Salt Sustainable Global Listed Infrastructure 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'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 January 2022

Benchmark	FTSE Global Core Infrastructure 50/50 Net Tax Index
Fund Assets	$53.06 million
Inception Date	18 August 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 January 2022

Application	1.0275
Redemption	1.0233

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 January 2022

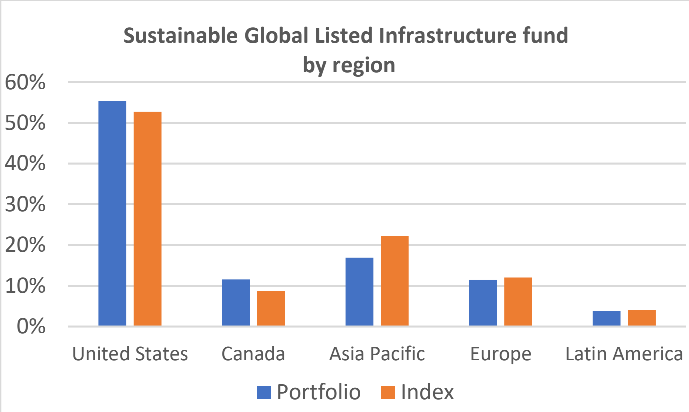
Global equities	99.03%
Cash	0.97%

Fund Performance to 31 January 2022

Period	Fund Return*	Benchmark Return
1 month	-3.19%	-2.72%
3 month	1.38%	1.49%
Since inception	2.54%	1.66%

*Performance is after fees and does not include imputation credits or PIE tax.

Fund regional weightings as at 31 December 2021*



Source: Cohen & Steers, Salt *data to 31 January 2022

Top 10 holdings	
NextEra Energy	Sempra Energy
Norfolk Southern	Transurban Group
American Tower	AENA SA.
Enbridge	Cheniere Energy
Canadian National Railway	Duke Energy

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.4	6.3
MSCI ESG score	6.0	5.9

Source: Cohen & Steers Quarterly Investment Report, Q4 2021

Market Review

Developed market equities reversed direction downwards in January, 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.

Following a strong 2021, January has been a rough start to 2022 for 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 a sharp increase in volatility. Many countries are seeing some softening in activity indicators. Much of this is Omicron-related and will prove temporary. However, we do expect lower overall global growth this year compared to last, though to remain 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 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.

Listed infrastructure declined in January amid a broad equity market selloff. With US inflation at its highest rate in 40 years, stocks came under pressure as investors anticipated that the Federal Reserve would tighten monetary policy faster and more aggressively in 2022 than was previously expected. The Fed reinforced this view with a more hawkish tone at its policy-setting meeting in late January, citing the strong labour market and inflation well above target. While most listed infrastructure subsectors generated negative returns, a number were supported by their defensive characteristics (and by investors' pivot from growth to more cyclical and value-oriented stocks).

Hopes that the omicron variant may be peaking supported the recovery trade. **Midstream energy** (+8.4% in local currency) was the leading performer, as energy prices continued to rise on an expanding risk premium (given the potential Russian invasion of Ukraine) and, to a lesser extent, in anticipation of greater fuel consumption with the resumption in travel. In addition, improving financial discipline has led to higher free cash flows for several midstream companies. **Marine ports** (-0.4%) outperformed as supply chain constraints and port bottlenecks showed signs of easing. In our view, the sector will continue to benefit from strong global growth, while supply chain challenges will result in an elongated cycle for these businesses.

Some **Utilities** outperformed given their defensive characteristics. Electric utilities (-2.0%) and gas distribution (-0.6%) were relative outperformers, as investor demand for value outweighed concerns about rising interest rates. A large portion of the loss within electric utilities was driven by a single company: NextEra Energy. Despite reporting solid results and improved guidance, the company's shares fell sharply amid weakening sentiment towards renewables (growth) and on the unexpected retirement of CEO Jim Robo. (He has delivered exceptional returns for shareholders since being appointed to the post in 2012.) Meanwhile, water companies (–8.3%), which tend to be more growth oriented, were among the weakest performers.

Communications companies fell sharply, following strong performance in 2021. After benefiting in 2021 from rising expectations on the build-out of 5G networks, communications (-13.6%) experienced a setback in January. In particular, higher-growth/higher-multiple US cell tower companies were out of favour as interest rates moved sharply higher. We maintain a preference for certain US-focused tower companies which are positioned to benefit the most from network capital spending by U.S. wireless companies.

Travel sectors posted mixed results as some restrictions were eased. Airports (1.6%) generated a positive return on hopes that travel volumes had bottomed. Shares of most toll road companies (-6.8%) rose as well, but the sector was dragged down by its largest component, Transurban, which tends to trade with more rate sensitivity. Railways (-4.6%) could not overcome several headwinds, most notably weak freight volumes, which were driven in part by lingering supply chain issues. A rotation to other types of transportation, particularly trucking, also weighed on the sector.

Portfolio Review

From its August 19, 2021 inception through January 31, 2022, the portfolio had a positive total return and outperformed its benchmark by 0.88%. For January 2022, however, the fund had a negative total return, and underperformed its benchmark by -0.47%.

Key contributors

• Security selection and overweight allocation in midstream energy (8.4% total return in the index): Our overweight exposure was rewarded, as the sector was the top performer in January. Overweight positions in several US-based midstream companies were beneficial given positive supply/demand trends and rising energy prices. In particular, an overweight position in a liquefied natural gas company outperformed given sharply rising gas prices in Europe, low inventories, and potential supply shortages should Russia invade Ukraine.

• Underweight in toll roads (-6.8%): An underweight in an Australian toll road operator was beneficial, as its shares fell sharply. The company was negatively impacted by rising interest rates and continued Covid headwinds.

• Stock selection in water (-8.3%): An overweight in a China-based water utility contributed to performance. The company, which provides water services to Hong Kong, outperformed after struggling throughout much of 2021.

Key detractors

• Security selection in electric utilities (–2.0%): A lack of exposure to several defensive U.S.-based electric utilities detracted from relative performance given their positive returns. An overweight position in a U.S. renewables-focused company with high growth potential was also negative for returns given its poor performance. Its shares fell along with many other high-growth/high-multiple companies. In addition, the retirement of the company's CEO hurt investor sentiment.

• Security selection and overweight in communications (-13.6%): An overweight in a high-growth US tower company was negative for performance. In our view, the company has the most leverage to rising wireless spending given its domestic macro tower focus in the US.

• Underweight in airports (1.6%): The underweight position detracted from returns given the sector's positive performance. Investor sentiment improved on the hopes for an increase in passenger volumes.

Portfolio Outlook (Cohen & Steers commentary)

We maintain a largely balanced portfolio. Aggressive monetary policy tightening in 2022 could further fuel demand for value-oriented stocks. That said, with the omicron variant fading, we could see moderating supply chain issues and inflation, both of which could help offset higher rates. Within the portfolio's more defensive allocations, we remain overweight communications infrastructure, matched with an underweight in global utilities. Among transport-related infrastructure, we prefer North American freight railways based on our expectations for improving freight volumes. We have added to airports; we see some attractive opportunities given the view that vaccine distribution and evolving travel policies will drive a sustainable increase in air travel over the next six to twelve months.

Listed infrastructure appears attractively priced relative to broader equities. On a cash flow multiple basis, listed infrastructure currently trades roughly in line with global equities—in sharp contrast to the asset class's historical premium valuation. This mispricing occurs at a time, we believe, when infrastructure is well positioned to benefit from continued strong economic conditions and strong inflation protection characteristics. Longer term, secular trends such as the digital transformation of economies and the transition to clean energy will potentially be significant drivers of infrastructure returns.

While higher interest rates and inflation may impact certain subsectors in the near term, infrastructure returns have historically shown positive sensitivity to unexpected inflation. As the global economy continues to show strength—albeit with a moderating pace of growth—we are keeping a close eye on inflation and interest rates, which we see as important drivers of asset allocation decisions in 2022. Performance dispersion among infrastructure subsectors can be significant in dynamic economic periods and amid rising bond yields; however, most infrastructure businesses can generally pass rising costs along to consumers and, as a result, they have tended to perform well during periods of unexpected inflation.

We believe a strong trend of private investor interest in acquiring listed infrastructure assets will continue. A flurry of activity occurred in 2021, and a number of significant deals are currently pending across various subsectors and geographies. We expect to see this trend continue in 2022.

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