



SALT

Sustainable Income Fund: asset allocation change notification

- 2022 was a watershed for traditional Fixed Interest, with bonds and bond-heavy Income funds experiencing unprecedented price weakness. Mark-to-market capital declines compounded by negative after-inflation returns from bond coupons.
- We believe bond yields have now adjusted upwards enough, to lower our underweight bond positions.
- As the Reserve Bank of New Zealand continues to lift the Official Cash Rate and inflation is persisting, domestic yields and discount rates are likely to stay elevated. We lower our overweight position in the NZ Dividend Appreciation Fund to Neutral, and trim our overweight position in the Enhanced Property Fund (whilst still remaining overweight.)

Dynamic Asset Allocation change – Salt Sustainable Income Fund

Salt's Sustainable Income Fund (SSIF) aims to provide a gross fixed quarterly income in excess of bank deposit rates, along with a positive return on capital on a rolling three-year basis by investing in a diversified mix of growth and defensive assets, with a focus on securities with strong Environmental, Social, and Governance (ESG) credentials and reliable income generation.

The value of the fund will fluctuate in line with market developments, but the primary focus is enhanced income and thus, shorter-term variability or volatility is an expected feature. Highly diversified asset pools lower overall fund vulnerabilities and allow the income-generating mix of assets to deliver throughout the intended investment horizon.

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.

Adjustment to Asset Allocations 10 February 2023

Sector	Target	Range	New allocation	Change	DAA tilt
Global Fixed Interest	35%	0% – 60%	27%	+7%	u/weight
Australasian Shares	30%	15% – 45%	30%	-3%	neutral
Global & NZ Listed Property	15%	0% – 35%	23.5%	-5%	o/weight
Global Listed Infrastructure	15%	0% – 35%	18%	-	o/weight
Cash or cash equivalents	5%	0% – 20%	1.5%	+1%	u/weight

Source: Salt Funds Management

Portfolio income yield allows for a steady Sustainable Income Fund distribution rate.

In line with clarity of cashflow objectives, the new Asset Allocation slightly increases the projected portfolio income, raising it by 0.1% p.a. to an estimated 5.2%. This protects the present SSIF distribution rate of 1c per unit/quarter.

Greg Fleming

10 February 2023