

SALT

Salt Sustainable Income Fund Fact Sheet – December 2021

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.

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 31 December 2021

Benchmark	Bank deposit rates
Fund Assets	\$45.5 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Current yield to 31/3/22	3.75% per annum

Unit Price at 31 December 2021

Application	1.0320
Redemption	1.0278

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 31 December 2021

New Zealand Fixed Interest	0%
International Fixed Interest	20%
Australasian Shares	34%
Global Listed Property	27%
Global Listed Infrastructure	17%
Cash or cash equivalents	2%

Fund Performance to 31 December 2021

Period	Fund Return	Benchmark Return
1 month	3.49%	0.08%
3 months	1.49%	0.26%
6 months	3.15%	0.48%
Since inception	4.91%	0.49%

Performance is net of fees and tax, but not adjusted for imputation credits. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.

Top Holdings at 30 November 2021

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

SALT FUNDS MANAGEMENT

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Market Commentary

Developed market equities continued to rally in the final quarter of the year, delivering equity investors their third consecutive calendar year of strong returns. Strong earnings growth drove equities higher over the quarter, despite fresh volatility as news broke of the emergence of the new Omicron variant of Covid-19. Markets quickly recovered however as early indications suggested Omicron was less likely to lead to serious illness. The jury is still out on the full implications of Omicron. In general, solid earnings reports plus the prospect of continued, albeit lower, earnings growth in 2022 proved sufficient to negate risk factors. The MSCI World Index rose 7.6% (in USD) over the quarter to up 20.4% over the year. Sovereign bonds rallied during the quarter but ended generally flat as central banks turned more hawkish.

In the **United States** the CPI reached a 40-year high of 7.0% in the year to December and the unemployment rate fell to 3.9%. This combination of factors led to what is now being described as the “Powell pivot” which saw the term “transitory” inflation retired from the FOMC lexicon and a faster taper of the Fed’s asset purchase program announced. The program is now scheduled to end in March 2022, paving the way for higher interest rates from that time. The S&P 500 rose 11.0% (in USD) over the quarter to be up 28.7% over the year. 10-year US Treasury yields fell slightly over the quarter from 1.55% to 1.52% but traded as low as 1.35% during the quarter. This reversed in early January 2022, as yields gained around 0.2%.

In **Europe** the economy rebounded strongly in the middle of 2021, though confidence surveys have softened in recent months. A combination of factors led to a sharp rise in gas and electricity prices across the continent over the quarter, adding to already robust inflationary pressure. The ECB signalled an initial though moderate step towards less accommodative policy at its December meeting. The MSCI Europe ex-UK index rose 7.0% (in EUR) over the quarter to be up 24.4% over the year.

In **Japan**, a contraction in Q3 GDP has been followed by more robust Q4 data. Recent data for retail sales, industrial output and the broader service sector activity level saw solid gains. The Government’s supplementary fiscal package, amounting to around 6.5% of GDP, was passed just prior to Christmas and will provide support for economic activity in 2022. The Topix Index returned -1.7% (in JPY) over the quarter and is up 12.7% over the year.

The **Australian** economy contracted a better-than-expected -1.9% in Q3. Q4 activity data has bounced back suggesting a strong recovery in Q4 and the unemployment rate fell to 4.6% in November with jobs employment surging 366,100. However, Omicron arrived in Australia in late November and daily case numbers are surging. The S&P/ASX200 rose 1.5% (in AUD) over the quarter and was up 13.0% over the year.

New Zealand GDP contracted by less than expected in Q3 and the economy is slowly emerging from a long lockdown in Auckland. Activity will rebound in the fourth quarter, but a full recovery won’t be achieved until early 2022. The labour market has tightened further with the unemployment rate falling to 3.4% in the September quarter. The RBNZ raised interest rates for the second time this cycle during November and signalled ongoing rate hikes ahead with a terminal rate higher than neutral. New Zealand 10-year yields rose sharply over the quarter from 1.97% to 2.37%. Despite a strong recovery during the December month, the NZX50 ended the quarter -1.8% (in NZD) lower and broadly flat (down -0.4%) over the year. The performance of the S&P NZX NZ Fixed Interest Composite Index has also been poor in 2021, -5.2% at end-December, with NZ

Government-only indices even weaker at -6.2%. This vindicates our present avoidance of NZ bond securities, as we prefer better opportunities available in the international bond markets.

Salt Sustainable Income Fund Commentary

The Sustainable Income Fund performed strongly in December, rebounding by 3.49%, which was double the scale of Fund’s November decline of 1.71%. This meant that for the Fourth Quarter of 2021 as a whole, the Sustainable Income Fund returned 1.49% and has gained 4.91% since its inception.

The Fund’s December month return compares well with the average return of 6-month Term Deposits of 0.08% for the month, 0.26% for the Quarter and 0.49% for the six months since inception.

In December month, all component assets contributed positively to performance. The Global Fixed Interest Fund was stable in an environment of generally flat- to modestly lower global bond yields and slightly wider credit spreads (though the latter remain close to record lows.)

The domestic equity components made solid contributions in December month, with 0.75% of the Sustainable Income Fund’s monthly gain attributable to The NZ Dividend Appreciation Fund, and 1.60% to the Enhanced Property Fund. The NZ dividend focussed equity and property components of the portfolio had made slightly negative price contributions in the earlier part of the Quarter, so their recovery was welcome in December. Nevertheless, the income yield provided by these Australasian assets is important to the Fund’s distribution level, which is currently set at the annual rate of 3.75% p.a.

For the period, the fund’s international holdings highlighted the benefit of the wide diversification in underlying assets targeted in this fund. The global infrastructure component contributed 1.01% to the Fund’s overall monthly return, deriving from the very strong performance of 6.16% from the Salt Sustainable Global Infrastructure Fund for the month. For the December Quarter, Salt Sustainable Global Infrastructure continued to recover from pandemic disruptions, gaining 8.06%. The relative resilience of this asset class in the context of international equity market volatility is a valuable feature for our Sustainable Income Fund.

As the primary objective of the Salt Sustainable Income Fund is to invest in quality sustainable yield payers and minimizing short-term capital price fluctuation is secondary. Accordingly, the fund made its quarterly income distribution in November at the indicated annual rate of 3.75% p.a. This distribution yield will be reviewed for the first distribution of 2022 to be paid in February and guidance for the year ahead will be indicated.

The Reserve Bank moved the OCR rate higher in its last Monetary Policy Statement of the year, on 24 November, to 0.75%. The pricing in of rising interest rates has at times suppressed equity returns in the last three months, but the income yield characteristics of the property and infrastructure sectors continue to strongly support their inclusion at substantial weightings in the fund.



Greg Fleming, MA

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