

SALT

Salt Sustainable Income Fund Fact Sheet – March 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 aims to provide a gross fixed quarterly income (after fees and expenses but before tax) in excess of bank deposit rates, along with a positive return on capital on a rolling three-year basis.

The Fund targets a diversified mix of growth and defensive assets, with a focus on securities with strong Environmental, Social and Governance credentials & reliable income generation. The Fund's strategy is to invest in a quality asset mix with an aim to provide regular, sustainable income and a positive return on capital. At times the value of the fund will fluctuate in line with listed market developments, but the primary focus is enhanced income and thus, shorter-term variability or volatility is an expected feature.

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.

Fund Facts at 31 March 2022

Benchmark	Bank deposit rates
Fund Assets	\$46.9 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Current yield to 30/9/22	4.00% per annum

Unit Price at 31 March 2021

Application	0.9831
Redemption	0.9791

Investment Guidelines

Sector	Target	Range
New Zealand Fixed Interest	20%	0% – 40%
International Fixed Interest	15%	0% – 40%
Australasian Shares	30%	15% – 45%
Global Listed Property	15%	0% – 30%
Global Listed Infrastructure	15%	0% – 30%
Cash or cash equivalents	5%	0% – 20%

Fund Allocation at 31 March 2022

New Zealand Fixed Interest	0%
International Fixed Interest	19%
Australasian Shares	34%
Global Listed Property	27%
Global Listed Infrastructure	17%
Cash or cash equivalents	3%

Fund Performance to 31 March 2022

Period	Fund Return	Benchmark Return
1 month	1.55%	0.09%
3 months	-3.83%	0.24%
6 months	-2.40%	0.40%
Since inception	0.89%	0.55%

Performance is after all fees and does not include imputation credits or PIE tax. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.

Top Holdings at 31 March 2022

Goodman Property Trust	Spark NZ
Precinct Properties NZ	Argosy Property Trust
Fisher & Paykel Healthcare	Mainfreight Ltd
Kiwi Property Group	Stride Property & Stride Invest Mgmt
Property for Industry Ltd	Auckland International Airport

Holdings stated as at 31.3.22

SALT FUNDS MANAGEMENT

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Salt Sustainable Income Fund Distribution Increase

Due to increasing component yield income projected for the next six-month period, we are pleased to have been in the position to announce that from the next Salt Sustainable Income Fund distribution on 9 May, the distribution rate will be increased by 0.25% to reflect an annual distribution target of 4.00%. The cents per unit (cpu) value of the rate increase was communicated to investors, based on the Fund's Unit Price on 1 April 2022. This rate will be held until it is reviewed on 31 October in the light of intervening asset market developments, and ahead of the November 2022 distribution payment.

Market Commentary

The first quarter of 2022 was challenging for markets. Concerns over the need for a faster pace of interest rate hikes to combat higher inflation, along with the economic implications of Russia's invasion of Ukraine, weighed on both equity and bond markets. Russia is a major energy and commodity producer, with the invasion exacerbating both the current surge in inflation and already constrained global supply chains, posing risks to global growth.

Central banks became gradually more hawkish as the transitory inflation narrative was overtaken by rising core inflation, higher inflation expectations and stronger wage inflation. Bond yields rose rapidly as the market feared monetary authorities are now seriously behind the curve. Even the European Central Bank was more hawkish than expected and indicated the end of its asset purchase program was likely some time in Q3 2022 and declined to push back on expectations of rate increases before the end of the year. The US Federal Reserve hiked the Fed funds rate for the first time this cycle in March.

The flattening of the US yield curve and, at times, inversion of certain parts of the curve has generated a degree of consternation about the prospect of recession in the US. An important consideration is that through history there has been an average 19-month lag between the inversion of the yield curve and the onset of recession. We don't dismiss the prospect of future recession but it's important to not get too negative too soon.

Hawkish recent RBNZ statements set the scene for aggressive hikes in the next few months. This fits well with our view that the RBNZ needs to get the OCR to neutral as fast as possible which supports the 50bp hike the RBNZ made on 13 April and suggests another such would be appropriate in May.

Salt Sustainable Income Fund Commentary

The Sustainable Income Fund rebounded moderately in **March**, rising by 1.55% (after fees) for the month. Difficult international and domestic conditions persisted, but within this fund's component asset classes, only international bonds contributed a negative March month return, at -0.4%. Other components were positive contributors for the month. By a good margin the strongest positive return came from the Salt Sustainable Global Infrastructure Fund, which supplied 1.18% of the overall month's return. Other positive components were the Salt Enhanced Property Fund, supplying 0.40% and the Salt NZ Dividend Appreciation Fund, with a similar, 0.37% March month's contribution.

For the **First Quarter**, the overall pattern of returns for markets was negative, whether in equities or fixed interest. The Sustainable Income Fund declined by -3.83% (after fees) for the three-months to 31 March. Again, Salt Sustainable Global Infrastructure Fund was the positive impact on

overall returns, contributing +0.23% for the period which was a resilient result, given the broad weakness in asset markets since the Ukraine crisis.

Most of the capital growth element previously build up in this fund has been reversed by such developments, leaving the return since inception (after fees) positive at +0.89%. However, the income level has been enhanced. We anticipate the capital growth aspect of the Fund to resume gradually once international conditions stabilize, potentially from mid-year.

As the primary objective of the Salt Sustainable Income Fund is to invest in quality sustainable yield payers, minimizing short-term capital price fluctuation is secondary. Accordingly, the fund has indicated a 0.25% higher annual rate of 4.0% p.a. distribution yield to be payable from the next distribution through until the next review point in Q4 2022.

Other non-Cash component assets contributed negatively to performance, to varying degrees. Given the extraordinary weakness in global bond markets, it is unsurprising that the Global Fixed Interest Fund contributed -0.23% for the quarter as bond yields surged higher and credit spreads widened (though the latter remain close to record lows.) The bond portfolio underperformed its benchmark by -0.07% in March but outperformed by 0.13% for the three-month period, reflecting underweight duration and cautious credit positioning. However, the absolute return from the fund of -4.7% in the first quarter, while sharply negative, was not atypical in the international fixed interest fund arena and the relatively low portfolio weighting to this sector limited the impact overall. For the period, the fund's international holdings' contributions largely offset one another. The global infrastructure component contributed +0.23% to the Fund's overall monthly return, as against the -0.23% detracted by Global Fixed Interest.

The domestic equity components made negative contributions in the quarter though they outperformed their benchmarks. At -3.02%, the bulk of the Sustainable Income Fund's quarterly decline was attributable to the Salt NZ Dividend Appreciation Fund (DAF.) Nevertheless, this fund itself was an outperformer relative to its benchmark, as DAF fell by -5.74% in the March Quarter compared to the -7.09% return from the S&P/NZX50 Gross Index. The quarter was notable for there being no positions that were materially problematic for the Fund, with the largest individual detractor being the good-sized overweight in Turners (TRA, -8.3%) on fears of the impact of Omicron. DAF's dividend advantage remains important to the Sustainable Income Fund and at quarter-end, we estimate the Fund has a forward gross dividend yield of circa 3.7%, which compares to our estimate of 3.1% for the benchmark.

The Salt Enhanced Property Fund contributed -0.84% of the Sustainable Income Fund's quarterly decline. The NZ dividend-focussed equity components of the portfolio are yet to make a sustained positive portfolio impact, and we expect them to trend sideways. Nevertheless, the income yield provided by these assets is important to the Fund's distribution level.

The pricing in of rising interest rates has suppressed equity returns in the last several months, but the income yield characteristics of the equity, property and infrastructure sectors continue to strongly support their inclusion at substantial weightings in the fund.



Greg Fleming, MA

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