SALT

Salt Sustainable Global Listed Infrastructure Fund Fact Sheet – December 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 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 2023

Benchmark	FTSE Global Core Infrastructure 50/50 Net Tax Index
Fund Assets	$47.38 million
Inception Date	18 August 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 December 2023

Application	0.9478
Redemption	0.9439

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 2023

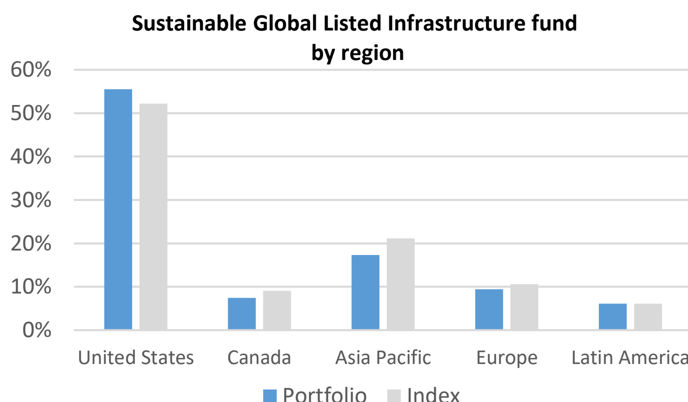
Global equities	97.65%
Cash	2.35%

Fund Performance to 31 December 2023

Period	Fund Return*	Benchmark Return
1 month	3.36%	3.41%
3 month	9.91%	8.73%
6 month	0.91%	1.09%
1 year	1.50%	0.41%
2 years p.a.	-0.53%	-1.74%
Since inception p.a.	2.22%	0.38%

*Performance is before fees and PIE tax and adjusted for imputation credits. Benchmark performance is gross. Past performance is not a guarantee of future results. Data as of 31 December 2023.

Fund regional weightings as at 31 December 2023*



Source: Cohen & Steers, Salt *data to 31 December 2023

Top 10 holdings	sector		sector
American Tower	Towers	PPL	Electric
Next Era Energy	Electric	Sempra	Gas Distribution
TC Energy	Midstream	Transurban	Toll Roads
Cheniere	Midstream	Alliant Energy	Electric
CenterPoint	Electric	Aeroportuario de Sur-B	Airports

The fund's top 10 holdings comprise 34.7% of the portfolio.
Source: Cohen & Steers Monthly Investment Report 31 December 2023

Sustainability metrics

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.59	6.41
MSCI ESG score	6.39	6.30

Source: Cohen & Steers Year End Investment Report December 2023

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Market Review

Listed infrastructure stocks rebounded sharply in November and December, as interest-rate sensitive assets responded to a rapid move lower in bond yields and investors sought out well-valued assets. The Fund performed in line with the Index for the month, with a 3.36% gross return, versus the benchmark's 3.41% return. However, for the quarter and full year, the fund remains comfortably ahead of its benchmark. For the Fourth Quarter, the Fund gained 9.91% (gross) compared to the 8.73% Index gain.

- After something of a reality check in the third quarter of the year, the December quarter saw strong returns across nearly all asset classes. Further progress on inflation saw markets anticipating earlier interest rate cuts leading to an 11.5% (in USD) rally in developed market equities and an 8.1% (in USD) return from the global aggregate bond index.
- Asset classes that have struggled most under the interest rate mantra of "higher for longer" such as real estate investment trusts showed some of the highest returns. Global REITS rallied 15.6% over the quarter.
- As the quarter began markets were becoming increasingly convinced that interest rates in the key developed markets had peaked. Softer than expected inflation prints in the US and Europe had markets bringing forward rate cut expectations.
- This expectation was reinforced by a dovish December statement from the US Federal Open Market Committee where the latest projections removed the final hike from prior projections and added an extra cut into 2024. By the end of the quarter US interest rate markets were anticipating six 25-basis point cuts in the Fed funds rate in 2024, an expectation we think will ultimately be disappointed.
- Activity data in Japan remained somewhat sluggish over the quarter. September quarter GDP data showed weaker-than-expected domestic demand, consumption, and capital expenditure. The focus remains on wage growth where the strength of corporate earnings supports the expectation of further wage growth next year. The Bank of Japan left monetary policy unchanged at its December meeting, though we expect they may end their Yield Curve Control and Negative Interest Rate policies as early as their January meeting. This is based on our view that such moves are as much about policy normalisation as concerns about inflation.
- The sluggish December PMI readings out of China suggest that fourth GDP will likely slip further. Some rebound in the manufacturing PMI in January 2024 is likely with pass-through of the Rmb1trn additional fiscal support to infrastructure projects flows through. However, its sustainability still bears watching. China's reflation journey will remain bumpy and gradual.
- As we expected, the Reserve Bank of Australia resumed rate hikes in November following a run of stronger than expected activity, labour market and inflation data. The 25bp hike took the cash rate to 4.35%. RBA left rates unchanged at the December meeting, though we continue to expect one further hike to 4.6%, most likely at the February meeting.
- In New Zealand, there was a meaningful softening in labour market pressures with a decline in employment and a rise in the unemployment rate from 3.6% to 3.9% over the September quarter. Wage growth also moderated. The biggest surprise of the quarter came with weaker than expected third quarter GDP growth which was accompanied by significant downward revisions to prior data. This seems to put the nail in the coffin of the one further hike included in the RBNZ's November interest rate projections. However, it does not necessarily bring forward rate cuts. That will depend on whether the weaker growth data will be followed by soft inflation readings, particularly non-tradeable inflation. The next NZ CPI data is due for release on January 24th.

Portfolio Review

After sharp outperformance in 2022, global infrastructure stocks posted modest gains in 2023. Listed infrastructure's performance stood in contrast to the broader equity market, which rose on the strength of just a few sectors, led by technology—which rallied sharply on optimism surrounding advancements in generative artificial intelligence. As a result, listed infrastructure's valuations moved below their historical average premium relative to equities.

Commercial infrastructure sectors outperformed. These more economically sensitive sectors posted strong returns as the economy generally performed better than expected. Marine ports (15.9% total return1) were among the top performers for the year, led by several key operators in India, the Philippines, and Brazil. Railways (11.1%) also outperformed, as the sector benefited from improving freight volumes in the second half of the year. Midstream energy (4.4%) performed well. Fundamentals remained solid, with strong free cash flow and energy throughput volumes.

Transportation-related sectors posted positive returns. Airports (8.2%) and toll roads (7.8%) generated healthy returns on improved global growth expectations and continued pent-up demand from the COVID pandemic.

The utilities and communications sectors generated negative returns. Performance across the regulated utility subsectors—electric utilities (–5.4%), water utilities (–4.9%) and gas distribution (–0.3%)—was weak. Although interest rates moderated late in the year, investors continued to digest the earlier rate hikes. Further, the broader risk-on market environment generally favoured growth-oriented sectors. Communications stocks (–0.8%) also performed poorly as tower companies were negatively affected by higher rates and slowing growth.

Portfolio performance in December 2023

Key contributors

• Stock selection and overweight in communications (–0.8% total return in the index): Our overweight in American Tower outperformed, as did our overweight position in Cellnex, a Spain-based tower infrastructure company; investors reacted favourably to the capital allocation plan proposed by the company's new CEO.

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• Security selection in midstream energy (4.4%): An overweight in Targa Resources aided relative performance; the company has a compelling asset footprint in the Permian Basin, generates strong free cash flow and has one of the highest growth rates in the sector.

• Out-of-index allocation to transport logistics: A position in Qube Logistics, an Australia-based company, rose on reports of strong container volumes.

Key detractors

• Stock selection in gas distribution (–0.3%): Shares of ENN Energy Holdings, a Hong Kong-listed Chinese gas utility, underperformed in part due to ongoing concerns about weakness in the Chinese property market leading to fewer new gas customer connections.

• Stock selection in railways (11.1%): An underweight position in Brazil-based transportation and logistics provider Rumo hurt relative performance. The company benefited from increased global demand for commodities and better-than-expected local inflation data. Additionally, being slightly underweight Union Pacific, the best-performing U.S.-based railroad operator, was detrimental. Investors favoured the appointment of a well-regarded industry veteran as its new CEO and are expecting the operating ratios to improve.

• Stock selection in water (-4.9%): Stock selection in water utilities hindered relative returns, partly due to an overweight position in U.S.-based Essential Utilities; its shares underperformed its peers on concerns over 2023 equity needs.

Investment Outlook (Cohen & Steers commentary)

We remain somewhat defensively positioned as we manage the portfolio for slower economic growth. We maintain our preference for higher-quality businesses that we believe can perform relatively well in a below-trend growth environment. We are also focused on the potential capital needs of individual companies to strengthen their balance sheets.

We believe the credit environment will remain challenged. Although interest rates moved lower in late 2023, our longer-term views remain unchanged. We continue to closely monitor the impact from higher financing costs and tighter financial conditions (including their potential impact on earnings and cash flows) across the infrastructure universe.

We remain focused on infrastructure companies that have strong balance sheets, with limited near-term maturities and manageable refinancing schedules.

Persistent inflation and "higher for longer" interest rates may be a headwind for certain sectors. However, most infrastructure businesses can generally pass rising costs along to consumers; as a result, they have tended to perform well during periods of above-average inflation.

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