Salt Sustainable Income Fund Fact Sheet – April 2022

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.

The Fund targets a diversified mix of growth and defensive assets, with a focus on securities with strong Environmental, Social and Governance credentials & reliable income generation. The Fund's strategy is to invest in a quality asset mix with an aim to provide regular, sustainable income and a positive return on capital. At times 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 or volatility 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 April 2022

Benchmark	Bank deposit rates (BNZBIL Index)
Fund Assets	$46.2 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Current yield to 30/9/22	4.00% per annum

Unit Price at 30 April 2022

Application	0.9610
Redemption	0.9571

Investment Guidelines

Sector	Target	Range
New Zealand Fixed Interest	20%	0% – 40%
International Fixed Interest	15%	0% – 40%
Australasian Shares	30%	15% – 45%
Global Listed Property	15%	0% – 30%
Global Listed Infrastructure	15%	0% – 30%
Cash or cash equivalents	5%	0% – 20%

Fund Allocation at 30 April 2022

New Zealand Fixed Interest	0%
International Fixed Interest	19%
Australasian Shares	34%
Global Listed Property	27%
Global Listed Infrastructure	17%
Cash or cash equivalents	3%

Fund Performance to 30 April 2022

Period	Fund Return	Benchmark Return
1 month	-2.24%	0.10%
3 months	-1.51%	0.34%
Since inception	-1.38%	0.60%

Performance is after all fees and does not include imputation credits or PIE tax. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.

Top Individual Holdings at 30 April 2022

Goodman Property Trust	Property for Industry
Precinct Properties NZ	Spark NZ
Cash	Vital Healthcare Property Trust
Kiwi Property Group	Argosy Property Trust
Fisher & Paykel Healthcare	Stride Property & Stride Invest Mgmt

Holdings stated as at 30.04.22, excludes consolidated International Fixed Interest Fund component.

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Salt Sustainable Income Fund Distribution Increase

Due to increasing component yield income projected for the next six-month period, we are pleased to have been in the position to announce that from the Salt Sustainable Income Fund distribution on 9 May, the distribution rate will be increased by 0.25% to reflect an annual distribution target of 4.00%. The cents per unit (cpu) value of the rate increase was communicated to investors, based on the Fund's Unit Price on 1 April 2022. This rate will be held until it is reviewed on 31 October in the light of intervening asset market developments, and ahead of the November 2022 distribution payment.

Market Commentary

- Following a difficult first quarter of 2022 for markets, there was no respite in April. The ongoing war in Ukraine, Covid lockdowns in China and the prospects of significantly tighter monetary policy in several major countries all weighed on markets.
- The global economy entered 2022 with strong tailwinds, many of which including tight labour markets and high levels of pent-up savings remain. But the risks to the outlook are building, especially as monetary policy tightening peaks in 2023 and the economic cycle bottoms out.
- Global equites returned -8.0% in April and fixed income was not far behind as US 10-year Treasury yields approached 3%. Expectations of the degree of monetary policy tightening was ramped up over the month, most notably in the US, the UK and Australia. More defensive equity markets such as Japan, the UK and Switzerland were more resilient than the US and Emerging Markets. On a 2022 YTD basis global equities are down by -11% but in unhedged NZ Dollar terms, this was cushioned as NZD/USD accelerated its weakening trend, depreciating by 7.4% in April.
- The war in Ukraine intensified over the month with no sign of resolution in sight. The most notable economic impact is on energy markets as Europe faces into the challenge of reducing its energy dependency on Russia.
- Chinese authorities are struggling to contain a major Covid outbreak, with Shanghai spending the whole of April in lockdown. Easier monetary and fiscal policy will provide some support to growth, but the official 2022 GDP target of 5.5% is challenged.
- In the US the Federal Open Market Committee (FOMC) appears ready to accelerate the pace of rate hikes from as early as their May meeting. Markets are now pricing a series of 50bp hikes following comments from several FOMC participants suggesting the need for an expeditious move in the Fed funds rate to neutral.
- In Australia, a larger than expected increase in the March quarter CPI has seen markets bring forward the likely timing of the first interest rate hike by the RBA to May, and RBA delivered +25bps.
- The Reserve Bank of New Zealand (RBNZ) hiked the Official Cash Rate by 50bp to 1.5% in April. This is in line with our view the RBNZ should get the OCR to neutral (2%) as soon as possible. We expect them to follow up with another 50bp hike in May. This will likely be followed by a number of 25bp hikes for a terminal rate of 3.0%.

Salt Sustainable Income Fund Commentary

The Sustainable Income Fund declined moderately in **April**, with a -2.25% monthly return, reversing the March gain of 1.55% (after fees) for the month. Difficult international and domestic conditions persisted, and within this fund's component asset classes, all contributed a negative monthly return. In a continuation of resilient relative performance, the smallest negative return came from the Salt Sustainable Global Infrastructure Fund, which accounted for -0.48% of the Sustainable Income Fund's overall April return. This decline matched in size the decline logged by the Hunter PIMCO Global Bond Fund for the month (-0.48%.) The Salt NZ Dividend Appreciation Fund detracted by a comparable -0.55% in April, while the most negative portfolio component last month was the Salt Enhanced Property Fund, contributing -0.81% of the -2.25% decline.

Over the rolling three month period to 30 April and since Inception, the fund's decline has been -1.51% and -1.38%, respectively. This is fully explained by the concentrated weakness in both bond and equity markets this year. The bond components of the portfolio have dragged on bond valuation returns as interest rates rose; however the yield received from those bond investments is rising rapidly, and will support the Sustainable Income Fund's forward distribution path. This is characteristic of a transition period from a low- to a mid-level interest rate regime.

Although the capital growth element previously build up in this fund in late 2021 has been removed by recent developments, the income level has been enhanced. We anticipate the capital growth aspect of the Fund to resume gradually once international conditions stabilize, potentially from mid-year.

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. Accordingly, the fund has indicated a 0.25% higher annual rate of 4.0% p.a. distribution yield to be payable from the May distribution through until the next review point in October 2022.

Given the extraordinary weakness in global bond markets, it its unsurprising that the Global Fixed Interest Fund contributed -0.48% for the month as bond yields surged higher and credit spreads widened (reflecting greater expected economic weakness ahead.) The bond portfolio underperformed its benchmark by -0.13% in April but outperformed by 0.26% for the year, reflecting underweight duration and cautious credit positioning. However, the absolute return from the global bond fund of -6.4% for three months, and -6.3% for the year, while sharply negative, was not atypical in the international fixed interest fund arena and the relatively low portfolio weighting to this sector limited the impact overall. For the period, the fund's international holdings' contributions largely offset one another. The global infrastructure component also contributed -0.48% to the Fund's overall monthly return.

The domestic equity components made negative contributions to the Sustainable Income Fund's return, although they continued to substantially outperform their benchmarks. At -0.81%, the bulk of the Sustainable Income Fund's quarterly decline was attributable to the Salt Enhanced Property Fund. The Salt NZ Dividend Appreciation Fund (DAF) made a smaller negative contribution of -0.55% for the month.

The NZ dividend-focussed equity components of the portfolio are yet to make a sustained positive portfolio impact, and we expect them to trend sideways until a catalyst emerges for equity market recovery. Nevertheless, the income yield provided by these assets is important to the Fund's distribution level. The Salt Dividend Appreciation Fund's dividend yield advantages are a key plank of the Sustainable Income Fund, and at quarter-end, we estimate the DAF has a forward gross dividend yield of circa 3.8%, which compares to our estimate of 3.2% for the benchmark. The Salt Enhanced Property Fund, similarly, has a rising yield level and this supports the sustainability of the Salt Sustainable Income Fund's pay-out level.

The pricing in of rising interest rates has supressed equity returns in the last several months, but the income yield characteristics of the equity, property and infrastructure sectors continue to strongly support their inclusion at substantial weightings in the fund. By contrast, bond yields, while now higher, are not quite at the level required to make a positive contribution and the risk of mark-to-market valuation declines on many bonds remains.

NZ data continues to point to soft March quarter growth but expect stronger growth through the middle part of the year as borders reopen to tourists. It won't be until the final quarter of the year that we will get a true reading on underlying domestic activity

Internationally, major central banks are now communicating the desirable course of concluding several meaningful interest rate increases, sufficient to anchor inflation expectations, and this will unnerve markets at times.

Greg Fleming, MA