
# Salt Sustainable Income Fund Fact Sheet – November 2021

### 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 30 November 2021

| | |
|---|---|
| **Benchmark** | Bank deposit rates |
| **Fund Assets** | $43.1 million |
| **Inception Date** | 19 June 2021 |
| **Portfolio Manager** | Greg Fleming |
| **Current yield to 31/3/22** | 3.75% per annum |

### Unit Price at 30 November 2021

| | |
|---|---|
| **Application** | 0.9972 |
| **Redemption** | 0.9931 |

### 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 30 November 2021

| | |
|---|---|
| **New Zealand Fixed Interest** | 0% |
| **International Fixed Interest** | 21% |
| **Australasian Shares** | 34% |
| **Global Listed Property** | 27% |
| **Global Listed Infrastructure** | 17% |
| **Cash or cash equivalents** | 1% |

### Fund Performance to 30 November 2021

| Period | Fund Return | Benchmark Return |
|---|---|---|
| **1 month** | -1.71% | 0.09% |
| **3 months** | -3.21% | 0.26% |
| **6 months** | 1.18% | 0.54% |
| **Since inception** | 1.39% | 0.46% |

Performance is net of fees and tax, but not adjusted for imputation credits. 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 30 November 2021

| | |
|---|---|
| Goodman Property Trust | Property for Industry |
| Fisher & Paykel Healthcare | Argosy Property Trust |
| Precinct Properties NZ | Stride Property & Stride Invest Mgmt |
| Kiwi Property Group | Vital Healthcare Property Trust |
| Spark New Zealand | Mainfreight |

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## Monthly Market Commentary

**Global equity markets declined in November, after a robust rise in October, as the new Covid-19 variant, Omicron, emerged and put a damper on recovering investor sentiment worldwide.** Developed market equities started the month well, until the news flow shifted to rising Covid hospitalisations in Europe. New economic and social restrictions varied from country-to-country and were largely dependent on hospitalisiation rates. Some countries reimposed work from home (Germany and Belgium) while others opted for a return to full lockdown (Austria). More will be learnt about Omicron in coming weeks, with key questions being the severity of symptoms, the efficacy of the current vaccine options and the hospitalisation and mortality rates. Given this fresh uncertainty, the MSCI World Index fell -2.3% (in USD) over the month to up 17.5% over the year. Sovereign bonds rallied, partly reversing the prior trend to higher interest rates on investment grade securities. Higher-rated bonds' price gains assisted the portfolio in November.

In the **United States** inflation continued to surge higher with the annual rate of increase in the CPI reaching 6.8%, its highest rate in 31 years. The labour market continues to improve and retail sales posted a strong increase for October, allaying concerns about waning consumer confidence. Fed Chairman Jay Powell was reappointed for a second term and came as close to admitting the FOMC has been wrong on inflation without admitting it outright. In what is now being described as the "Powell pivot", the word "transitory" is now excluded from the FOMC lexicon. He also flagged a possible faster taper of their asset purchase program, though that will still depend on answers to the various Omicron questions. The S&P 500 fell -0.6% over the month to be up 25.5% over the year. 10-year US Treasury yields fell from 1.55% to 1.43%. Bond yields at these levels still appear unrealistic; however, the market for debt remains distorted by the legacies of the QE era.

In **Europe,** data was mixed, depending on the local severity of the latest wave of Covid cases. The latest wave has impacted Germany more acutely than France. Fresh restrictions, along with inflation reaching 4.1% over the month, has taken a toll on consumer sentiment which has weakened recently. The FTSE Europe ex-UK index fell -2.5% (in EUR) over the month to be up 19.5% over the year.

In **Japan** the third quarter of the year was tough going as restrictions remained in place through to the end of September in Tokyo and its surrounding areas. The softness was broad-based and consumer spending and business investment declined over the quarter. The outlook into the end of the year has brightened somewhat as restrictions have eased, and new Prime Minister Kishida announced a new stimulus package which is expected to be passed by the end of the year. The Topix index returned -3.6% (in JPY) over the month and is up 7.9% over the year.

The **Australian** economy contracted a better-than-expected -1.9% in Q3. Confidence surveys suggest better prospects in Q4. Furthermore, a sharply higher household savings rate in Q3 supports the case for higher consumer spending in the months ahead. The S&P/ASX200 declined -0.9%% (in AUD) over the month and was up 9.9% over the year.

The **New Zealand** economy is slowly emerging from a long lockdown in Auckland. Activity will rebound in the fourth quarter, but a full recovery won't be achieved until early 2022. The labour market has remained tight with the unemployment rate falling to 3.4% in the September quarter and the RBNZ raised interest rates for the second time this cycle during November. New Zealand 10-year yields fell over the month from 2.61% to 2.48%. The NZX50 fell -2.9% (in NZD) over the month and is up just 0.6% for the year.

The performance of the S&P NZX NZ Fixed Interest Composite Index has also been poor in 2021, -5.6% at end-November, with NZ Government-only indices even weaker at -7%. This vindicates our present avoidance of NZ bond securities, as we prefer better opportunities available in the international bond markets.

## Salt Sustainable Income Fund Commentary

**The Sustainable Income Fund weakened in November with a decline of -1.71% reflecting a softer phase in the NZ dividend focussed equity and property components of the portfolio.** For the period, the fund's international bond assets held their ground, with the global bond component gaining 0.16% , highlighting the benefit of the wide diversification in underlying assets targeted in this fund. The global infrastructure component declined by -1.47%, which indicated its relative resilience in the context of widespread equity market weakness. The largest drag on the fund in November was the Enhanced Property fund, which slipped -3.4% compared to the -3.8% decline in the S&P/NZX All Real Estate Index.

As the primary objective of the Salt Sustainable Income Fund is to invest in quality sustainable yield payers and minimizing short-term capital price fluctuation is secondary. Accordingly, the fund made its quarterly income distribution at the indicated annual rate of 3.75% p.a. and this distribution yield guidance will remain unchanged for the until it is reviewed for the first distribution of 2022.

The Reserve Bank moved the OCR rate higher ins its Monetary Policy Statement on 24 November, to 0.75%. The pricing in of rising interest rates has supressed property returns in the last three months, but the income yield characteristics of the sector continue to strongly support its inclusion at a substantial weight in the fund.

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Greg Fleming, MA

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