Salt Sustainable Income Fund Fact Sheet – April 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 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. Deposit rates are proxied by the NZ Bank Bill Index.

A Reference Portfolio is provided, medium-term outperformance of which is a secondary objective, consisting of the weighted sum of components.

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 30 April 2023

Benchmark	Bank deposit rates (BNZBIL Index)
Reference portfolio	SAA-weighted component benchmark indices' performance
Fund Assets	$44.99 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Prospective distribution yield (cents per unit) / based on Unit Price of 1 May 2023	1.125 cents per unit per Quarter / 5.07% per annum

Unit Price at 30 April 2023

Application	0.8897
Redemption	0.8861

Investment Guidelines

Sector	Target	Range
Global Fixed Interest	35%	0% – 60%
Australasian Shares	30%	15% – 45%
Global Listed Property	15%	0% – 35%
Global Listed Infrastructure	15%	0% – 35%
Cash or cash equivalents	5%	0% – 20%

See "Salt Statement of Investment Policy and Objectives, 30 June 2022" for further information.

Fund Allocation at 30 April 2023

Global Fixed Interest	27%
Australasian Shares	30%
Global Listed Property	23%
Global Listed Infrastructure	18%
Cash or cash equivalents	2%
Asset allocation to Fixed Interest + Cash	**29%**

Fund Performance to 30 April 2023

Period	Fund Return (after fees)	Gross Reference Portfolio Return
1 month	0.90%	1.18%
3 months	0.30%	-0.06%
6 months	4.06%	4.99%
1 year	-3.25%	-2.47%
Since inception p.a.	-2.41%	-1.70%

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. Reference Portfolio return is gross.

Top Individual Holdings at 30 April March 2023

Goodman Property Trust	**US 5Yr Note (CBT) Jun 23**
Fisher & Paykel Healthcare	**Argosy Property Trust**
Kiwi Property Group	**Auckland International Airport**
Spark NZ	**Property for Industry**
Precinct Properties NZ	**US 10Yr Note Jun 13**

Holdings stated as at 30.04.2023, excludes cash and consolidated International Fixed Interest Fund component of the Sustainable Income Fund due to its large number of securities.

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Market Commentary

April month saw global stocks again moving higher despite periods of volatility. Global markets overcame uncertainty over economic growth, still-elevated inflation, central bank policy and banking industry risks to post positive returns. This strength was partially catalysed by lower interest rates and expectations for reduced monetary tightening going forward Both equities and bonds gained, with equities still leading YTD.

- Global economic news remained generally positive in April, again highlighting the resilience of growth to higher interest rates. Purchasing Manager Indices (PMIs) beat expectations in the United States and the eurozone, while better-than-expected GDP growth in China also aided the story of positive economic momentum. Developed market equities rose 1.8% (in USD) over the month and 3.07% in NZ dollar terms.
- Headline inflation continued to moderate over the month as energy prices continued to fall. OPEC announced a cut in production aimed at stabilising prices, but when compared with significantly higher prices last year, energy prices should still contribute to lower inflation over the next few months.
- Core services inflation continues to prove sticky. Despite that, we believe we are close to a pause in the hiking cycle amongst the major central banks. The Reserve Bank of Australia hit the pause button in April, though signalled more tightening was likely. The Reserve Bank of New Zealand is also close to pausing.
- In the US there were further signs of cooling in the labour market as the monthly gains in non-farm payrolls continued to moderate, the unemployment rate rose to 3.5% and wage growth moderated to an annual rate of 4.2%. Markets are pricing a final 25bp hike in the fed funds rate in May, followed by a pause. Interest rate cuts are expected before the end of the year, which we believe is too early. However, much will depend on ongoing stresses in the financial sector.
- Activity data continued to surprise to the upside in April. While the economy skirted the expected recession expect at the end of 2022, that just means the European Central Bank has more work to do to slow demand. Markets are pricing a further 75bps of hikes by the ECB.
- China activity data released over the month confirmed the expected reopening "bounce". GDP data for the March quarter and retail sales for the March month both came in stronger than expected. But despite the better data, the local equity market continues to suffer from ongoing geo-political tensions.
- March quarter inflation data in Australia was largely in line with expectations and confirms that inflation peaked at the end of 2022. However, we believe the split between goods and services inflation was cause for concern. While the annual rate of goods inflation slowed sharply, services prices rose. This suggests that despite the pause in the rate hiking cycle early in the month, the RBA still has more work to do.
- Despite clear and obvious signs of a slowing domestic economy, the RBNZ surprised markets with a hawkish 50bp hike in the Official Cash Rate, taking it to 5.25%.

Salt Sustainable Income Fund Commentary

The Sustainable Income Fund had a positive return in April month and a positive quarter, reflecting better returns in both the equity and fixed interest components of the portfolio. For the month, the fund gained 0.90% (after fees.) The fund's 3-month return was also positive, at 0.30% (net) as at 30 April which was 0.36% ahead of its reference portfolio gross three-month return. On the rolling six-month basis, the fund is recording a rise of 4.06%, while annually, the fund return is lower by -3.25% (after fees. Since inception, the fund trails its reference portfolio by 0.71% p.a.

Despite a range of headwinds for markets, 2023 has so far proved a much better investing environment than 2022. The consolidation in both global share and bond markets since recent market lows in October has assisted Income fund components back to higher short-term returns. As inflation shows signs of a definitive peak, we expect component asset classes to improve further, as has occurred in 2023 to date. However, volatility across markets is ever-present and sentiment remains fragile.

April saw asset prices in most markets build on the stabilisation observed in March. The long-resilient Global Listed Infrastructure fund again made a positive individual contribution of 0.39%, for the month – the largest individual returns component last month. The second-strongest contributor in April was the Salt NZ Dividend Appreciation fund, which provided a 0.37% positive impact, whilst unsurprisingly given the uncertainty on interest rate risk and valuations, the weakest monthly contributors were the Sustainable Global Property fund, which contributed just 0.09% of the monthly return, and the Enhanced Property fund, which detracted by -0.07%. On the bond side, our Sustainable Global Fixed Income Opportunities fund added 0.11%.

Salt Sustainable Income Fund outlook

We believe bond yields have now adjusted upwards enough, to have lowered our previous underweight bond positions within the Sustainable Income Fund. The allocation to bonds is now 27% vs a 35% SAA. Our next step will likely be to increase this further toward a Neutral allocation.

As the Reserve Bank of New Zealand continued to lift the Official Cash Rate and inflation is persisting, domestic yields and discount rates are likely to stay quite elevated. This is supressing returns from NZ equities this year..

With higher yields now prevailing, nevertheless, the Fund's income level has been enhanced. We anticipate the longer-term capital growth strategies within the Sustainable Income Fund to resume performance gradually, as international conditions stabilize. However, there could well be a recessionary period to traverse en route to that outcome. The phase of actual interest rate reductions from central banks is still some time into the future and we expect a major beneficial capital growth impact of such will only become apparent from the last part of 2023 or even early in 2024.

As the primary objective of the Salt Sustainable Income Fund is to invest in quality sustainable yield payers, minimizing short-term capital price fluctuation is secondary. Market volatility allows us to acquire high quality and defensible dividend-paying assets for the Fund at better prices.

Distribution to be increased to 1.125 cents per unit

Higher component asset yields have enabled us to again lift the quarterly cents-per-unit distribution from the fund, to 1.125 cpu from the next quarterly distribution date (July) onwards. This will be updated again in November, dependent on the outlook for fund income at that time.

As noted earlier, the silver lining in the bond repricing is that the yield received from bond investments is also now higher and supports the Sustainable Income Fund's forward distribution path. This is characteristic of a transition into a mid-level interest rate regime which may endure for years, rather than months, ahead.

Internationally, major central banks are now communicating the last phase of interest rate increases, sufficient to anchor inflation expectations, and this does unnerve markets at times. While the resultant volatility requires fortitude from investors, the objective of securing an inflation-resilient income level now means that equity market fluctuations and corrections over short periods are inevitable. Over the medium-term, moderate capital gains in addition to income advantages are expected, and the Sustainable Income Fund is positioned to harvest them.

It is crucial to note that the Income level from equity dividends and bond coupons received into the fund has indeed been commensurately rising through the recent period of market turbulence and remains well in excess of the Income Fund's distribution rate of 1.00 cents per unit per quarter (4.5 cents per unit per annum.) This trend exemplifies the incremental return of some "risk premia" into asset classes, though this has further to go.

The equity capital value components of the Income Fund have adjusted to weaker economies in the year ahead, yet the Real Asset components of Infrastructure and Property are better-suited to an economically uncertain and inflation-prone period, once central bank policy rates begin to fall or there is a downward shift at the short end of the yield curve. Defensive merit should be re-asserted in coming months through continuing positive demand for these specific equity types, along with the sustainable dividend-payers in the broader Australasian market.

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Greg Fleming, MA