

SALT

Salt Select Global Fixed Income Fund Fact Sheet – July 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 31 July 2025

Benchmark for ESG purposes only	Bloomberg Global Aggregate Index (NZD hedged)
Fund Assets	\$180.97 million
Inception Date	10 February 2023
Underlying Manager	Morgan Stanley Investment Management
Average credit rating	Standard & Poor's A- / Moody's A3
Effective Duration	3.76 years

Unit Price at 31 July 2025

Application	1.0604
Redemption	1.0592

Fund Allocation at 31 July 2025

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

Fund Performance at 31 July 2025

Period	Fund Return (Gross incl. ICs)
1 month	0.31%
3 month	1.51%
6 month	3.04%
1 year	5.50%
2 years p.a.	6.35%
Since inception p.a.	5.78%

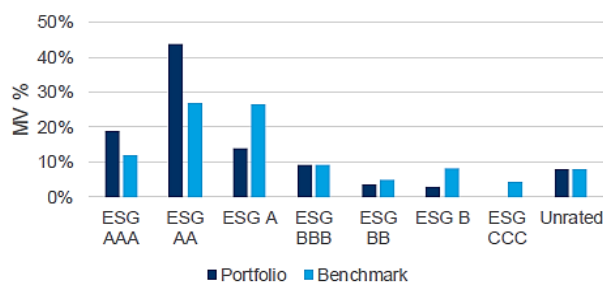
Performance is gross of fees and tax. Data as of 31 July 2025.

Sustainability scoring and Emissions intensity

Fund ESG Dashboard	Port.	Agg	Fund YTD change
In-House ESG Research coverage (% Market Value)	83.7%	75.8%	-2.2%
Green, plus Social, Sustainability and Sustainability-linked bonds	29.3%	3.9%	-7.2%
Sustainable SBTi approved / committed targets	38.4%	37.5%	-11.8%
CO2 Footprint Scope 1&2 (tCO2e/\$mn emission intensity)	79	196	14.7%
CO2 Footprint Scope 3 (tCO2e/\$mn emission intensity)	428	706	-14.6%
MSCI ESG Score (Adjusted)	6.94	6.00	-0.24
Negative Indicators			
- Red Flags	0.0%	0.1%	0.0%
- CCC MSCI Rated	0.0%	4.3%	0.0%

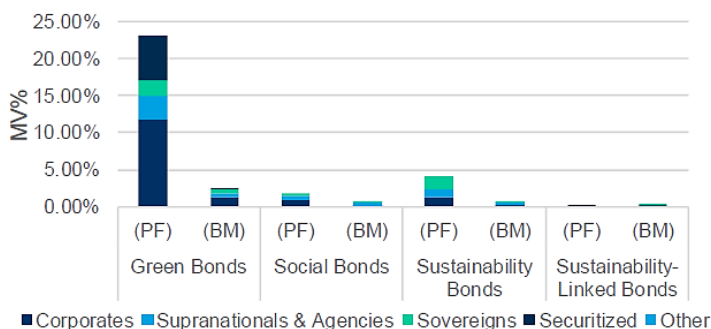
Source: MISM Monthly Investment Report/ MSCI ESG Research at 31 July 2025

Portfolio vs Bench ESG Ratings Distribution⁽¹⁾

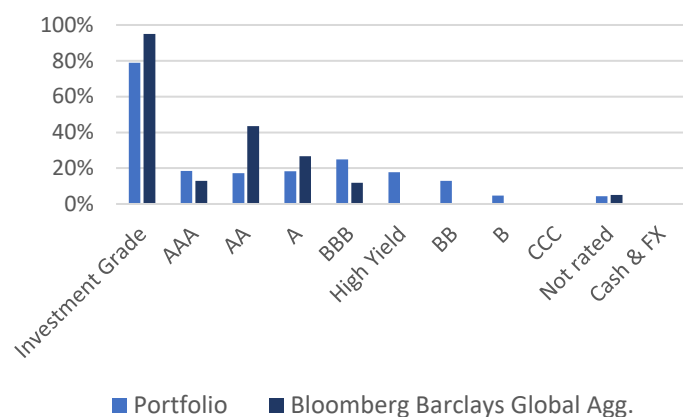


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Portfolio labelled bonds exposures by type



Fund credit ratings vs. Bloomberg Barclays Global Agg.



Source for charts: MISM as at 31 July 2025

Portfolio Review

- In the one-month period ending 31 July 2025, the portfolio returned 0.31% (before fees.) The performance can be attributed to the following factors:
- The portfolio's exposure in US duration was the largest detractor, as rising yields and a flattening curve hurt the portfolio's exposure and curve steepener.
- Exposure to Euro-area duration modestly detracted on the back of rising yields and curve flattening.
- Higher risk-free rates continued to benefit performance.
- Emerging Market (EM) Hard Currency Debt contributed positively amid supportive risk sentiment.
- Government Related Debt positively contributed, given tightening spreads and positive security selection.
- The portfolio's short USD detracted as the dollar staged a recovery in July.
- The portfolio's long positions in both investment grade and high yield corporates performed well, supported by resilient risk appetite.

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- Similar theme throughout securitized saw gains from exposures to agency RMBS, non-agency RMBS, ABS, and CMBS.

Strategy changes

- Overall, duration exposure was reduced, to 3.76 years, from 3.84 years at the end of last month.
- The portfolio reduced the long exposure to the US, the Euro-area, New Zealand and increased the long exposure to Peru, Brazil and closed the short exposure to Japan.
- Within FX, the portfolio marginally reduced the short exposure to USD (-5.3%) vs a basket of DM and EM currencies, but maintaining strategic stance against the dollar.

Strategy changes: Sector Spreads

- Reduced allocation to investment grade credit across some of the tightest names, particularly within EUR industrials and financials.
- Removed exposure to CMBS in favour of non-agency CMBS given better valuation and attractive carry.

Market Review and Outlook: *If We Knew Then What We Know Now*

Rates Reprice Higher Amid Resilient Growth and Sticky Inflation

Global government bond yields rose across most developed markets in July, led by the US 10-year yield, which climbed ~15 bps to 4.37%, reflecting stronger-than-expected economic data and persistent inflation pressures. Canada (+18 bps) and Japan (+12.5 bps) also saw notable moves, while Germany (+9 bps) and the UK (+8 bps) followed suit. The upward pressure on yields was broad-based, driven by hawkish central bank rhetoric and a reassessment of terminal rate expectations.

Credit Markets Rally on Technicals and Risk Appetite

Credit spreads tightened across the board, supported by strong fundamentals and demand. US IG spreads narrowed by 7 bps to 76, while US HY tightened by 12 bps to 278, with similar moves in Euro IG (-13 bps) and Euro HY (-30 bps). EM corporates and sovereigns saw meaningful spread compression, with EM External spreads tighter by 24 bps and EM Corporate spreads tighter by 26 bps, reflecting improved sentiment and demand.

Securitized Credit Outperforms

Agency MBS yields rose ~14 bps, but spreads tightened modestly, suggesting stable demand. CMBS and ABS spreads narrowed across ratings buckets, with CMBS AAA down ~5 bps and CMBS BBB down ~20 bps, supported by improving fundamentals and technicals.

Breakevens Rise as Inflation Expectations Rebuild

Inflation breakevens widened in the US (+11 bps), Germany (+6 bps), and the UK (+6 bps), indicating a rebound in inflation expectations across the globe. The move was more muted in Japan and Southern Europe.

FX Volatility Returns as USD Strengthens

The USD appreciated broadly, with notable moves against the JPY (-4.5%), EUR (-3.2%), and GBP (-3.8%). The DXY index rose ~3.2%, driven by higher US yields and safe-haven flows.

EM currencies were broadly lower, with BRL and ZAR weakening -3.0% and -2.7% respectively.

Fixed Income markets in July reflected investor sentiment that the U.S. economy had largely moved past the tariff-related uncertainty of the prior three months and was progressing at a steady—if unspectacular—pace. However, core inflation data releases for June (CPI and PCE) remained stubbornly sticky, showing a slight uptick from May.

Early in the July month, the initial non-farm payrolls report for June exceeded expectations (147,000 vs. 106,000 forecast), reinforcing market confidence in the economy's resilience. Yet subsequent revisions—amounting to a two-month downward adjustment of 258,000—revealed that labour market strength in May and June had been significantly overstated. At the time, though, traders interpreted the preliminary data as indicative of benign growth.

The Fed held rates steady as expected, but dissent from Governors Bowman and Waller—who cited labour market concerns and advocated for a rate cut—marked a notable shift. By month-end, 10-year Treasury yields had risen 15 basis points. Fed Funds futures, which had priced in a 65% chance of up to three cuts by year-end at the end of June, revised expectations to just over a 30% chance of only two cuts by July 31.

As is typical for mid-summer, market activity was subdued and liquidity thin. Credit spreads in both investment grade and high yield touched year-to-date lows. Securitized assets tightened, and the MOVE index—a measure of Treasury bond volatility—closed at its lowest level since January 2022, just before the Fed began its hiking cycle. With reduced expectations for Fed easing, the yield curve flattened, narrowing the 5-year vs. 30-year Treasury spread by 5 basis points.

Other G10 rates markets largely mirrored U.S. moves. The ECB, Bank of Japan, Bank of Canada, and Reserve Bank of Australia all held rates steady, while the Bank of England did not meet. Ten-year yields rose across developed markets in sympathy with the U.S. Treasury move.

As the President's self-imposed August 1 deadline for trade negotiations approached, the tariff structure became clearer. Deals struck after the initial post-Liberation Day pause suggest a 15% tariff baseline for trade agreements with the U.S.—except for the UK, which agreed to 10%. The EU, Japan, and South Korea accepted 15% tariffs with no reciprocal duties on U.S. goods, alongside commitments for hundreds of billions in U.S. investment. India (25%), Switzerland (39%), and Brazil (50%) face higher rates. Canada remains in negotiations and currently faces a 35% tariff on non-USMCA-compliant goods, while Mexico received a 90-day extension to finalize its deal.

Additional tariffs on steel, aluminium, copper, and the removal of the WTO exemption on pharmaceuticals have pushed the average effective tariff rate on U.S. goods imports to 18.3%, up from 2.4% in January, according to the Budget Lab at Yale University. These tariffs are estimated to have raised U.S. consumer prices by 1.5%, accounting for substitution effects. As these deals were announced, Treasury TIPS breakevens—a key market gauge of inflation expectations—rose, with 5-year breakevens moving from 2.31% at the start of July to 2.48% by month-end.

We also gained clarity on another major Trump administration initiative: the One Big Beautiful Bill Act (OBBBA), signed into law on July 4. From a fixed income perspective, the primary concern is the likely expansion of the deficit from already elevated levels, despite a growing and fully employed economy. As previously noted, we expect these persistent deficits to exert upward pressure on real interest rates across the curve.

We've titled this monthly outlook "*If We Knew Then What We Know Now*" because July's muted market movements were based on assumptions of steady economic growth. However, the August 1 employment report and significant downward revisions to prior payroll data suggest the picture may have been more fragile than it appeared. The months ahead promise to be revealing.

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