

SALT

Salt Sustainable Income Fund Distribution rate review: Increase to quarterly distribution rate, effective from August 2023 distribution.

Dear Fellow Investors,

Investment markets' 2022 volatility has persisted into mid-2023, but as signs of mitigation in inflation pressures mount, asset prices have staged a partial recovery from last year's sharp value declines.

From the point of view of an Income Fund investor, that has two main consequences:

- Lower entry prices for listed assets that are reliable medium- and longer-term sources of advantageous dividend yield income are helpful. Once inflation and interest rate fears eventually abate, these assets have shown a strong historical tendency to rebound swiftly, ahead of broader listed equity markets.
- Income Funds' unit prices have been suppressed, but in the case of the Salt Sustainable Income Fund without affecting the quarterly distribution stream, as we do not make fund income distributions from capital gains, nor do we cut distributions when underlying asset prices dip.

Rather, the more prudent approach we follow, is to distribute income receivable into the fund, from the wide range of domestic and international securities that it holds.

Higher official and bank-offered interest rates naturally creates a pressure for investors to place money on Term Deposit, rather than remain committed to a disciplined multi-year Income Investing strategy.

We believe is a mistake, for reasons we lay out in a recent Insight paper: "Four reasons well-constructed Income Funds can still offer better Investor Outcomes than Term Deposits."

Despite concerning headlines, the news from markets is not all bad. The sharp adjustments which have taken place in risk pricing also have the impact of increasing the income yields from the underlying high-quality equity and bond assets held within the Salt Sustainable Income Fund.

As a result, we can again raise the Sustainable Income Fund's quarterly distribution, for the third time since the Fund was launched in mid-2021. This is to be implemented from the third distribution of 2023 (paid in August.)

We will raise the cents per unit distribution value from 1.000 currently to 1.125, paid on a quarterly basis. This is a 12.5% gross increase the dollar value of the distribution that investors receive, whether they opt for their distributions to be paid out in cash or re-invested in the Fund. The Salt Sustainable Income Fund will therefore distribute 4.5 cents per Unit per annum, from August the next review towards the end of this year.

This increased cents per unit value equates to a prospective per annum yield of 5.19% based on the 1 June unit price of 0.8671. We consider these adjustments keep the Sustainable Income Fund a competitive option for clients who rely upon a clearly-defined income stream and have a medium-term investment horizon of 3 years – 5 years. We are pleased to be able to make a moderate increase in the Fund's distribution level, while retaining our disciplined focus on not compromising the quality or diversity of the Funds global pools of best-quality income producing capital assets.

Over the target investment horizon, these assets are expected to gain in value, thus demonstrating the Fund's capacity for providing inflation-resilient real returns over time, which differentiates it from Bank deposits and many bond- or debenture- like securities.

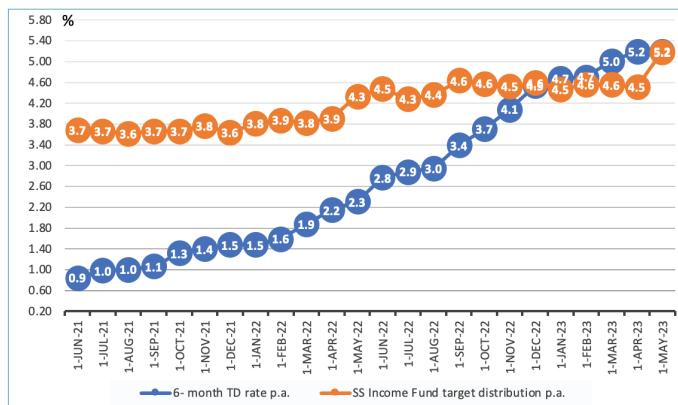
Finally, the sustainability of the Income Fund has been advanced by the transfer in February of the Global Bond allocation into the Salt Sustainable Global Fixed Income Opportunities Fund, a targeted international bond vehicle managed by Morgan Stanley Investment Management. The Fund utilises an active, flexible approach to investing in global fixed income securities. Sustainable management means that we integrate Environmental, Social and Governance ("ESG") considerations into investment decision-making, with minimum thresholds of sustainability for the corporates and sovereigns in the portfolio.

As shown below, the average NZ term deposit rate has increased as the Reserve Bank continued to lift the Official Cash Rate, currently to 5.5%. However, the forward path of bank-offered Term Deposit rates is uncertain, whereas the Sustainable Income Fund provides a comparatively stable

distribution yield indication for the six months ahead. For investors drawing regular income from accumulated savings, the Fund offers the certainty of less volatile income streams via distributions known in advance, to which is added the scope to recoup funds drawn down to meet income needs through medium-term capital growth of the underlying asset pool.

This supports Fund Unit value replenishment and keeps investors participating in the growth in the value of global assets chosen for their well-diversified economic resilience.

NZ 6 Month Term Deposit rates have risen, after lagging through 2021-2



Source: Salt, RBNZ data

Sincerely,

Greg Fleming
Portfolio Manager

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