Salt Sustainable Income Fund Fact Sheet – January 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 31 January 2022

Benchmark	Bank deposit rates
Fund Assets	$43.5 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Current yield to 31/3/22	3.75% per annum

Unit Price at 31 January 2021

Application	0.9850
Redemption	0.9810

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 31 January 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 31 January 2022

Period	Fund Return	Benchmark Return
1 month	-4.55%	0.09%
3 months	-2.91%	0.27%
6 months	-2.08%	0.54%
Since inception	0.13%	0.54%

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 31 January 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

Market Commentary

Developed market equities reversed direction downwards after a positive fourth quarter of 2021, delivering a sharp dip in returns that stopped only barely short of the -10% level that conventionally defines a "correction" in the broad US market. At its weakest point in January, the S&P 500 Index had declined by -9.9%. However, highly-valued Information Technology companies traded on the US NASDAQ were somewhat weaker, leading the NASDAQ-100 Index to have moved down by -10.6% between New Year and the first week of February. Mid-February saw a partial rebound in stocks.

Following a strong 2021, January was a rough start to 2022 for both equity and bond markets. Higher inflation, concerns about central bank tightening, political tensions in eastern Europe and Omicron all contributed to market weakness in January and to a sharp increase in volatility. Many countries are seeing some softening in activity indicators. Much of this is Omicron-related and thus, temporary. However, we expect lower overall global growth this year compared to last, though remaining above trend.

Most central banks are shifting to a more hawkish stance, though not all have yet acted, particularly as measures of core inflation rise and labour markets tighten, rending the transitory inflation narrative erroneous. US consumer price inflation continued to rise, coming in at 7% for the year to December 2021, the highest level since 1982. At the same time the US labour market continues to tighten with the unemployment rate falling to 3.9%, also for December 2021.

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) 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 which lasted throughout January, affecting most world markets.

In **Australia**, higher than expected December quarter inflation led to expectations the RBA would likely end its bond purchase program at its February meeting, which has indeed happened. While the RBA remains dovish, we expect interest rate lift off in 2H22.The ASX 200 Equity Index declined by 6.8% for the month, but remains up 5.5% in the year to January.

In **New Zealand**, the higher inflation/tight labour market story continued to evolve as CPI inflation rose to 5.9% in December and the unemployment rate fell to a record low 3.2%. This supports our expectation of ongoing tightening by the RBNZ and a likely terminal rate for the OCR of 3%. New Zealand GDP contracted by less than expected in Q3 and the 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 RBNZ raised interest rates for the second time this cycle during November and signalled ongoing rate hikes ahead with a terminal rate higher than neutral. New Zealand 10-year yields again rose over the month, to 2.56%. The NZX 50 ended January 8.8% (in NZD) lower and was down by 9.4% over the year.

The performance of the S&P NZX NZ Fixed Interest Composite Index and NZ Government-only Index have continued to be soft into 2022, both declining by 0.5% for the January month. 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 reversed its December gains in January, as component asset classes (excluding Cash) weakened, and the fund returned a net -4.55% for the month. This meant that for the three months to January, the Sustainable Income Fund declined -2.91% net, and has gained 0.13% since its inception.

The Fund's January month return thus fell below the average return of 6-month Term Deposits of 0.09% for the month, by 3.18% for the three months and by 0.41% for the six months since inception.

In direct contrast to December, for January month, all non-Cash component assets contributed negatively to performance. The Global Fixed Interest Fund was stable in an environment of generally higher global bond yields and slightly wider credit spreads (though the latter remain close to record lows.) Global bonds contributed -0.22% to the performance of the Sustainable Income Fund in January, as this asset class is held at a 20% Fund weighting. The bond portfolio declined -1.20%, outperforming its benchmark by 0.41%, reflecting underweight duration and cautious credit positioning. As interest rates rise, better value may allow added exposure.

The domestic equity components made negative contributions in January month, with -2.74% of the Sustainable Income Fund's monthly decline being attributable to the NZ Dividend Appreciation Fund, and -1.14% 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 is currently set at the annual rate of 3.75% 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 -0.53% 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 performance 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 makes its quarterly income distribution in February at the indicated annual rate of 3.75% p.a. This distribution yield is under review and a new yield will be indicated in March.

The Reserve Bank moved the OCR rate higher in its last Monetary Policy Statement of the 2021, on 24th November, to 0.75%, and is expected to do so again 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