Salt Sustainable Global Listed Infrastructure Fund Fact Sheet – September 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 30 September 2022

Benchmark	FTSE Global Core Infrastructure 50/50 Net Tax Index
Fund Assets	$50.15 million
Inception Date	18 August 2021
Underlying Manager	Cohen & Steers

Unit Price at 30 September 2022

Application	0.9425
Redemption	0.9386

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 30 September 2022

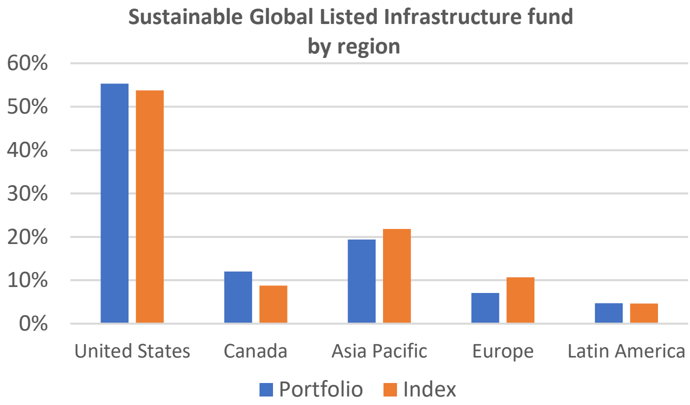
Global equities	98.5%
Cash and FX forwards	1.5%

Fund Performance to 30 September 2022

Period	Fund Return*	Benchmark Return
1 month	-10.06%	-10.98%
3 month	-7.38%	-7.58%
6 month	-11.85%	-12.48%
1 year	-2.07%	-2.73%
Since inception	-4.01%	-4.94%

*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 30 September 2022.

Fund regional weightings as at 30 September 2022*



Source: Cohen & Steers, Salt *data to 30 September 2022

Top 10 holdings	
NextEra Energy	American Electric Power
Transurban	PPL Corporation
American Tower	Cheniere Energy
Norfolk Southern Rail	SBA Communications
Sempra Energy	TC Energy

The fund's top 10 holdings comprise 39.4% of the portfolio

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.5	6.4
MSCI ESG score	6.2	6.3

Source: Cohen & Steers Quarterly Investment Report, 30.9.2022

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Market Review

The reality of higher global interest rates caught up with the listed infrastructure sector in September month, triggering a sharp correction after several quarters in which infrastructure performed more strongly than broader equity markets. 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.

- After a strong rally at the start of the quarter, equity and bond markets sold off sharply in August and September. In USD terms, developed market equities ended the quarter 6% lower while global bonds fell 7%.
- The rally in July was supported by markets starting to price in interest rate cuts by the Federal Reserve in 2023, suggesting an economic soft landing was likely. However, in August, the Fed along with other central banks renewed their commitment to prioritise returning inflation to target over supporting growth.
- The tough talk was followed up by aggressive action as the key global central banks raised interest rates over the quarter, by 1.5% (in the US) and 1.25% (in the eurozone). Guidance indicative of further hikes saw markets price in significantly higher terminal rates as the quarter progressed.
- Headline inflation moderated in many countries as last years' increases fell out of annual calculations and prices for key commodities fell, most notably oil. However, core inflation is proving to be more stubborn and remains well in excess of central banks targets, supporting indications of more tightening to come.
- The global growth outlook continues to weaken as central banks continue to hike and signal further interest rate increases to come.
- The odds of a "soft landing" are diminishing in several countries. Despite a technical recession over the first half of 2022, the US economy remains one of the more resilient. That is especially the case for the labour market where an unemployment rate of 3.7% and nominal wage growth in excess of 5% remain inconsistent with 2% inflation.
- The energy crisis continues to dominate the headlines in Europe as Russia halted all gas flows through the Nord Stream 1 pipeline in early September. Activity data continued to weaken over the quarter and recession now appears the most likely outcome. However, with inflation still stubbornly high, the ECB will continue to hike interest rates.
- Despite better economic data recently, the Chinese economy remains fragile as it confronts a number of headwinds including its zero-Covid policy, weather-related disruptions and weakness in the housing market. But given the benign inflation environment the PBoC has eased monetary policy further and the State Council has announced new fiscal measures to support the economy.
- Fiscal policy was the hot topic in the UK towards the end of the quarter. The announcement of significant unfunded tax cuts by the new Chancellor brought a severe negative reaction from markets and intervention from the Bank of England. The package has since been partially reversed.
- Over the fourth quarter of the year, growth conditions will continue to deteriorate as central banks continue to tighten with terminal rate likely to be met in late 2022 or early 2023.

Portfolio Review

Listed infrastructure securities weakened in August and September, generating a negative return for the Third Quarter but outperforming the broad equity market. Investor sentiment was negatively impacted by inflation and indications that aggressive central bank tightening would continue. Global interest rates moved sharply higher, dragging down equities. Infrastructure stocks declined in the third quarter in a difficult period for equities overall, but maintained a sizable year-to-date outperformance. After a strong start, the market's decline accelerated as the quarter progressed. Hopes that the Federal Reserve would slow monetary policy tightening were squelched by the Chair Jerome Powell's hawkish comments at the annual Jackson Hole conference. Most central banks outside the US also raised rates during the quarter. Global yields moved sharply higher, the US dollar's rally continued, and oil prices declined given slowing global growth. In this environment, nearly all listed infrastructure subsectors posted negative returns during the quarter.

Several utility subsectors were negatively impacted by rising interest rates. Water utilities (-10.0% total return) in the US declined; these higher growth utilities tend to lag in a rising rate environment. Gas distribution (-9.5%) was weak due to concerns over both high commodity prices and rising interest rates. Electric utilities (-6.9%) performed poorly despite their defensive characteristics.

Communications stocks (-13.5%) were pulled down by rising interest rates. High growth/high-multiple US tower and data centre companies were negatively impacted by surging rates amidst monetary tightening. Transportation-related sectors were mixed. Toll roads (-10.0%) were negatively impacted by rising rates and continued Covid restrictions in some parts of the world. Airports (-3.8%) outperformed, although moderating global growth could impact future traffic.

Several commercial sectors were relative outperformers. Marine ports (+1.2%) was one of the few to post a positive return. Midstream energy (-4.0%) fell along with the price of oil. However, it is the only sector with a positive year-to-date return. Railways (-1.5%) outperformed; quarterly volumes ended up modestly higher than 2021 levels.

The portfolio had a negative total return for the third quarter but modestly outperformed its benchmark.

Key contributors

• Stock selection in midstream energy: An overweight in US-based Cheniere Energy, a natural gas and LNG distributor, contributed to performance; Cheniere has continued to benefit from growing demand for US-sourced natural gas from European and Asian buyers.

• Stock selection in electric utilities: An overweight position in Brazil-based Equatorial Energia contributed to performance; its shares rallied as investors had a positive view on an announced acquisition. An overweight in US-based NextEra Energy Resources was also beneficial. The company is viewed as a beneficiary of the Inflation Reduction Act given its renewables exposure.

• An out-of-index position in environmental services: A position in Waste Management contributed to performance. The company reported solid earnings and has benefited from durable margins due to inflation protected contracts.

Key detractors

• Stock selection and an overweight position in communications: An overweight position in Europe-based satellite operator SES detracted from returns; it was hindered by rising interest rates.

• Stock selection in toll roads: Detractors included an out-of-index position in Zhejiang Expressway. The China-based company reported underwhelming earnings with traffic slowly recovering from the pandemic.

• Stock selection in water: An overweight in Pennon Group was negative for performance; its shares fell along with the overall UK market given economic concerns.

Investment Outlook (Cohen & Steers commentary)

We maintain a balanced portfolio amid elevated inflation, aggressive central bank tightening and moderating global growth. We continue to add exposure to several high-quality companies (principally freight rails) that we believe have solid growth potential in a weaker economic environment and have lagged year to date. We've also reduced our exposure to environmental services after stronger relative performance. Among the portfolio's more defensive allocations, we remain overweight communications infrastructure and we remain underweight utilities.

Higher interest rates and inflation may impact certain subsectors, although infrastructure returns have historically shown positive sensitivity in inflationary environments. We expect elevated inflation and higher interest rates will remain important drivers of asset allocation decisions. Performance dispersion among infrastructure subsectors can be significant in challenging 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. Although the pace of transactions may moderate given economic uncertainties, we generally expect this trend to continue, which may support listed infrastructure valuations.

The passage of the Inflation Reduction Act could be a long-term benefit to some companies with renewables exposure. The bill should accelerate development in renewables by providing substantial subsidies.

Greg Fleming

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