SALT

# Salt Sustainable Global Listed Infrastructure Fund Fact Sheet – June 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'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 30 June 2022

| | |
|---|---|
| **Benchmark** | FTSE Global Core Infrastructure 50/50 Net Tax Index |
| **Fund Assets** | $54.02 million |
| **Inception Date** | 18 August 2021 |
| **Underlying Manager** | Cohen & Steers |

## Unit Price at 30 June 2022

| | |
|---|---|
| **Application** | 1.0176 |
| **Redemption** | 1.0134 |

## 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 30 June 2022

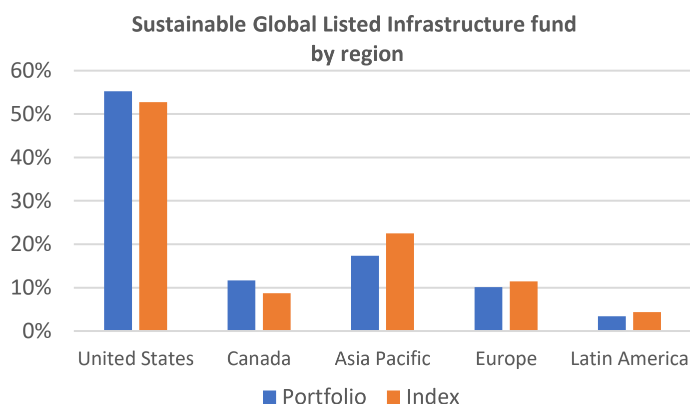
| | |
|---|---|
| **Global equities** | 97.8% |
| **Cash and FX forwards** | 2.2% |

## Fund Performance to 30 June 2022

| Period | Fund Return* | Benchmark Return |
|---|---|---|
| 1 month | -4.33% | -4.97% |
| 3 month | -4.82% | -5.30% |
| 6 month | -2.15% | -2.15% |
| Since inception | 3.64% | 2.25% |

*Performance is after fees and does not include imputation credits or PIE tax. Benchmark performance is gross. Past performance is not a guarantee of future results. Data as of 30 June 2022.

## Fund regional weightings as at 30 June 2022*




Source: Cohen & Steers, Salt *data to 30 June 2022

| Top 10 holdings | |
|---|---|
| NextEra Energy | Sempra Energy |
| American Tower | American Electric Power |
| Transurban | Wisconsin Energy Corp |
| Enbridge | CenterPoint Energy |
| Duke Energy | NiSource |

The fund's top 10 holdings comprise 37.6% of the portfolio

| Fund ESG Scores | Portfolio | Index |
|---|---|---|
| Cohen & Steers ESG score | 6.5 | 6.4 |
| MSCI ESG score | 6.3 | 6.3 |

Source: Cohen & Steers Quarterly Investment Report, 30.6.2022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## Market Review

It has been a tough quarter for markets following what was already a difficult March quarter. This marks the worst first half of the year for developed market equities in 50 years. To make matters worse, bond prices have also fallen significantly, failing to give investors the protection they usually seek from this asset class.

At the other end of the spectrum, global listed infrastructure has performed more strongly, given its inherent inflation protection characteristics.

- Government bonds have been hit as interest rate markets have priced in ever more aggressive action from central banks to tame inflation. This has led to heightened recession risks as household budgets are squeezed by the higher prices of key commodities (food and energy) and higher borrowing costs.
- Central banks continue to play catch-up with inflation, which is contributing to growing risks to growth, though those risks remain greater in Europe than the United States. Labour markets remain tight but negative real wage growth continues to squeeze household incomes. Margins are coming under pressure, especially for consumer-facing companies, with pricing power an increasingly important factor in relative equity performance.
- In the US the Federal Reserve has signalled its clear intention to tame inflation by signalling interest rates will need to rise to 3.8%. Despite unemployment being low and wages increasing, consumer confidence has slumped, contributing to recession concerns. The Fed believes the unemployment rate will need to rise to just above 4% (currently 3.6%) to meet its inflation mandate. US headline inflation came in higher than expected at 9.1% y/y in July.
- Consumer confidence has also slumped in Europe, though the biggest recession risk is the reduction in gas supplies from Russia. Prices have risen sharply, and some form of rationing may have to be implemented. This prospect is already having a negative impact on business confidence.
- The Chinese authorities continue to adopt a Covid-zero strategy, though there has been some easing in quarantine restrictions. With lockdown restrictions easing in some regions, recent economic data has improved. We expect the authorities will continue to back away from Covid-zero, most likely following the Communist Party National Congress later in the year.
- The Reserve Bank of Australia has accelerated its rate hikes, raising the cash rate 50bp in June following the initial 25bp hike in May. Signs are already emerging that the increase in rates thus far is already impacting on consumer behaviour. Despite that, further 50bp hikes are likely.
- The New Zealand economy contracted in the March quarter, in line with weak business and consumer confidence and the "virtual" Covid lockdown over the early months of the year. While the economy will benefit from the reopening of borders and the return of international tourist through the middle part of the year, weak confidence levels point to soft underlying growth.

Central Banks' shift in tone to a more inflation-adverse stance, combined with the Ukraine crisis, and energy / food cost spikes, has challenged investor sentiment throughout much of 2022.

## Portfolio Review

In the June month, the Fund had a total return of -4.33%, which exceeded the return of -4.97% for its benchmark. For the June Quarter, the Fund declined by -4.82%, outperforming its benchmark by 0.48%. For the year-to-date, the Fund had a total return of -2.15%, matching its benchmark. Since inception on 18 August 2021, the Fund has returned 3.64%, 1.39% ahead of the benchmark gross return of 2.25%.

Listed infrastructure securities declined during the second quarter but outperformed the broad equity market. Equities were volatile as the market reacted to elevated inflation, aggressive central bank monetary tightening, sharply rising interest rates, the repercussions from the war in Ukraine, and the prospect for weaker global growth. These weighed on investor sentiment and sent broad stocks into a bear market, with the S&P 500 Index falling 20.3% in the first half year from its prior record high. The bulk of the decline YTD (-16.5%) was concentrated in Q2.

Economically sensitive sectors were weak as global growth concerns increased. Railways (-16.2% total return) was the worst performing sector; labour constraints and expectations for moderating freight volumes weighed on share prices. Midstream energy (–6.8%) declined as oil prices fell from their mid-June peak and the prospect of moderating throughput volumes negatively impacted the sector. However, it remained the best performer year-to-date. Marine ports (-10.9%) were also hurt by expectations for reduced throughput volumes.

Several traditionally defensive utilities sectors declined as U.S. interest rates rose sharply. Electric utilities (-4.7%) were mixed; certain companies with renewables exposures outperformed as the U.S. may ease the tariff risk associated with solar panels delivered from Asia. Water utilities (-9.8%) were among the weakest performers; several U.K. companies announced earnings that fell short of expectations. Gas distribution (-1.3%) outperformed, led by several Japanese companies, after lagging earlier in the year.

Travel sectors were mixed despite a continuation of the reopening trend. Toll roads (8.6%) was the only sector to post a positive return for the quarter; the reopening theme and M&A activity supported the group. Airports (-8.1%) were negatively impacted by high prices; weaker global growth could also temper air passenger volumes.

Communications (-3.8%) were relative outperformers as companies announced solid results. Earnings for several U.S. tower companies exceeded expectations, and investor interest in the sector improved, given attractive valuations following weakness earlier in the year.

### Key contributors

• Security selection in toll roads (8.6% total return in the index): An overweight to an Australian toll road operator was beneficial; its shares rallied as a private investor considered an acquisition of the company.

• Overweight position in gas distribution (-1.3%): We maintained an overweight in the outperforming sector.

• Security selection in railways (-16.2%): We were overweight a European operator that had a significant gain in the quarter.

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**Key detractors**

• Security selection in marine ports (-8.8%): An overweight in a Brazilian port operator detracted from performance; emerging-market growth concerns hindered its shares over the quarter.

• Security selection in airports (-2.5%): Our non-investment in a China-based airport detracted from performance, its shares rallied given expectations for increased travel volumes as Covid restrictions are gradually lifted.

## Portfolio Outlook (Cohen & Steers commentary)

We maintain a balanced portfolio, with a slightly more defensive posture given elevated inflation, central bank tightening and the potential for slower growth. We are actively seeking opportunities from higher quality companies that have better growth potential in a weaker economic environment. We continue to monitor the pace of the Fed's interest rate increases. Among the portfolio's more defensive allocations, we remain overweight communications infrastructure and waste management and underweight utilities.

The Russia-Ukraine war could continue to impact a number of global infrastructure sectors. From a regional perspective, Europe remains the most vulnerable to the impact from the war. The portfolio has no direct exposure to companies domiciled in either Russia or Ukraine. In the midstream sector, supply disruptions could lead to increased oil and gas production in the U.S., resulting in greater pipeline throughput volumes. Despite recent supply disruptions, U.S. LNG exporters could benefit as low-cost suppliers to help meet European energy needs.

While higher interest rates and inflation may impact certain subsectors in the near term, infrastructure returns have historically shown positive sensitivity in an inflationary environment. We continue to closely monitor inflation and interest rates, which are important drivers of asset allocation decisions as the year progresses.

Performance dispersion among infrastructure subsectors can be significant in challenging economic periods and amid rising bond yields. Most infrastructure businesses can generally pass rising costs along to consumers and, as a result, have tended to perform well during periods of unexpected inflation.

We expect private investor interest in acquiring listed infrastructure assets to continue. Several significant transactions were announced or are pending across various subsectors and geographies, most recently in the Australian toll road space. We expect this trend to continue in the second half of the year, which may support listed infrastructure valuations.

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