Salt Sustainable Global Listed Infrastructure Fund Fact Sheet – May 2023

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's investment objective is to outperform (after fees and expenses but before NZ tax) the total return of its benchmark, the FTSE Global Core Infrastructure 50/50 Net Tax Index on a rolling three-year basis. The Fund targets a portfolio of global infrastructure companies with sustainable total return potential and superior Environmental, Social and Governance (ESG) credentials and factor scores with respect to the benchmark index.

Fund Facts at 31 May 2023

Benchmark	FTSE Global Core Infrastructure 50/50 Net Tax Index
Fund Assets	$46.63 million
Inception Date	18 August 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 May 2023

Application	0.9420
Redemption	0.9381

Investment Guidelines

The guidelines for the Sustainable Global Listed Infrastructure Fund are:

Global equities	95% – 100%
Cash	0% – 5%

Target investment Mix

The target investment mix for the Global Sustainable Listed Infrastructure Fund is:

Global equities	100%

Fund Allocation at 31 May 2023

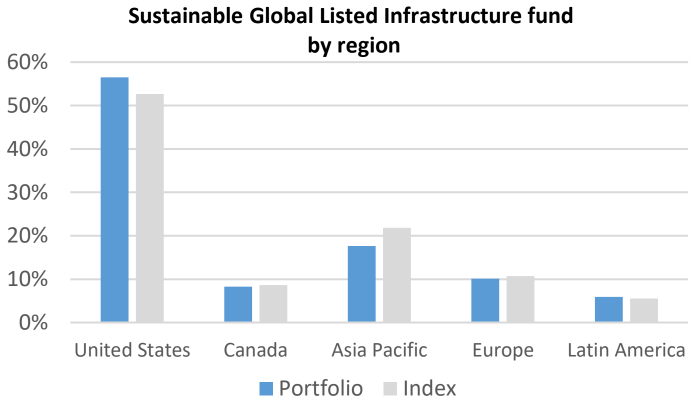
Global equities	98.4%
Cash and cash equivalents	1.6%

Fund Performance to 31 May 2023

Period	Fund Return*	Benchmark Return
1 month	-4.91%	-4.57%
3 month	-1.60%	-0.20%
6 month	-5.75%	-5.20%
1 year	-8.48%	-9.03%
Since inception p.a.	-0.49%	-1.19%

*Performance is after fees and does not include imputation credits or PIE tax. Benchmark performance is gross. Past performance is not a guarantee of future results. Data as of 31 May 2023.

Fund regional weightings as at 31 May 2023*



Source: Cohen & Steers, Salt *data to 31 May 2023

Top 10 holdings	sector		sector
NextEra Energy	Electric	Aeroportuario De Sureste-B	Airports
Transurban	Toll Roads	PPL	Electric
Sempra	Gas Dist.	SBA Communications	Towers
National Grid	Electric	CSX	Freight Rail
Canadian Pacific Kansas City Rail	Freight Rail	Exelon	Electric

The fund's top 10 holdings comprise 35.7% of the portfolio.
Source: Cohen & Steers Monthly Investment Report 31 May 2023

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.67	6.46
MSCI ESG score	6.33	6.36

Source: Cohen & Steers Monthly Investment Report 31 May 2023

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

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Market Review

May month saw global stocks down by 1% in USD terms. Global markets were constrained by uncertainty over economic growth, still-elevated inflation, central bank policy and US fiscal wrangling. In late May the mood was buoyed by a US debt ceiling debate compromise and expectations for pauses in reduced monetary tightening in the months ahead.

The global infrastructure benchmark fell -4.6% for the month, and the Salt Sustainable Global Infrastructure Fund declined comparably (after fees.) Since inception, the Fund has outperformed its benchmark by a pleasing 0.7% per annum (after fees.)

Going forward, global listed infrastructure is favoured due to its inherent inflation protection and defensive characteristics, and to large-scale works projects around the world, particularly in the energy transition domain, but also in transportation.

- May month saw global stocks down by 1% in USD terms, though they rose in NZD terms. Global markets were constrained by uncertainty over economic growth, still-elevated inflation, central bank policy and US fiscal wrangling. In late May the was buoyed by a US debt ceiling debate compromise and expectations for pauses in reduced monetary tightening in the months ahead.
- Worries over the US debt ceiling captured most attention during May, though a deal was reached shortly after the end of the month. Purchasing manager survey data continued to point to further weakness in manufacturing sectors around the world, while services continued to prove more resilient. Labour markets remain tight with unemployment rates at or close to historical lows in the Eurozone, US, UK, Australia. and New Zealand.
- In the US the possibility of a default by the US Government was the key focus. The Fed hiked 25bp as expected, but in a slight but significant change to the wording of the statement, signalled they would likely pause in June. A drop in the unemployment rate to 3.4% in April and continued strength in core inflation data suggested that a pause might not be the end of the tightening cycle.
- With core inflation still at 5.6% in the Eurozone the ECB tightened again but at the slower pace of 25bp. The central bank said the forceful transmission of past rate hikes into tighter monetary and financing conditions justified the change to a slower pace of hikes. Markets are currently pricing two further 25bp hikes for a terminal deposit rate of 3.75%.
- In the UK, inflation fell from 10.1% to 8.7% in April, but this was significantly higher than market expectations of 8.2%. The BoE voted to hike rates 25bp to 4.5% in a split 7-2 decision. The BoE retained the same forward guidance, highlighting that “if there were to be evidence of more persistent pressures, then further tightening in monetary policy would be required”.
- After the end of the zero-Covid bounce in activity in China, macro data for April pointed to a renewed slowdown. The latest factory activity reading came in below the benchmark level that separates growth from contraction. Service sector activity, while still positive, expanded at the weakest pace in four months in May. Importantly, the decline in the property market accelerated, prompting speculation of further stimulus for this sector.

Portfolio Review

Listed infrastructure stocks traded lower in May against a backdrop of rising interest rates and economic uncertainty. Interest rates rose in the U.S. amid concerns of persistent inflation and a political stalemate on Capitol Hill (since resolved) over the debt ceiling. Meanwhile, China reported disappointing retail sales and industrial output. All listed infrastructure sectors posted negative returns for the month.

Utilities and communications were particularly impacted by rising interest rates. Despite their defensive characteristics, electric utilities (–5.2% total return), particularly in the U.S., were weighed down by rising interest rates. The gas distribution sector (–3.6%) was hampered in part due to concerns over China’s economic data. Despite higher rates, water utilities (–2.4%) held up relatively well, especially in the U.S. Communication stocks (–8.2%) were impacted by the move in interest rates and disappointing earnings from a U.S. tower company.

Commercial infrastructure sectors were mixed. The marine ports (–0.1%) sector was the top performer. Shares of an India-based port operator rallied as an Indian panel’s investigation into potential violations by the company’s parent found no conclusive evidence of wrongdoing. The sector also benefited as merger speculation lifted the shares of a Brazilian company.

Railways (–0.7%) outperformed on better-than-expected U.S. freight volumes. Midstream energy (–8.0%) fell due to concerns over global demand, which overshadowed industry earnings that were largely in line with expectations.

Passenger transportation-related sectors were relative outperformers. Toll roads (–1.8%) were largely impacted by stock-specific news. While the move in interest rates weighed down the sector’s largest constituent, Brazilian toll road operators benefited from better-than-expected local inflation data. Airport (–2.3%) performance was also mixed; Mexican operators rallied as passenger volumes remained solid, whereas weak economic data dragged down Chinese airports.

Portfolio performance

Key contributors

• Overweight allocation in railways (–0.7% total return in the index): The portfolio’s overweight in the sector contributed to relative performance. In particular, an overweight to CSX was beneficial; its shares moved higher as the company reported volumes and service metrics that exceeded expectations.

• Security selection in electric utilities (–5.2%): An out-of-index position in Constellation Energy was beneficial; its shares rallied given a healthy earnings report, as well as favourable updated earnings guidance.

• Stock selection and currency positioning in airports (–2.3%): An overweight position in Mexico-based airport operator Grupo Aeroportuario del Pacifico contributed to performance; passenger volumes have been strong, and the company’s valuation remains attractive.

Key detractors

• Security selection in gas distribution (–3.6%): An overweight position in U.S.-based Sempra Energy detracted from relative returns; the company has an LNG business, which was negatively impacted by lower global gas prices.

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• Stock selection in communications (–8.2%): An overweight position in U.S tower company SBA Communications negatively impacted the portfolio. The company has more exposure to higher interest rates than peers and reported lacklustre earnings.

• Stock selection in water utilities (–2.4%): A lack of exposure to Guangdong Investment modestly hindered relative performance. The company was negatively impacted by weak economic data in China.

Investment Outlook (Cohen & Steers commentary)

We maintain a generally balanced portfolio given persistent inflation, the impact from central bank monetary tightening, and the uncertain outlook for global growth. Against this backdrop, we favour higher-quality businesses that we believe are positioned to perform relatively well in a below-trend growth environment.

Challenges in the U.S. banking industry could weigh on the economy. We do not believe recent bank distress, including the early-May failure of First Republic Bank, represents a systemic risk to the global economy, as larger banks are well capitalized and have diversified deposit bases. However, we expect to see a more challenging credit environment. In particular, we are carefully monitoring the repercussions of higher financing costs and tighter financial conditions (including their potential impact on earnings and cash flows) across the infrastructure universe.

We favour investments in infrastructure companies that have strong balance sheets, with limited near-term maturities and manageable refinancing schedules.

Persistent inflation and "higher for longer" interest rates may challenge certain sectors. While inflation is expected to moderate, we believe it will remain elevated from a historical perspective. Most infrastructure businesses can generally pass rising costs along to consumers; as a result, they have tended to perform well during periods of sticky inflation.

Greg Fleming

Greg Fleming, MA

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