

# SALT

## Salt Sustainable Income Fund Fact Sheet – September 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 Fund aims to provide a gross fixed quarterly income (after fees and expenses but before tax) in excess of bank deposit rates, along with a positive return on capital on a rolling three-year basis. Deposit rates are proxied by the NZ Bank Bill Index.

A Reference Portfolio is provided, medium-term outperformance of which is a secondary objective, consisting of the weighted sum of components.

The Fund targets a diversified mix of growth and defensive assets, with a focus on securities with Environmental, Social and Governance features & reliable income generation. The Fund's strategy is to invest in a quality asset mix to provide regular, sustainable income and a positive return on capital. The value of the fund will fluctuate in line with listed market developments, but the primary focus is enhanced income and thus, shorter-term variability is an expected feature. Income is prioritized above capital gain in the fund, nevertheless, the allocation to both growth and yielding assets allows for both objectives to operate over the medium- and longer-term horizons.

### Fund Facts at 30 September 2024

Benchmark	Bank deposit rates (BNZBIL Index)
Reference portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	\$47.84 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Prospective distribution yield (cents per unit) / based on Unit Price of 1.10.24	1.125 cents per unit per Quarter / 5.00% per annum

### Unit Price at 30 September 2024

Application	0.9036
Redemption	0.8999

### Sustainability Metrics

Fund ESG Scores	Portfolio	Category ave
Morningstar ESG score	18.84	21.00

Scores indicate risk level – a lower score reflects a lower ESG multi-factor risk level. ESG score as at 30.09.24. Sustainalytics provides issuer-level ESG Risk analysis used in the calculation of Morningstar's Sustainability Score. Sustainable Investment Mandate information is derived from the fund prospectus.

### Investment Guidelines

Sector	Target	Range
Global Fixed Interest	35%	0% – 60%
Australasian Shares	30%	15% – 45%
Global Listed Property	15%	0% – 35%
Global Listed Infrastructure	15%	0% – 35%
Cash or cash equivalents	5%	0% – 20%

See "Salt Statement of Investment Policy and Objectives, 30 June 2022"

### Fund Allocation at 30 September 2024

Global Fixed Interest	35.0%
Australasian Shares	27.5%
Global Listed Property	19.5%
Global Listed Infrastructure	17.0%
Cash or cash equivalents	1.0%

Asset allocation to Fixed Interest + Cash 36.0%

### Fund Performance to 30 September 2024

Period	Fund Return (before fees and tax)	Gross Reference Portfolio Return*
1 month	0.83%	1.14%
3 months	7.85%	7.29%
6 months	6.62%	6.43%
1 year	15.72%	15.06%
2 years p.a.	8.87%	8.07%
3 years p.a.	1.77%	0.86%
Since inception p.a.	2.74%	1.73%

Performance is before fees and tax, adjusted for imputation credits. \* at 30 Sep.

### Top Individual Holdings as at 30 September 2024

US 5Yr Note (CBT) Sep24	Infratil
Goodman Property Trust	Auckland International Airport
UST 0% 09/01/2025	Contact Energy
Fisher & Paykel Healthcare	Kiwi Property Group
Precinct Properties NZ	Vital Healthcare Property Trust

### SALT FUNDS MANAGEMENT

Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143  
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

## Market Commentary

- The September quarter was a good one for diversified investors with solid returns across most major asset classes. However, it was not a smooth ride with several bouts of volatility along the way. A weak labour market report out of the US combined with an interest rate hike by the Bank of Japan saw stocks hit hard in August. That was soon followed by the long-awaited start of the US rate cutting cycle, a less hawkish tone from the BoJ and a super-sized stimulus package in China that all helped sentiment and paved the way for a strong rally in stocks by quarter end.
- Developed market equities rose 6.4% over the quarter, while the global aggregate bond index rose 7.0%. Interest rate sensitive asset classes did particularly well with global REITs up 16.2%. All percentages are in USD terms.
- The US Federal Reserve began its easing cycle with a 50bp cut at its September meeting. While a cut had been well-telegraphed, the quantum was a surprise. Various FOMC member comments had increasingly focussed on the softening labour market, though markets weren't of the opinion that the deterioration had been sufficiently significant to warrant a super-size cut. While 25bp cuts appear likely from here, the Fed has demonstrated a willingness to be more aggressive if needed.
- The European Central Bank has been taking a "cut at every other meeting" approach, cutting in June and September while skipping August. Ongoing disinflation and recent weak activity data could see them stepping up to cuts at every meeting from October. The Bank of England has taken a similarly cautious approach by cutting in July but skipping September on the back of persistent strength in wage growth.
- In Japan a rate hike by the BoJ along with hawkish guidance from Governor Ueda led to a sharp appreciation in the Yen and a sudden unwinding of "carry trades" that rely on cheap Japanese borrowing costs. Stocks fell sharply, though pared those losses as Ueda struck a less hawkish tone later in the quarter.
- The Chinese authorities announced a raft of easing measures in September. None of them were significant in themselves, but the fact they were all announced together as a package was welcomed as a sign the authorities were taking China's challenges more seriously.
- The Reserve Bank of Australia continues to take a hawkish tone in its Statements. While some progress has been made in the disinflation process, it has been too slow and of insufficient magnitude. The labour market is the key concerned where renewed demand for labour has stalled the opening up of spare capacity.
- In New Zealand, data continued to point to the dire state of the economy. June quarter GDP growth came in at -0.2% q/q which was better than expected but underlined the ongoing weakness in activity. The unemployment rate rose to 4.6%, also in the June quarter, and is expected to head sharply higher over the next few months. The RBNZ cut the Official Cash Rate by 25bp to 5.25% in August and signalled further cuts to come in the months ahead.

## Salt Sustainable Income Fund Commentary

**The Sustainable Income Fund gained in September month, with a return of +0.83% (before fees / tax) in the month, which took its three-month gain to +7.85% and its one-year return to 15.72% (before fees / tax.) The month's return was positively impacted by gains in all component assets, except the Salt Enhanced Property Fund. Markets continue to focus on when lower inflation will permit more central bank interest rate reductions. Data affecting central banks' easing timing has influenced the listed Real Asset and Bond returns within the portfolio, but this has now shifted to positive impacts. However, a more pronounced easing path from the RBNZ can assist NZ equity assets through the remainder of this year and allow additional catch-up with global returns.**

As inflation progressively confirms signs of a definitive down-shift, we expect component asset classes to improve further, as more global central banks embark on or advance their interest rate easings. Volatility across markets is ever-present but sentiment is much less fragile. We expect value recoveries in interest-rate sensitive assets to continue through Q4 2024.

The September Quarter saw NZ domestic asset types recording further positive returns, which supplemented the strong returns contributions from the global components of the Income Fund. The NZ Dividend Appreciation Fund contributed +2.23% and the Enhanced Property Fund, +1.31% in the Third Quarter. The Salt Sustainable Global Infrastructure Fund contributed 2.14%. The Global Fixed Interest Opportunities Fund also made a positive quarterly contribution of 1.14% and the Sustainable Global Property Fund had a smaller positive (+0.43%) impact for the quarter.

## Salt Sustainable Income Fund outlook

Central bank rate cuts are expected to broaden this year and next. We believe bond yields adjusted sufficiently (via a volatile and uncertain route in the last 24 months) for us to move progressively toward a higher bond positioning within the Sustainable Income Fund. We consider inflation risk now poses a much-reduced danger to the capital valuations of bond portfolios. The allocation to bonds is now at the neutral 35% SAA weight.

Much of the softer returns patches from the Income Fund were due to the still-weak state of the NZ economy, straining under mild recessionary forces. The Reserve Bank of New Zealand was "on hold" until August with the Official Cash Rate, so domestic yields and discount rates were until recently fairly elevated. This suppressed returns from NZ equities through 2023 and early 2024. There is scope for improved NZ returns this- and especially next- year, and the latest RBNZ Official Cash Rate Review, with a -0.5% additional OCR cut, confirmed a policy rate reduction path ahead.

Diversified Income Funds containing an allocation to domestic equities generally experienced low overall capital value gains in early 2024, although their income yields remain attractive by historical standards, as the NZ equity market moved sideways overall for the last two years. NZ equities had a very good Third quarter, but better economic activity is really needed to lift corporate earnings and justify the re-pricing seen.

We anticipate the longer-term capital growth strategies within the Sustainable Income Fund to boost performance, as inflation conditions are improving. However, there is still a mildly recessionary period to traverse en route to that outcome in New Zealand. The phase of meaningful interest rate reductions from central banks has now begun, and when easing is more broadly underway, we expect more beneficial capital growth

impacts. This positive portfolio role will likely be a key feature of total returns into 2025.

As the primary objective of the Salt Sustainable Income Fund is to invest in quality sustainable yield payers, minimizing short-term capital price fluctuation is secondary. Market volatility allows us to acquire high quality and defensible dividend-paying assets for the Fund at better prices.

## **Distribution of 1.125 cents per unit / quarter retained**

Higher component asset yields enabled us to retain the quarterly cents-per-unit distribution from the fund, at 1.125 cpu, for the latest quarterly distribution which was paid out / reinvested in August.

As noted earlier, the silver lining in the bond market's repricing is that the yield received from bond investments shifted into a higher range and that supports the Sustainable Income Fund's forward distribution path. This is characteristic of a transition into a mid-level interest rate regime which may endure for years, rather than months, ahead.

Internationally, major central banks are now communicating the phase of interest rate adjustments, sufficient to anchor inflation expectations, has been successful. Recently, the balance of evidence has been on the better side globally, particularly suggesting that the US Federal Reserve is well on track to deliver an economic "soft landing." Rate reductions have followed and should progress incrementally later this year and into 2025.

While the data-driven market volatility at times requires fortitude from investors, the objective of securing an inflation-resilient income level means that equity market fluctuations and corrections over short periods are inevitable. Over the medium-term, moderate capital gains in addition to income advantages are expected, and the Sustainable Income Fund is positioned to harvest them.

It is crucial to note that the Income level from equity dividends and bond coupons received into the fund has been commensurately rising through periods of market turbulence. This trend exemplifies the incremental return of some "risk premia" into asset classes.

The fund's modelled income received from coupons and dividends is still above its prospective distribution yield. We regard this as prudent, in a still-uncertain environment.

The Real Asset components of Infrastructure and Property are well-suited to the immediate period ahead, as central bank policy rates progressively fall. Defensive merit should continue to be asserted in coming months through renewed demand for these specific "Real Asset" equity types, along with the sustainable dividend-payers in the broader Australasian market.

Finally, the lowering of the NZ Official Cash Rate has substantially reduced the Term Deposit rates offered by domestic banks, and we anticipate the downtrend in the indicative benchmark of the NZ Bank Bill rate and the 6-month Term Deposit rate to persist throughout 2025.