Salt Sustainable Income Fund Fact Sheet – June 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 diversified mix of growth & defensive assets with an aim to provide regular income and a positive return on capital on a rolling three year basis.

Fund Facts at 30 June 2021

Benchmark	Bank deposit rates
Fund Assets	$11 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Current yield to 31/3/22	3.75% per annum

Unit Price at 30 June 2021

Application	1.0192
Redemption	1.015

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 June 2021

New Zealand Fixed Interest	0%
International Fixed Interest	32%
Australasian Shares	38%
Global Listed Property	29%
Global Listed Infrastructure	0%
Cash or cash equivalents	1%

Fund Performance to 30 June 2021

Period	Fund Return	Benchmark Return
1 month	1.50%	0.07%

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 Overweights	Top Underweights
Turners Automotive	Goodman Property Trust
Tower	Stride Property Group
Spark	Vital Healthcare Property Trust
Marsden Maritime Holdings	Arena REIT No 1
Elanor Commercial Property Fund	Argosy

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Monthly Market Commentary

Global asset markets were broadly positive in June, as equity and commodity markets were generally stronger while, surprisingly given the inflation implications of resurgent world growth, bond markets also rallied. A higher-than-expected May CPI outcome in the US saw core inflation hit 3.8% on an annual basis, the highest level since 1992. Nevertheless, although the US Federal Reserve in its June meeting signalled potential adjustments to monetary policy in 2023, CoVid-19 factors and demand for both equities and bonds are still in play as supportive ingredients for markets. The high level of stimulatory liquidity and ultra-low cash interest rates are achieving the intended confidence rebound, and optimism is being reflected in strong investment security prices. We expect this to continue into H2 2021.

Salt Sustainable Income Fund Commentary

The Sustainable Income Fund achieved a strong performance in its inaugural full month of June, advancing by +1.50% compared to the +0.03% return from the Bloomberg NZBond Bank Bill Index. The return of bank Term Deposit rates for the month was 0.07%, which is the equivalent of an average offered 6-month deposit rate of 0.8% p.a.

The overall monthly return from NZ and Australian equity holdings for the Income Fund for June was 1.26%, comprised of 0.15% from Salt Enhanced Property Fund and 2.11% from the Salt NZ Dividend Appreciation Fund. The strongest contributor to the Sustainable Income Fund's June performance was the overweight allocation to NZ equities via the Salt Dividend Appreciation Fund. The Dividend Appreciation Fund delivered a strong month's performance in June, advancing by +3.43%. At quarter-end for Q2 2021, we estimate the Dividend Appreciation Fund has a forward gross dividend yield of circa 3.9%, which compares favourably to our estimate of 3.0% for the NZSE50 Gross benchmark. This is highly supportive of our income sustainability expectations for the Salt Sustainable Income Fund, overall.

The Income Fund's overweight position in listed Real Estate, via the Salt Enhanced Property Fund, also contributed positively in June, with a 1.11% return. Performance was assisted through the second quarter by an average weight of approximately 6% in the Australian market, which outperformed NZ by 8.4%. Positives among our Australian holdings were led by our large overweight in Vitalharvest Property Trust which benefitted from a takeover battle to acquire its freehold ownership of many of the berry farms and orange groves operated by Costa Group. Other large positives were led by our overweight in Elanor Commercial Property. ECF pays a cash-covered dividend that grosses to over 9% for a NZ investor. This is too elevated in our view, given their moderate gearing and workhorse office properties that are maintaining solid occupancy levels. A third winner was our long-held position in Garda Property. Garda announced a sizeable 21% increase in their NTA to $1.45, with both their industrial and office property holdings contributing. They also acquired three parcels of land for future industrial developments. We view their strategy of building as opposed to buying as being very sensible, in the current market conditions.

Within the Bond allocation of the Salt Sustainable Income Fund, positive performance was delivered by the Hunter Global Fixed Interest Fund, which returned 0.39% for the month of June. This translated into a small positive impact for the Income Fund. This result was a slight underperformance of -0.12% of its Global Bond benchmark (Bloomberg Barclays Global Aggregate Index NZD hedged) due to PIMCO's defensive positioning meaning it did not benefit from a reversal of recent months' upward momentum in interest rates. Holdings of high-quality US Agency Mortgage-backed Securities added value, outperforming equivalent-maturity US Treasury bonds.

Positions in Australian and Canadian government bonds benefitted from a flattening of yield curves. However, the underweight to US duration, and yield curve positioning in the UK detracted from relative performance in the face of falling interest rates. An underweight exposure to the US dollar versus a basket of G10 currencies also detracted, as the US dollar appreciated in June. PIMCO is maintaining its cautious view towards both interest rates and corporate credit, focusing on relative value positions and diversified alpha strategies. Within broader risk exposures, they maintain tactical tilts designed to benefit across a range of scenarios. The Fund increased its underweight duration position versus the index with absolute duration now 6.6 years vs 7.5 years in the benchmark and is focused on relative value between regions. PIMCO still prefers US duration where they are slightly underweight versus the benchmark, and they maintain a US dollar bloc bias for its resilience should the global economy worsen. The Fund is maintaining more significant underweight positions to core Eurozone and UK duration given unattractive low yields and negative carry in some parts of the curve. The Fund also has a small allocation to inflation linked bonds (ILBs) which are trading below fair value.

It is anticipated that the Salt Sustainable Income Fund will initiate its allocation to Global Listed Infrastructure in the coming quarter, as this asset class possesses desirable defensive and inflation-hedging characteristics, whilst maintaining an advantageous dividend yield.

Greg Fleming, MA