Salt Sustainable Global Listed Infrastructure Fund Fact Sheet – September 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 30 September 2023

Benchmark	FTSE Global Core Infrastructure 50/50 Net Tax Index
Fund Assets	$43.95 million
Inception Date	18 August 2021
Underlying Manager	Cohen & Steers

Unit Price at 30 September 2023

Application	0.8824
Redemption	0.8788

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 30 September 2023

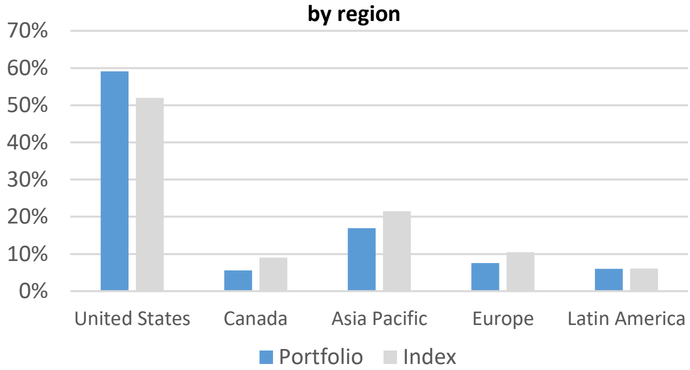
Global equities	95.20%
Cash and cash equivalents	4.80%

Fund Performance to 30 September 2023

Period	Fund Return*	Benchmark Return
1 month	-4.77%	-4.00%
3 month	-8.19%	-7.02%
6 month	-8.30%	-7.58%
Year to date	-7.65%	-7.65%
1 year	-1.78%	-1.81%
Since inception p.a.	-2.01%	-3.49%

*Performance is before fees and PIE tax and adjusted for imputation credits. Benchmark performance is gross. Past performance is not a guarantee of future results. Data as of 30 September 2023.

Fund regional weightings as at 30 September 2023*



Source: Cohen & Steers, Salt *data to 30 September 2023

Top 10 holdings	sector		sector
NextEra Energy	Electric	SBA Communications	Towers
American Tower	Towers	Consolidated Edison	Electric
TC Energy	Midstream	PPL	Electric
Cheniere	Midstream	Exelon	Electric
Transurban	Toll Roads	Grupo Aeroportuario De Sur-B	Airports

The fund's top 10 holdings comprise 35.5% of the portfolio.
Source: Cohen & Steers Monthly Investment Report 30 September 2023

Sustainability metrics

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.7	6.4
MSCI ESG score	6.4	6.3

Source: Cohen & Steers Quarterly Investment report Q3 2023

Market Review

Listed infrastructure stocks declined in September. The key macro themes for the month included rising global bond interest rates, putting pressure on other yielding assets, and reconsiderations of how soon central banks may begin easing monetary policy due to persistent inflation pressure in core CPI measures around the world.

- The September quarter of 2023 was somewhat reminiscent of the 2022 year as global equities suffered a reality check in the face higher bond yields. Developed market equities fell -3.4% (in USD) over the quarter, though were still up a healthy 11.6% year-to-date. The global aggregate bond benchmark had a similarly tough quarter, falling -3.6% (in USD).
- While the outcome was much like 2022, the reasons behind the moves were different. 2022 was all about the sharp trend higher in interest rates, while the quarter just gone was about the realisation that interest rates would remain higher for longer as central banks sought to tame stubbornly high inflation.
- Fiscal sustainability has been another focus for bond markets, particularly in the United States, where concerns are rising about the amount of issuance that will be required to sustain the large fiscal deficit.
- Oil prices surged higher over the quarter, rising 28%. Higher oil prices present another headwind to consumer demand and will be problematic for central banks as headline inflation reaccelerates.
- In the United States, key activity data including retail sales and industrial production all expanded. Third quarter GDP growth is tracking at a healthy 1.2% (q/q annualised). Headline inflation rose again on the back of higher oil prices, but core declined to an annual 4.3%. The Fed left interest rates unchanged in September, though projections showed one more hike and a tighter stance through next year. A government shutdown was avoided, but only provided funding through to November.
- Business surveys remained subdued across Europe in September. Composite PMIs were still in contraction territory with the euro area index at 47.1 and the UK index at 46.8. On a more positive note, inflation fell more sharply than expected in both the euro area and the UK. The ECB raised its deposit rate by 25bps to 4% but the Bank of England, in a surprise move, left rates unchanged at 5.25%.
- China economic data improved in August with a reacceleration in both retail sales and industrial production and, after a brief flirtation with deflation, the annual rate of CPI inflation rose to 0.1%. Real estate distress remained a key focus, but the authorities have been eager to signal support by easing banks' Reserve Requirement Ratio.
- In Japan, the BoJ kept its policy stance unchanged, maintaining its widened Yield Curve Control. The Statement was at the dovish end of expectations, though in the press conference, Governor Ueda didn't take the opportunity to push back on speculation of further monetary policy normalisation in the months ahead.

Portfolio Review

Listed infrastructure lagged global equities in the third quarter. Several factors—including rising interest rates and expectations for a "higher for longer" rate environment, as well as concerns over the global economy—hindered stocks during the quarter. Against this challenging backdrop, all but one listed infrastructure sector declined.

Higher interest rates negatively impacted regulated utilities. Electric utilities (–8.8% total return) and water utilities (–9.0%) were among the weakest-performing sectors during the quarter. The gas distribution sector (–5.7%) was also hurt by higher rates, coupled with economic weakness in China.

Communications (–14.2%) also performed poorly as tower companies were negatively impacted by higher rates.

Passenger transportation–related sectors performed poorly. Within toll roads (–8.4%), shares of an Australia-based company—the sector's largest index constituent—were pulled down by higher interest rates and a negative regulatory decision regarding an acquisition. The airports sector (–5.5%) was hurt as Pratt & Whitney recalled hundreds of engines, leading to the grounding of numerous aircraft over the next few years. Toll roads and airports remained among the top-performing sectors thus far in 2023.

Commercial infrastructure sectors were relative outperformers.

Marine ports (2.7%) were a bright spot during the quarter. Shares of an India-based company benefited after it reported strong earnings in August, while shares of a Philippines-based company rallied on little company-specific news. Midstream energy (–1.6%) held up well due to strong free cash flow and internal financing models. Railways (–4.2%) declined amid concerns over weakening freight volumes and lacklustre earnings reports.

Portfolio performance in Q3 2023

Key contributors

• Security selection in midstream energy (–1.6% total return in the index): An overweight position in U.S.-based Targa Resources contributed to performance; the company generates strong free cash flow and has one of the highest growth rates in the sector.

• Out-of-index allocation in transport logistics: A position in Australia-based Qube Holdings contributed; its shares advanced after the company reported strong earnings.

• Underweight in water utilities (–9.0%): An underweight to this poorly performing sector was modestly beneficial for relative performance.

Key detractors

• Security selection in electric utilities (–8.8%): An out-of-index position in global offshore wind developer Orsted detracted from performance. The company announced impairments to its U.S. offshore wind investments in August, driven by higher interest rates, supply chain constraints, and less investment tax credits than had previously been expected.

• Stock selection in marine ports (2.7%): A lack of exposure to Adani Ports negatively impacted relative performance. Its shares rallied (despite the resignation of its auditor) after the company reported strong earnings in August.

• Stock selection in railways (–4.2%): An overweight in U.S.-based CSX detracted from performance. The company lowered its guidance early in the quarter, as it expects freight volume headwinds going forward.

Investment Outlook (Cohen & Steers commentary)

We have become somewhat more defensive as we prepare the portfolio for slower economic growth in the near term. We recently pared back our rail exposure and used the proceeds to purchase high-quality, regulated utilities. We maintain our preference for higher-quality businesses that we believe can perform relatively well in a below-trend growth environment. We are also focused on the potential capital needs of individual companies to strengthen their balance sheets.

We expect the credit environment to remain challenged. We are closely 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 continue to focus on 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 be a headwind for certain sectors. However, most infrastructure businesses can generally pass rising costs along to consumers; as a result, they have tended to perform well during periods of persistent inflation.

Greg Fleming, MA