

SALT

Salt Select Global Fixed Income Fund Fact Sheet – June 2025

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.

Fund Name Change

As of 13 June, the Salt Sustainable Global Fixed Income Opportunities Fund is being renamed the **Salt Select Global Fixed Income Fund**. There is no change to investment disciplines or approach; however this aligns the Fund better with current global regulatory and market trends.

Investment Strategy

The primary objective of the Fund is to target and generate an attractive rate of return over a full three-to-five-year market cycle. To achieve this, the Fund targets a portfolio of global fixed income securities with enhanced total return potential and superior sustainability characteristics.

The objectives of this top-down selection process are to:

1. Reduce exposure to material ESG risk and negative sustainability impacts, through restriction screening of controversial sectors such as weapons, tobacco and some fossil fuels, as well as international norms violations;
2. Tilt the portfolio in favour of the 80% strongest sustainability performers across corporates, by sub- sector, and sovereigns; and
3. Contribute to positive outcomes based on key sustainability themes, with a particular focus on low carbon intensity.

The Fund will invest at least 50% in investment grade bonds, and a minimum of 15% in sustainable bonds. The fund targets its returns to be 100% hedged to the New Zealand dollar.

Fund Facts at 30 June 2025

Benchmark for ESG purposes only	Bloomberg Global Aggregate Index (NZD hedged)
Fund Assets	\$180.60 million
Inception Date	10 February 2023
Underlying Manager	Morgan Stanley Investment Management
Average credit rating	Standard & Poor's A- / Moody's Aa3
Effective Duration	3.84 years

Unit Price at 30 June 2025

Application	1.0578
Redemption	1.0566

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Fund Allocation at 30 June 2025

Global fixed income securities	100%
Cash, FX, short term & sundry	0%

Fund Performance at 30 June 2025

Period	Fund Return (Gross incl. ICs)
1 month	1.02%
3 month	1.67%
6 month	3.56%
1 year	6.74%
2 years p.a.	6.66%
Since inception p.a.	5.85%

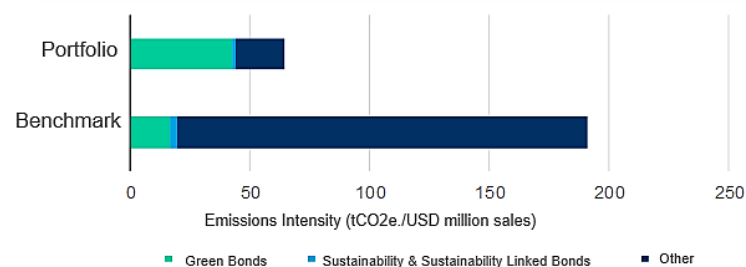
Performance is gross of fees and tax. Data as of 30 June 2025.

Sustainability scoring and Emissions intensity

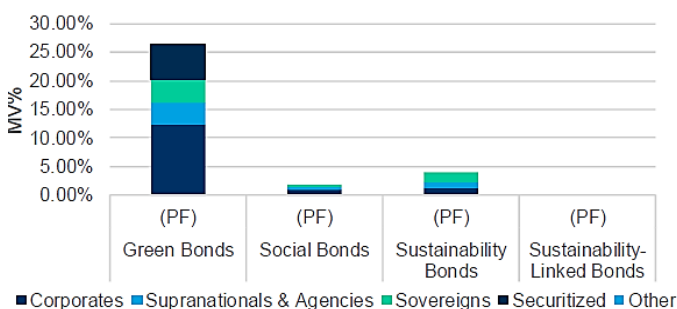
Fund ESG Dashboard	Port.	Agg	Fund YTD change
In-House ESG Research coverage (% Market Value)	84.8%	75.9	-1.1%
Green, plus Social, Sustainability and Sustainability-linked bonds	30.1%	3.9%	-6.2%
Sustainable SBTi approved / committed targets	41.0%	37.5%	-9.1%
CO2 Footprint Scope 1&2 (tCO2e/\$mn emission intensity)	64	191	-6.5%
CO2 Footprint Scope 3 (tCO2e/\$mn emission intensity)	490	712	-2.4%
MSCI ESG Score (Adjusted)	6.99	6.01	-0.19
Negative Indicators			
- Red Flags	0.0%	0.1%	0.0%
- CCC MSCI Rated	0.0%	4.3%	0.0%

Source: MISM Monthly Investment Report/ MSCI ESG Research at 30 June 2025

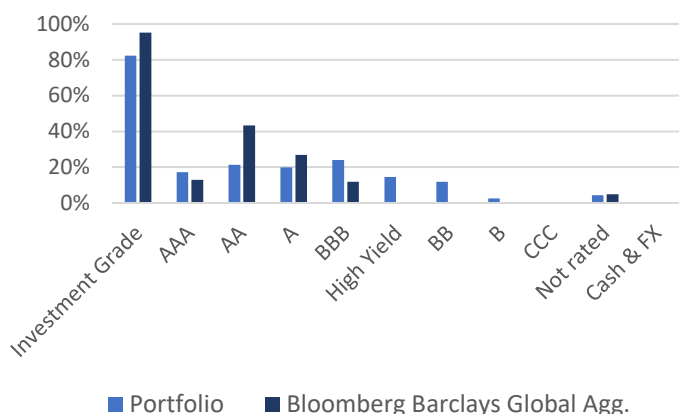
Emissions Intensity - Scope 1&2



Portfolio labelled bonds exposures by type



Fund credit ratings vs. Bloomberg Barclays Global Agg.



Source for charts: MISM as at 30 June 2025

Portfolio Review

- In the one-month period ending 30 June 2025, the portfolio returned 1.02% (before fees.) The performance can be attributed to the following factors:
- The portfolio's exposure in US duration was the largest contributor, driven by falling yields across the curve.
- Exposure to Euro-area duration detracted from performance in June.
- Higher risk-free rates continued to benefit performance.
- Euro-area spread positioning had a small positive impact on performance, particularly exposure to Italy.
- Both external and quasi spreads contributed to positive performance.
- The portfolio's short USD and a diversified basket of developed and emerging market currencies added value, over the month.
- The portfolio's long exposure to investment grade and high yield corporates contributed, supported by resilient risk appetite.
- Similar theme throughout securitized saw gains from exposures to agency RMBS, non-agency RMBS, ABS, and CMBS.

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- The portfolio's largest exposure, Securitized, contributed to performance. Particularly the exposures to non-agency/agency RMBS, non-agency CMBS and ABS.

Strategy changes

- Overall, duration exposure was increased, to 3.84 years, from 3.55 years at the end of last month.
- The portfolio increased the long exposure to the US, New Zealand and reduced the short exposure to Japan.
- The portfolio also reduced the long exposure to the Euro-area.
- Within FX, the portfolio increased the short exposure to USD (-6.2%), reflecting a strategic stance against the dollar rather than strong conviction in individual currencies.
- The portfolio also increased long positions to the Euro-area and Brazil and closed the long to GBP.

Strategy changes: Sector Spreads

- Trimmed exposure to investment grade corporates over the month.
- The portfolio increased allocations to Agency RMBS, particularly in belly coupons to enhance carry.

Market Review and Outlook

June was marked by a continuation of the risk-on sentiment that began earlier in the quarter, supported by resilient economic data, a modest decline in volatility, and easing geopolitical tension following the brief conflict between Israel and Iran.

Developed market government bond yields were mixed: U.S. 10-year yields fell 17 basis points to 4.23%, while German Bund yields rose 10 basis points amid hawkish ECB signals and increased fiscal spending. The U.S. dollar weakened 2.1% against a basket of currencies, with all G10 currencies except the yen appreciating, and EM currencies broadly outperforming.

Emerging market debt posted strong returns, buoyed by a weaker dollar, positive fund flows, and tightening spreads across both sovereign and corporate credit. Local rates outperformed global peers, and geopolitical risks had limited lasting impact on market sentiment. South Africa, Brazil, and Indonesia saw notable yield declines, while countries like Hungary and South Korea experienced modest increases.

Corporate credit rallied across the board. U.S. and European high yield outperformed investment grade, driven by strong technicals, solid corporate fundamentals, and declining Treasury yields. Euro IG led within investment grade, supported by robust demand and favourable issuance dynamics.

Securitized products also performed well, with agency MBS spreads tightening by 8 basis points and non-agency RMBS and CMBS spreads narrowing amid strong issuance and resilient credit fundamentals.

Since the Fed began its rate-cutting cycle with a 50-basis point bang last September, things have gotten oddly quiet—at least when it comes to short-term rates. It's now been six months since the last 25 basis point cut, and short-maturity yields have barely budged.

Compared to the rollercoaster of 2022 through 2024, the current trading range feels almost serene. Yes, the yield curve has steepened since that first cut. The 2s10s curve has gone from flat to modestly positive. But let's keep it in perspective: we're still only a bit above half the average steepness seen over the past forty years.

If this setup feels familiar, it might be because it echoes the five-year stretch between the spring of 1995 and the peak of the tech bubble in early 2000. Back then, the Fed wrapped up a hiking cycle and spent the next several years gently nudging rates up and down within a 125-basis point range in response to macroeconomic developments.

For now, the next Fed cut remains elusive—much like Beckett's Godot. Core PCE, the Fed's preferred inflation gauge, is stuck at 2.7%, exactly where it was last September. The unemployment rate, at 4.2%, is only marginally higher. Add in the delayed impact of tariffs and the likelihood that stricter immigration policy will tighten labour markets, and it's a bit puzzling that the front end of the U.S. bond market is now pricing in as many as three 25 basis point cuts by year-end—up from an already questionable two at the start of June.

Looking further out, the market is forecasting five cuts by the end of next year. Outside the U.S., rate cycles appear to be nearing their end. Markets have priced in just one more cut for the ECB and the Bank of Canada, and about one and a bit for the Riksbank.

Only in the higher-yielding markets—the UK and Australia—do we still see expectations for three or more cuts. Meanwhile, the Bank of Japan is heading in the opposite direction. With realized inflation still above 3% year-over-year and wage growth remaining elevated, policy rates may finally rise meaningfully above zero.

That said, the market still expects the policy rate to remain below 1% two years from now. Rather than trying to trade central banks, we continue to believe the safer bet is to position for steepening at the long end of the yield curve—not just in the U.S., but in Europe as well. Japan and the UK have already seen sharp steepening, which suggests that the historical support from insurers and pension funds at the long end of the curve can no longer be taken for granted. In our view, steeper curves reflect the market's ongoing concern about persistently large deficits and the challenge of absorbing government bond supply in parts of the curve where natural buyers—those matching long-dated liabilities—are becoming increasingly scarce.

June brought more of the same: a continuation of the post-Liberation Day decline in volatility, despite headlines around Iran and Israel and the legislative horse-trading over the One Big Beautiful Bill Act. Credit spreads tightened through pre-Liberation Day levels, and equity markets pushed above their March highs.

Despite what many would consider tight monetary policy—with the Fed Funds target rate still 200 basis points above CPI, another echo of the mid-1990s—the market remains bullish on the economy. In the Eurozone, sovereign spreads are now at their tightest levels since before the euro sovereign crisis. In many cases, this tightening is fundamentally justified: most countries are on ratings upgrade trajectories, and their fiscal dynamics are the best they've been in over a decade.

That said, it's not a universal story. France and Belgium have both been downgraded over the past year. Still, OAT-Bund spreads are at their tightest in the last 12 months, and while France is now one of the higher-yielding euro sovereigns, it's hard to argue that the market is truly worried about French fiscal risk.

The one major difference between now and 1995? The dollar. When Robert Rubin became Treasury Secretary under President Clinton, he famously declared that “a strong dollar is in our national interest”—and backed it up with action. That commitment outlasted his tenure, helped along by a federal budget surplus by 1998 and a roughly balanced net international investment position.

Today's backdrop couldn't be more different. Both the budget and current account are deep in deficit, and the gap between what foreigners own in U.S. assets and what Americans own abroad now exceeds 80% of U.S. GDP. We believe foreign investors—already large holders of Treasuries and U.S. equities—may begin demanding a higher premium to fund these imbalances. That premium, in our view, implies a weaker dollar.

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