SALT

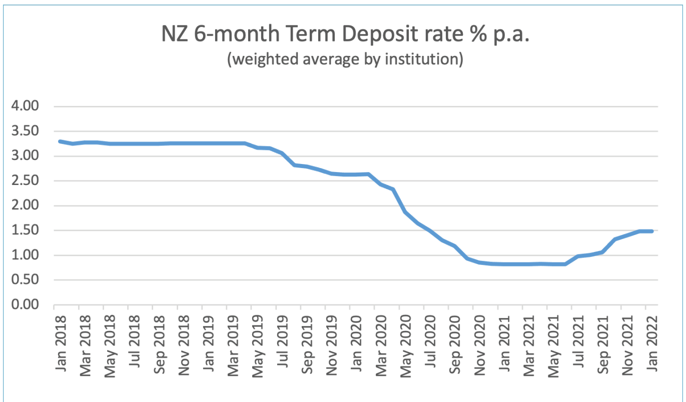
Salt Sustainable Income Fund Distribution rate review: Increase to quarterly distribution rate, effective from 1 April 2022

Dear Investors,

We are pleased 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.

Since its inception, the Salt Sustainable Income Fund has distributed regular income to its unit holders on a quarterly basis, at the annual rate of 3.75%, or 0.9375 c/per unit per quarter. Three distributions have so far been paid, in August and November 2021 and in February 2022. This is meeting the Fund's objective of comfortably exceeding the income level available from bank deposit instruments, while offering scope for positive medium-term capital growth. The Fund's underlying asset mix has shown gains in 2021 followed by declines in value in early 2022 on rising global risks, but these short-term dynamics are independent of the primary focus of the Sustainable Income Fund, which is its focus on holding a well-diversified set of securities with sustainability credentials and reliable income generation features.

We see this increase as sustainable over the next year, due to changes in global monetary policy, in the risk premia available on international fixed interest assets, and in the expected dividend yields available through active management within both domestic and international equity asset types. A prudent security selection process assures us that modestly-improved portfolio yield levels will continue to be available, as persistent global inflation re-defines the tools and tolerances required in order to protect and preserve investor purchasing power.



Source: RBNZ

Both domestic and international factors are now supportive of an upward indicative yield adjustment. On the domestic side, the Reserve Bank of New Zealand commenced its monetary policy tightening programme last October and has delivered three increases in the Official Cash Rate (OCR,) which now sits at 1.0%. The resulting rise in retail interest rates offered to savers from this cumulative 0.75% policy rate increase, has been of the same magnitude. The average 6-month Term Deposit interest rate, as at January 31, is 1.48% according to RBNZ data, which is 0.7% higher than the average offered rate one year ago. For longer maturity Term Deposits (TDs) that might be considered to have a similar minimum time frame to a diversified managed fund, the offered TD rates are now approximately 3.0% p.a. for a three-year deposit. Therefore, the likely level of NZ inflation over the next two-three years is not expected to be lower than today's best available deposit rates, assuring TD holders of a flat or negative real return over that term and a loss of purchasing power.

The domestic and international outlook for inflation remains concerning, which will assure a steady path of incremental interest rate increases ahead, potentially toward a 3.0% OCR level by late next year. Meantime, purchasing power is being significantly eroded with a Consumer Price Index annual inflation rate of 5.9% at the end of 2021.

While the "break-out" in inflation pressures is presently causing re-valuation across the world's equity and bond markets and sharp price moves in the more interest rate-exposed industrial sectors, this is also creating good opportunities for our specialist international asset management partners, as well as our New Zealand team, to acquire securities for the Salt Sustainable Income Fund's portfolio at improved valuation levels. As many of the preferred income-oriented sectors are in defensive or inflation-hedging parts of the economy, the present opportunity set is improving, and we expect this rotational trend to continue throughout the first half of 2022.

Greg Fleming

Portfolio Manager