SALT

Salt Sustainable Global Listed Infrastructure Fund Fact Sheet – February 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 28 February 2023

Benchmark	FTSE Global Core Infrastructure 50/50 Net Tax Index
Fund Assets	$52.82 million
Inception Date	18 August 2021
Underlying Manager	Cohen & Steers

Unit Price at 28 February 2023

Application	0.9730
Redemption	0.9690

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 28 February 2023

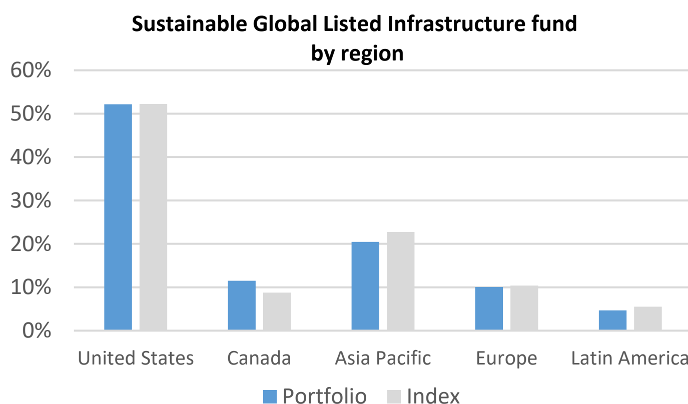
Global equities	96%
Cash and cash equivalents	4%

Fund Performance to 28 February 2023

Period	Fund Return*	Benchmark Return
1 month	-3.44%	-3.88%
3 month	-4.21%	-5.02%
6 month	-5.59%	-7.61%
1 year	-1.09%	-2.80%
Since inception p.a.	0.76%	-1.27%

*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 28 February 2023.

Fund regional weightings as at 28 February 2023*



Source: Cohen & Steers, Salt *data to 28 February 2023

Top 10 holdings*	sector		sector
NextEra Energy	Electric	TC Energy	Midstream
Transurban	Toll Road	AENA	Airports
CSX Corp.	Freight Rail	Aeroportuario De Sureste-B	Airports
Sempra	Gas Dist.	Union Pacific	Freight Rail
Canadian Pacific Railway	Freight Rail	PPL	Electric

The fund's top 10 holdings comprise 34.9% of the portfolio.

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.6	6.4
MSCI ESG score	6.3	6.3

Source: Cohen & Steers Quarterly Investment Report 31 Dec. 2022

Source: Cohen & Steers, Salt *data to 28 February 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

Market Review

February month saw yet another flip in sentiment, this time into a cautious mood after the strong returns in January which opened 2023. Equity markets around the world declined modestly during the month, led by a -2.4% dip in the US S&P 500 Index. Elsewhere, there was a wide range of market returns among global regions, with the MSCI Europe Index gaining 1.4% in local currency terms, while the MSCI Emerging Market Index declined -4.6% bring its 2023 year-to-date returns down to 1.6%.

The resumed caution, particularly on the higher interest track ahead, affected listed infrastructure. The global infrastructure benchmark declined -3.9% and the Salt Sustainable Global Infrastructure Fund fell -3.4% (after fees. Over the last year, infrastructure has continued to perform more resiliently than broader equity markets, with the Salt fund logging a one -year return of -1.09% (after fees) which was 1.7% ahead of benchmark. 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.

- After a strong start to the year, resilient economic data caused markets to give some of those gains back in February. The stronger data indicated central banks have more work to do and that rate cuts are far from imminent. Developed market equities were 2.4% lower (in USD) over the month, while the global aggregate bond index was 3.3% (USD) lower.
- Central banks in the US, the UK, Europe, Australia and New Zealand all delivered on expected rate hikes over the course of the month and all, with varying degrees of nuance, signalled they weren't done yet as inflation remains too high.
- In the US the January jobs report was much stronger than expected, retail sales surprised the upside, and while the monthly CPI print saw annual inflation fall, the result was stronger than expected. This followed Fed Chair Powell's comments earlier in the month that the process of disinflation still has some way to go and that further rate hikes are likely needed.
- In Europe, falling energy prices contributed to a further decline in headline inflation. However, resilient core inflation remains the key focus for ECB President Lagarde who, at the same time as raising rates 50bp in February, expressed her intent to deliver another 50bp hike in March.
- In China, the end of Covid-zero and the swift re-opening of the economy is feeding strong rebound in growth. As we have seen in other countries, the significant amount of excess savings accumulated during the lockdown will fuel consumption spending in the period ahead. Despite this, Chinese stocks were lower over the month on escalating geo-political tensions.
- In Australia, the release of the minutes of the RBA's February meeting confirmed its hawkish tilt, indicating they had considered a more aggressive tightening at that meeting. This was followed by weaker than expected labour market data suggesting the unemployment rate may have troughed. While this was a weaker print than expected, likely continued wage pressure means this is unlikely to alter the RBA's hawkish shift.
- In New Zealand, cyclone Gabrielle caused considerable devastation on the east coast of the North Island. Early indications are the repair bill to rebuild communities and infrastructure will be in the order of NZ$13 billion.

Portfolio Review

Infrastructure stocks declined in February on renewed concerns over tighter monetary policy. Persistent inflation and resilient global economic growth led to sharply rising interest rates and expectations for a 'higher for longer" rate environment. Most listed infrastructure subsectors posted negative returns for the month.

Communications and utilities performed poorly, as interest rates climbed. Towers (–9.9% total return) are among the most rate-sensitive companies in the infrastructure universe given their high leverage. Underwhelming guidance updates by U.S. tower companies also dragged down the sector. Water utilities (–6.7%) and electric utilities (–5.1%) declined as higher rates more than offset their defensive characteristics. The geographically diverse gas distribution sector (–3.3%) generated mixed returns.

Several sectors were impacted by the uncertain growth outlook. Midstream energy (–3.8%) fundamentals remained solid, but the sector has lost some of its momentum compared to the last 18–24 months (when earnings revisions were largely on the upswing). Marine ports (–2.8%) were mixed. Shares of an India-based company stabilised after falling sharply in January, while a Brazilian company surrendered a large portion of its January gains as investors reassessed earlier takeover rumours.

Railways (–1.7%) were fairly resilient. However, one North American freight rail operator faced scrutiny associated with a high-profile derailment during the month. The fund no longer has exposure to that company (Norfolk Southern) and prefers CSX Transportation.

Passenger transportation–related sectors outperformed on China's reopening and improved global growth expectations. Airports (1.5%) rose, led by healthy returns from Mexican and European operators. Mexican passenger volumes remained robust, while Europe's economic outlook improved. Toll roads (0.9%) were particularly strong in Asia, partially driven by continued optimism related to China's reopening. Meanwhile, shares of Australia-based Transurban, the largest constituent in the sector, gained on the back of solid results and higher-than-expected distribution guidance.

Portfolio performance

The portfolio had a negative total return for the month to 28 February but outperformed its benchmark by 0.44% (after fees.) For the three-month period, the portfolio returned -4.21% (after fees) and outperformed its benchmark by 0.81%. For the full year, the portfolio returned -1.09% (after fees) and beat its benchmark by 1.71%. Since inception, the portfolio has returned 0.76% p.a. (after fees) and has outperformed its benchmark by 2.03%.

Key contributors

• Stock selection in airports (1.5% total return): Our overweight position in a Mexico-based airport operator was positive for performance; its shares rose as traffic volumes remained strong. An overweight in a Spain-based airport operator was beneficial given the better-than-expected economic momentum in Europe.

Disclaimer: The information in this publication has been prepared from sources believed to be reliable and accurate at the time of preparation but Salt Funds Management Limited, its officers, directors, agents, and employees make no representation or warranty as to the accuracy, completeness, or currency of any of the information contained within, and disclaim any liability for loss which may be incurred by any person relying on this publication. All analysis, opinions and views reflect a judgment at the date of publication and are subject to change without notice. This publication is provided for general information purposes only. The information in this publication should not be regarded as personalised advice and does not take into account an individual investor's financial situation or goals. An individual investor should, before making any investment decisions, seek professional advice. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.

• Out-of-index allocation in transport logistics: Shares of an Australia-based logistics company advanced as it reported strong earnings.

• Security selection in midstream energy: The portfolio benefited from an overweight position in liquefied natural gas producer and exporter Cheniere Energy amid continued strong demand for LNG..

Key detractors

• Security selection in marine ports (–2.8%): An overweight position in a Brazilian marine port company detracted from performance; this volatile stock weakened (after posting a strong return in January) as a group of shareholders dispelled rumours that they were planning to take the company private.

• Stock selection in railways (–1.7%): The timing of our position in a U.S.-based freight rail operator detracted. An activist investor called for a change of leadership, and the company subsequently announced that a CEO succession plan has been in motion since March 2022 and that it expects to name a new CEO in 2023. This sent the shares higher given optimism for improving margins under a new regime.

• Stock selection in toll roads (0.9%): Selection in the sector modestly detracted from relative performance, primarily due to an underweight position in Transurban Group.

Investment Outlook (Cohen & Steers commentary)

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

We made several portfolio adjustments on the margin during the month. We continue to underweight more rate-sensitive sectors, while we added to some economically sensitive areas.

Stubborn inflation and “higher for longer” interest rates may challenge certain subsectors. Although inflation is expected to lessen in the coming months, we believe it will remain elevated from a historical perspective. Most infrastructure businesses can generally pass rising costs along to consumers; as a result, the companies have tended to perform well during periods of high or unexpected inflation.

We expect private investor interest in acquiring listed infrastructure assets to continue despite higher interest rates. Several significant transactions are pending across various subsectors and geographies. Although the pace of transactions has moderated given the rising cost of capital, we generally expect this trend to continue over time, which may support listed infrastructure valuations.

Greg Fleming, MA

Disclaimer: The information in this publication has been prepared from sources believed to be reliable and accurate at the time of preparation but Salt Funds Management Limited, its officers, directors, agents, and employees make no representation or warranty as to the accuracy, completeness, or currency of any of the information contained within, and disclaim any liability for loss which may be incurred by any person relying on this publication. All analysis, opinions and views reflect a judgment at the date of publication and are subject to change without notice. This publication is provided for general information purposes only. The information in this publication should not be regarded as personalised advice and does not take into account an individual investor’s financial situation or goals. An individual investor should, before making any investment decisions, seek professional advice. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.