Salt Sustainable Global Listed Infrastructure Fund Fact Sheet – December 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's investment objective is to outperform (after fees and expenses but before NZ tax) the total return of its benchmark, the FTSE Global Core Infrastructure 50/50 Net Tax Index on a rolling three-year basis. The Fund targets a portfolio of global infrastructure companies with sustainable total return potential and superior Environmental, Social and Governance (ESG) credentials and factor scores with respect to the benchmark index.

Fund Facts at 31 December 2022

Benchmark	FTSE Global Core Infrastructure 50/50 Net Tax Index
Fund Assets	$52.65 million
Inception Date	18 August 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 December 2022

Application	0.9821
Redemption	0.9781

Investment Guidelines

The guidelines for the Sustainable Global Listed Infrastructure Fund are:

Global equities	95% – 100%
Cash	0% – 5%

Target investment Mix

The target investment mix for the Global Sustainable Listed Infrastructure Fund is:

Global equities	100%

Fund Allocation at 31 December 2022

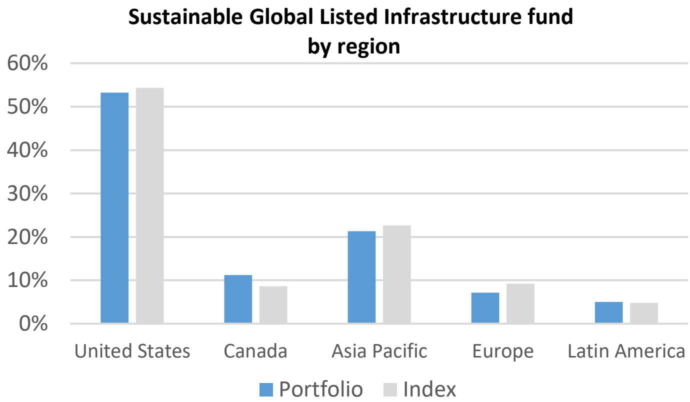
Global equities	98.7%
Cash and cash equivalents	1.3%

Fund Performance to 31 December 2022

Period	Fund Return*	Benchmark Return
1 month	-3.31%	-2.69%
3 month	5.96%	6.32%
6 month	-1.86%	-1.74%
1 year	-3.97%	-3.85%
Since inception	1.71%	0.35%

*Performance is after fees and does not include imputation credits or PIE tax. Benchmark performance is gross. Past performance is not a guarantee of future results. Data as of 31 December 2022.

Fund regional weightings as at 31 December 2022*



Source: Cohen & Steers, Salt *data to 31 December 2022

Top 10 holdings	
NextEra Energy	PPL Corporation
Norfolk Southern Rail	TC Energy
Transurban	Airports of Thailand
Sempra Energy	DTE Energy
American Tower	SBA Communications

The fund's top 10 holdings comprise 36.5% of the portfolio

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.6	6.4
MSCI ESG score	6.3	6.3

Source: Cohen & Steers Quarterly Investment Report Dec. 2022

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Market Review

December month saw a reversal in sentiment to a more cautious tone after a tentative recovery earlier in the quarter. Equity markets around the world weakened during the month, led by a 5.8% fall in the US S&P 500 Index. The more sober market mood also affected listed infrastructure, partially reversing the strong performance recorded in November. Over the last year, infrastructure has continued to perform substantially more resiliently than broader equity markets, and since inception, the Fund has returned to a positive return of +1.7% (after fees.). Going forward, global listed infrastructure is favoured due to its inherent inflation protection and defensive characteristics, and to large-scale works projects around the world particularly in the energy transition domain, but also in transportation.

- The global equity market that started early in the December quarter partly reversed in the December month. Global equities lost 3.9% (in USD) in the December month, trimming the gain for the fourth quarter to 9.8%.
- The gains early in the quarter reflected the growing confidence that the worst of the inflation surge was now behind the world's major economies. This optimism was tempered late in the quarter by central banks which, despite reducing the magnitude of rate hikes, signalled they still had more tightening work to do, exceeding markets views of the various terminal rates. This included the US Federal Reserve, the European Central Bank and the Reserve Bank of New Zealand.
- This was exacerbated by a surprise move from the Bank of Japan to adjust its Yield Curve Control policy by allowing a widening of the trading band around 10-year JGBs. This was seen by markets as a de facto tightening in monetary policy.
- Political turmoil continued in the UK as Prime Minister Liz Truss was replaced by her competitor in the earlier selection process, Rishi Sunak.
- China was immune from the global sell-off in markets as the Government, in the face of widespread social unrest, moved swiftly to unwind still-stringent Covid restrictions. We had expected such a move following the conclusion of the 20th National Congress of the CCP, but the pace of this move surprised us and does not come without risks.
- In Australia, the economy is showing signs of slowing and will weaken further in 2023 but is expected to avoid recession.
- In New Zealand, the RBNZ delivered its largest ever interest rate increase of 75bps during the quarter, taking the Official Cash Rate to 4.25%. Cementing the hawkishness even further was the admission the Bank had considered a 100bp hike. The projected terminal rate of the OCR was lifted from 4.1% to 5.5%, higher than was expected by the market.
- NZ GDP growth appears remarkably resilient, rising 2.0% over the September quarter. However, we believe this strength continues to reflect Covid "noise" and the reopening of borders. The latest ANZ Business Outlook survey is a more important indicator of things to come with all key activity indicators moving more negative in the December month. This suggests the New Zealand economy may already be close to recession and that a 5.5% OCR may not be required.
- In summary, the December quarter marked the end of a challenging 2022 for markets and investors as the highest inflation, along with the most aggressive rate hikes from the world's major central banks in decades, put pressure on both equity and bond markets at the same time.

Portfolio Review

Infrastructure stocks declined with the broader equity market but significantly outperformed in 2022. Investor sentiment was negative given elevated inflation which triggered aggressive monetary policy tightening and sharply higher interest rates. Concerns over weakening global economic data, the repercussions from the war in Ukraine, and supply chain issues also weighed down the market. However, there was a partial recovery in the fourth quarter given signs of moderating inflation, hopes for less aggressive monetary tightening, and the continued reopening in China. The listed infrastructure subsectors posted mixed returns during the year.

Several commercial sectors performed well. Midstream energy (15.4% local currency) was the top performer during the year. There was an increase in upstream production in the U.S., and companies in the space have largely improved their balance sheets and capital discipline. Marine ports (3.2%) outperformed as supply chain issues eased and Chinese companies rallied late in the year on reopening optimism. Railways (–5.7%) were hurt by economic uncertainties that could potentially impact volumes.

Transportation-related sectors posted positive returns. Toll roads (2.8%) and airports (2.6%) benefited from reopening's and improved volumes. In terms of the latter, several Mexican airport operators benefited from strong traffic, while performance was mixed in Europe given the impact from the war in Ukraine.

The utility subsectors generated negative returns. Electric utility performance (–1.1%) was mixed. Although the sector benefited from defensive characteristics, concerns over earnings in the high inflation environment was a headwind. However, the passage of the Inflation Reduction Act in the U.S. could support certain utilities with renewables exposure. Gas distribution (–0.4%) declined given concerns over the ability for companies to pass along higher prices to their customers. Water utilities (–10.6%) were among the weakest performers. U.S.-based companies performed poorly as these higher growth utilities tend to lag in a rising interest rate environment.

Communications stocks (–27.4%) were hindered by rising interest rates in the U.S. The sector was also negatively impacted by lingering uncertainty over 2023 growth outlooks for certain U.S. tower companies.

Portfolio performance

The portfolio had a positive total return for the year and outperformed its benchmark before fees. There was a negative total return for the December month of -3.31% (after fees) underperforming the benchmark by 0.62%. For the quarter, the portfolio returned 5.96% (after fees) and underperformed its benchmark by 0.36%. For the full year, the portfolio returned -3.97% (after fees) and lagged its benchmark by 0.12%. Since inception, the portfolio has returned 1.71% (after fees) and has outperformed its benchmark by 1.36%.

Key contributors

• Stock selection in midstream energy (15.4% total return in the index): Overweight position in a U.S.-based a natural gas and LNG distributor contributed to performance; it benefited from exporting natural gas to Europe. An overweight in a U.S.-based midstream company was also beneficial as it was supported by rising energy prices.

• Stock selection in electric utilities (–1.1%): An underweight in an electric utility based in Virginia contributed to performance; its shares declined over regulatory concerns in the state. An overweight to a high-quality U.S. utility was beneficial; its new management team has made good on their guidance to accelerate growth.

• Stock selection in marine ports (3.2%): An overweight position in a Brazilian-based marine port operation was beneficial. Its shares rallied along with the overall Brazilian market and optimism around contract renegotiations.

Key detractors

• Overweight and stock selection in communications (–27.4%): An overweight position in a Spain-based telecommunication company was negative for performance; it was dragged down by higher interest rates. Likewise, an overweight in a U.S.-based tower company detracted given rising interest rates in the U.S.

• Underweight and stock selection in airports (2.6%): Positioning in a German airport operator detracted. Its shares were negatively impacted by the repercussions from the war in Ukraine. An underweight to a Mexican airport operator also negatively impacted performance; it benefited from strong passenger volumes (although we were overweight other Mexican airport operators).

• Underweight in toll roads (2.8%): The underweight detracted from returns as the sector outperformed during the year.

Investment Outlook (Cohen & Steers commentary)

We maintain a generally balanced portfolio as we continue to monitor the impact from high inflation, central bank tightening and moderating global growth. In this uncertain environment we favour higher quality businesses that we feel are positioned to hold up relatively well in an economic downturn.

Higher interest rates and inflation may challenge certain subsectors. However, broad infrastructure returns have historically shown positive sensitivity in inflationary environments. While inflation may have peaked, we believe it, as well as interest rates, will remain elevated from a historical perspective. Performance dispersion among infrastructure subsectors can be significant in uncertain economic periods and amid rising bond yields. Most infrastructure businesses can generally pass rising costs along to consumers and, as a result, they have tended to perform well during periods of unexpected inflation.

We expect private investor interest in acquiring listed infrastructure assets to continue despite higher interest rates. Several significant transactions are pending across various subsectors and geographies. Although the pace of transactions has moderated given the rising cost of capital, we generally expect this trend to continue over time, which may support listed infrastructure valuations.

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