance increased and net issuance remained light, with capital markets squarely focused on refinancing. Finally, traditional default activity among high yield bond issuers was non-existent in May; however, the volume of distressed exchanges remained elevated.

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.

Looking forward, our base case remains constructive for credit, supported by expectations of an economic soft landing, low-risk corporate strategies, accommodative fiscal policy and positive momentum. Considering current credit spreads valuation, we see a market that is fairly priced, 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. Our outlook for the high yield market is somewhat cautious as we progress through the second quarter. The high yield market is contending with several elements of uncertainty and the unique combination of historically attractive yields and an average spread that ranks near cycle lows.

U.S. agency mortgage-backed securities (MBS) spreads tightened 10 bps in May to 143 bps above comparable duration U.S. Treasury bonds, as demand remained very strong and new issue deals were consistently oversubscribed. Agency MBS spreads are now 4 bps wider in 2024.

Securitised credit sectors have been among the best performing sectors in 2024, but performance should normalise in the coming months. We still believe that current interest rate levels remain stressful for many borrowers and will continue to erode household balance sheets, causing stress for some consumer asset-backed securities (ABS). Commercial real estate also remains challenged by current financing rates. Residential mortgage credit opportunities remain our preferred sector. Our view on agency MBS valuations has moved from neutral to positive.

May performance was positive for the major segments of emerging markets debt (EMD). Global bond markets reacted positively to softer-than-expected U.S. inflation for April, and this helped support EMD assets as well. Most emerging markets currencies strengthened month-over-month and the U.S. dollar weakened. The Chilean peso rallied as copper, a major export for the country, continued the price rally that started in April. One notable outlier was the Philippine peso, which continued its year-to-date weakening streak as inflation remains sticky.

We believe valuations for EMD are still attractive and assets are cheap, which presents an attractive entry point for investors. With real yields near historically high levels and continued falling inflation, this provides a good environment for bond investors. The direction of monetary policy in the U.S. is likely easing, which can provide a supportive backdrop for emerging markets assets.

Source: Morgan Stanley Investment Management 31 May 2024

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.