SALT

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

Benchmark for ESG purposes	Bloomberg Global Aggregate Index (NZD hedged)
Fund Assets	$61.62 million
Inception Date	10 February 2023
Underlying Manager	Morgan Stanley Investment Management
Average credit rating	Standard & Poor's A- / Moody's A3
Effective Duration	3.5 years

Unit Price at 30 June 2023

Application	1.0046
Redemption	1.0035

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 June 2023

Global fixed income securities	95.4%
Cash	4.6%

Fund Performance to 30 June 2023

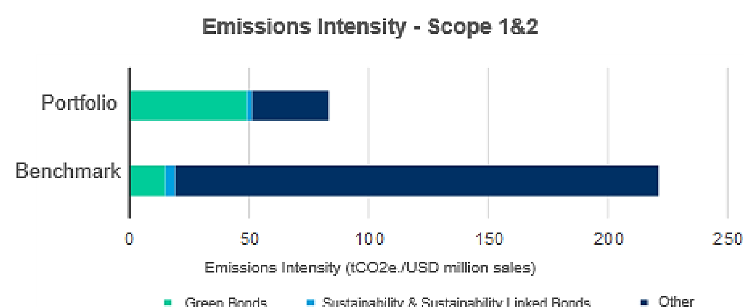
Period	Fund Return (Gross incl. ICs)
1 month	0.17%
3 month	0.46%
Since inception cumulative	0.66%

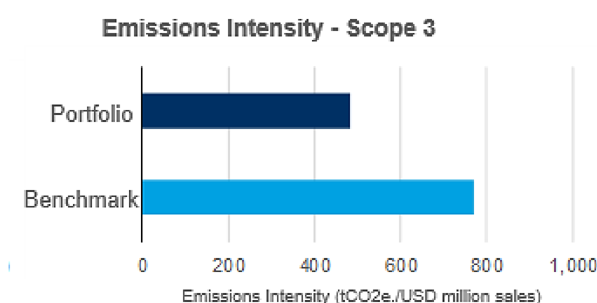
Performance is gross of fees and tax. Data as of 30 June 2023.

Fund ESG Dashboard	Portfolio	Index	YTD change
MSCI ESG Score (MV%.)	96.1%	91.5%	-
Exposure to Corporates (MV% as at 1 June)	36.9	21.7	-
Green, plus Social, Sustainability and Sustainability-linked bonds	23.7%	2.6%	-
Sustainable Impact solutions	14.7%	8.6%	-
CO2 Footprint Scope 1&2 (tCO2e/$mn emission intensity)	67	165	-
CO2 Footprint Scope 3 (tCO2e/$mn emission intensity	542	1,006	-
MSCI ESG Score (Adjusted)	7.50	6.35	7.50
- Environment score	7.39	6.14	7.39
- Social score	5.60	5.55	5.60
- Governance score	6.19	5.75	6.19
MSIM ESG Sovereign score	2.12	2.10	-

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

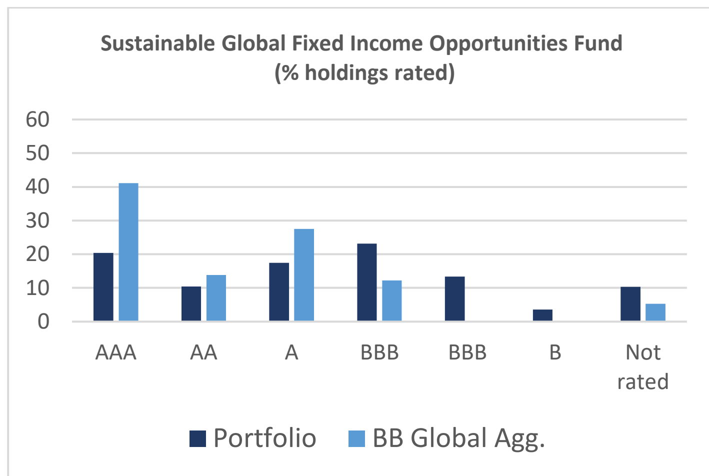
Fund CO2 Emissions Intensity characteristics at 30 June 2023





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

Fund credit ratings vs. Bloomberg Barclays Global Agg.



Source: MISM Monthly Investment Report June 2023

Portfolio Review

- In the one-month period ending June 30, 2023, the portfolio returned 0.17%. The performance can be attributed to the following factors:
- The portfolio's positioning in duration had a positive impact on performance (especially US rates) as yields rose.
- Within investment grade credit, spreads tightened with financials outperforming industrials and utilities.
- The portfolio's exposure to high yield credit had a positive impact on performance, predominately driven by industrials.
- Exposure to government-related debt also had a positive impact on performance in June.
- The portfolio's exposure to securitized debt was again a positive contributor to performance.

Strategy Changes

There were no material changes in strategy during the June month.

Portfolio Commentary & Outlook

Developed market rates were broadly higher in June with curves sharply flattening as hawkish central banks continued to emphasize that the hiking cycle was not yet over. Central banks fought back against market pricing of near-term rate cuts and highlighted that rates would have to go higher. The Fed at the June meeting opted to pause or "skip" deciding to keep the policy rate the same, but also indicating in the dot plot and subsequent speeches that it expected that one or more hikes would be required later in 2023.

The ECB hiked 25bps as expected but was hawkish in its messaging. The BoC surprised markets, hiking 25bps after pausing since January 2023. The RBA similarly surprised markets again, hiking for the second consecutive meeting after pausing in March.

Likewise, in Europe, the BoE and Norges Bank surprised markets, hiking 50bps vs expectations for 25bps.

June saw credit markets rally driven by market news exceeding the weak expectations. There were several key drivers during the period: Firstly, economies were surprisingly resilient- economic data exceeded expectations with the labour markets remaining strong and inflation starting to fall. Most recent data suggest a divergence between US and Europe as downside surprises have increased in Europe. Secondly corporate news was in general bondholder friendly. Finally general risk sentiment improved as there were no major geo-political escalations, risks of a recession accompanied by a spike in defaults receded and equity market volatility fell to pre Covid levels.

Over the month Euro Investment grade corporate spreads tightened -8bps to +163bps (-4bps YTD).US Investment grade corporate spreads outperformed as they tightened -15bps to +123bps (-7bps YTD). Equities were higher in the period, and volatility was -24% lower (VIX closed at 14).

Global risk-free yields were higher in the period with Germany 10 year government bonds +11bps closing at 2.39%, and US 10 government bonds +19bps closing at 3.84% and the curve flattened (inverted further) with front end yields higher following rate hikes and increased guidance for more hikes in July while back end 30 year yields were marginally lower.

Investment grade gross supply was close to forecasts in June (following heavy supply in April/May) at EUR 53bn (36bn in 2022), split 31bn in Financials and 22bn in non-Financials. This takes year to date supply 24% ahead of 2022 well above forecast levels. Looking forward we expect supply to slow over the summer and into the autumn reflecting the front loading of issuance given concerns for the economy in H2.

Central banks have now hiked rates considerably and monetary policy may have lagged impacts which have not yet been fully felt. Further, while the banking sector crisis in the US has receded, credit conditions are still tight and may tighten even further, putting increased pressure on borrowers.

Given the uncertainty, it is difficult to concretely express an outright view on interest rates. We continue to recommend patience, awaiting further clarification while taking advantage of more relative dislocations.

Looking forward, in investment grade we foresee a summer squeeze (driven by light supply and continued demand for yield) followed by a stormier winter (as tighter monetary policy, tighter lending conditions and lower profit margins impact sentiment) resulting in attractive carry but limited capital gains. Our base case can be summarised as while an economic slowdown seems the magnitude and impact on downgrades/defaults is likely low as a combination of strong employment and conservative corporate management support markets. Meanwhile, demand for high quality fixed income remains robust from the market, which remains supportive for the asset class.

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