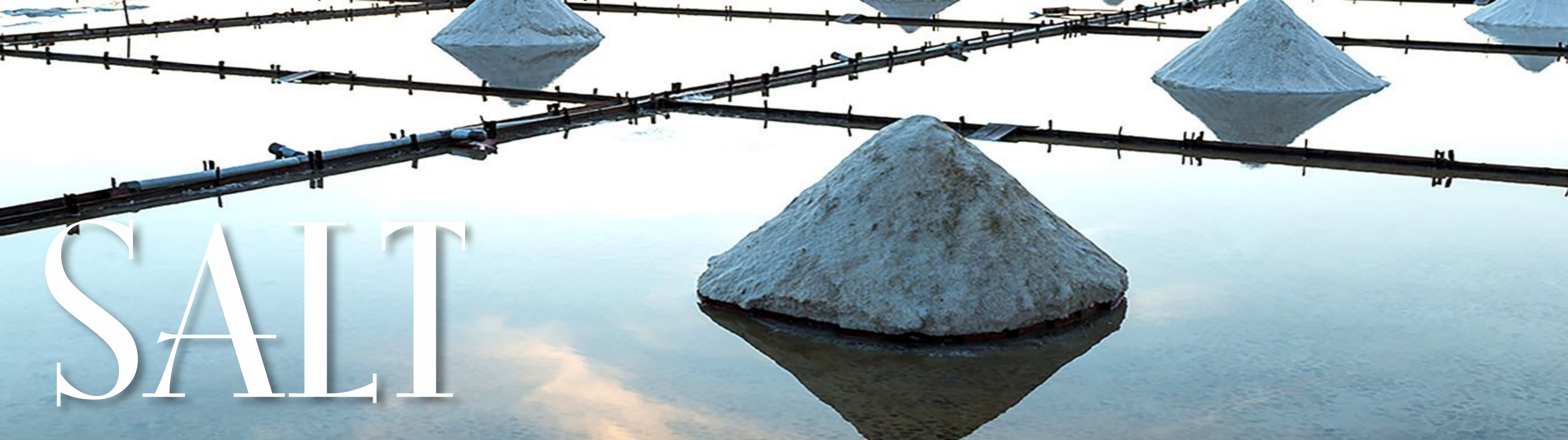

Salt Sustainable Income Fund Fact Sheet – February 2022

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 28 February 2022

Benchmark	Bank deposit rates
Fund Assets	$46.1 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Current yield to 30/9/22	4.00% per annum

Unit Price at 28 February 2021

Application	0.9681
Redemption	0.9642

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 28 February 2022

New Zealand Fixed Interest	0%
International Fixed Interest	20%
Australasian Shares	34%
Global Listed Property	27%
Global Listed Infrastructure	17%
Cash or cash equivalents	2%

Fund Performance to 28 February 2022

Period	Fund Return	Benchmark Return
1 month	-0.78%	0.10%
3 months	-1.99%	0.30%
6 months	-5.12%	0.55%
Since inception	-0.65%	0.60%

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 Q1 2022

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

Holdings stated as at 31.1.22 and next reviewed on 31.3.22.

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 will be calculated and 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

Equity and bond markets experienced a difficult month in February as geopolitical tensions rose between Russia, Ukraine, and NATO. Russia launched a large-scale invasion of Ukraine on February 24th.

The first half of the month was dominated by increasing expectations of the number of rate hikes likely to be delivered by the major developed central banks in 2022, most notably the US Federal Reserve, and that growth would suffer consequently. As Ukraine tensions grew, rate hike expectations were reassessed downwards, but growth concerns intensified. However, corporate profit reports remain robust.

There is still a high degree of uncertainty as to how the Russia-Ukraine conflict will play out. Right now, the clearest economic impact appears likely to be via energy and food prices. This will have a dampening impact on growth, intensifying concerns of a period of stagflation, particularly in Europe.

Activity data in **Europe** improved over the month with PMI results pointing to increasing economic momentum. Headline inflation reached 5.1% y/y, with more than half of that increase already coming from higher energy prices. The ECB signalled a calm and gradual approach to withdrawing stimulus, which seems even more appropriate now.

Early 2022 concerns about the strength of the **US** consumer were allayed with the release of a strong January retail sales report showing that consumers had simply delayed spending due to Omicron. The headline CPI reached 7.5% y/y in January and the payrolls report was stronger than expected with nominal wage growth reaching 5.7% y/y.

Interest rate markets expected six rate hikes in 2022 from the US Federal Reserve at the end of the month, though the evolution of the Russia-Ukraine conflict will impact rate-hiking expectations.

The US Federal Reserve is on schedule to end its bond purchase programme in March. The January meeting of the Federal Open Market Committee (FOMC) and subsequent statements by officials all-but-confirmed interest rate lift-off in March and that they are actively pursuing plans to reduce the size of their bloated balance sheet. Investors' concern about significantly tighter overall monetary conditions, given high equity valuations, translated into a rapid deterioration in sentiment, compounded by the Ukraine crisis.

The performance of the S&P NZX NZ Fixed Interest Composite Index and NZ Government-only Index have continued to be soft into 2022, declining by -1.5% and -1.9%, respectively, for January and February months and recording further declines in early March. This vindicates our present avoidance of NZ bond securities, as we foresee further weakness and prefer better opportunities available in the international bond and credit markets.

Salt Sustainable Income Fund Commentary

The Sustainable Income Fund declined modestly in February, declining by -0.78% (after fees) for the month. For the second successive month, component asset classes (excluding Cash and Global Bonds) weakened, as the international inflation and geopolitical situation continued deteriorating. This meant that for the three months to January, the Sustainable Income Fund declined -1.99% (after fees) and is 0.65% lower since its inception.

The Fund's February month return thus fell below the average return of 6-month Term Deposits of 0.10% for the month by 0.88% and by 1.25% for the six months since inception.

Non-Cash component assets contributed negatively to performance, to varying degrees. The Global Fixed Interest Fund contributed -0.4% for the month in an environment of unsettled global bond yields and slightly wider credit spreads (though the latter remain close to record lows.) The bond portfolio underperformed its benchmark by -0.19% in February but outperformed by 0.76% for the three-month period, reflecting underweight duration and cautious credit positioning.

The domestic equity components made negative contributions in February month, with -0.67% of the Sustainable Income Fund's monthly decline being attributable to the NZ Dividend Appreciation Fund, and -0.10% to the Enhanced Property Fund. The NZ dividend-focussed equity and property 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 Australasian assets is important to the Fund's distribution level, which was re-set set at the annual rate of 4.00% p.a.

For the period, the fund's international holdings highlighted the benefit of the wide diversification in underlying assets targeted in this fund. The global infrastructure component contributed -0.41% to the Fund's overall monthly return, having shown strong performance in late 2021. Whilst the Salt Sustainable Global Infrastructure Fund logged a negative return for the month, its three-month and six-month performance has remained positive and this asset class will be a useful diversifier in the multi-quarter inflationary period that is now underway. The relative resilience of this asset class in the context of international equity market volatility and scope for inflation shocks is a valuable feature for our Sustainable Income Fund.

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 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.

The Reserve Bank moved the OCR rate higher in its last Monetary Policy Statement of the 2021, on 24th November, to 0.75%, and then again to 1.0% at the 23rd February MPS. The pricing in of rising interest rates has supressed 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