Salt Sustainable Income Fund Fact Sheet – September 2021

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.

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 September 2021

Benchmark	Bank deposit rates
Fund Assets	$41.6 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Current yield to 31/3/22	3.75% per annum

Unit Price at 30 September 2021

Application	1.0263
Redemption	1.0221

Investment Guidelines

Sector	Target	Range
New Zealand Fixed Interest	20%	0% – 40%
International Fixed Interest	15%	0% – 40%
Australasian Shares	30%	15% – 45%
Global Listed Property	15%	0% – 30%
Global Listed Infrastructure	15%	0% – 30%
Cash or cash equivalents	5%	0% – 20%

Fund Allocation at 30 September 2021

New Zealand Fixed Interest	0%
International Fixed Interest	21%
Australasian Shares	35%
Global Listed Property	27%
Global Listed Infrastructure	16%
Cash or cash equivalents	1%

Fund Performance to 30 September 2021

Period	Fund Return	Benchmark Return
1 month	-1.29%	0.09%
3 months	1.63%	0.26%
Since inception p.a.	9.44%	0.95%

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.

Top Holdings at 30 September 2021

Goodman Property Trust	Argosy Property Trust
Fisher & Paykel Healthcare	Mainfreight
Precinct Properties NZ	Vital Healthcare Property Trust
Kiwi Property Group	Property for Industry
Spark New Zealand	Meridian Energy

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Quarterly Market Commentary

Global equity markets were weaker in September, with major country returns declining by 3-5% in the course of the month. This led to a modest quarterly decline in the MSCI World Index of -0.4% (in USD.) Rising supply disruptions continued to prove problematic and inflation pressures rose. As the quarter progressed, concerns emerged about the near-term economic outlook, as it appeared many economies were past the peak of Covid-reopening growth.

The US market dropped 4.8% for September month, leaving its quarterly return a modest 0.2%. European shares were barely changed last quarter, rising just 0.1%. Emerging Markets were the weakest, falling on China and inflation concerns by -4.2% for the month and -8.8% for the quarter. Japanese equities, by contrast, continued their recent rally, gaining 3.5% for the month and 4.5% for the third quarter. Developed market total returns including dividends were slightly higher, at 0.6% in Q3 for the US and Europe. However, despite an anaemic third quarter overall, the MSCI World Index nevertheless achieved a 27.2% annual gain, with US stocks up 28.6% for the year in USD, and European equities (ex-UK) 29.8% higher in EUR terms.

The inflation implications of resurgent world growth caught up with bond markets, with most sovereign and investment grade securities experiencing flat or modestly negative total returns. High yield bonds rose, reflecting the global hunt for yield and perceptions of diminishing Covid risk, and corporate bonds in general again outperformed sovereigns. Indications of Quantitative Easing being tapered (scaled down) in the US biased sovereign yields upward.

The Australian economy is struggling under continuing lockdowns in two key states. The RBA followed through with a reduction in bond purchases in September but has pushed out the time at which it would next review the program by three months to February 2022. The ASX 200 rose +0.3% over the quarter and +26.6% over the year.

The New Zealand economy is proving to be resilient during the latest lockdown, with many firms expecting a swift recovery as restrictions ease. Labour market indicators are particularly tight. We expect the RBNZ to raise interest rates in October and again in November. NZ 10-year yields rose from 1.76% over the quarter to 1.97%. The S&P/NZX50 rose +4.9% (in NZD) over the quarter to be +12.3% over the full year, though the domestic index was still flat year-to-date.

The Covid Delta variant continues to spread, but an August rise in daily global case numbers has now peaked and averages are once again moving downward. Hospitalizations and mortality have also continued declining. In general, countries with higher vaccination rates, including the UK and Europe, are continuing to reopen, while those with medium vaccination rates, including Australia and New Zealand are continuing to resort new economic and social restrictions until vaccination rates improve. The governments are strenuously encouraging this, to mitigate lockdowns in key cities.

Salt Sustainable Income Fund Commentary

The Sustainable Income Fund was not immune to weaker world markets in September month, and declined by -1.3%, reversing part of its July and August gains. The fund advanced by +1.63% for the quarter compared to the +0.09% return from the Bloomberg NZBond Bank Bill Index for the three month period. The return of bank Term Deposit rates for the quarter was 0.26%, equivalent of average offered 6-month deposit rates of 1.04% p.a.

Returns for the Sustainable Income Fund in September month were dominated by the international components, where returns were negative. The overall monthly return from Australasian and Global equity holdings each detracted, however it was the interest rate -exposed Enhanced Property Fund where lower returns were dominant, as the Dividend Appreciation Fund rose 0.4% for the month. For September, the Enhanced Property Fund declined -2.86% but the Fund was in line with its benchmark for the third quarter as a whole, returning 2.93% compared to the 3.18% advance in the S&P/NZX All Real Estate Gross Index. The Dividend Appreciation Fund posted a 3.16% gain for the third quarter. Quarterly index underperformance from that fund was driven by stock selection and style factors, with "Growth" outperforming "Defensive Yield"in New Zealand during the period. The Sustainable Global Infrastructure Fund declined by -2.6% for the month, outperforming the -3.5% fall in the MSCI AC World Index and the -2.8% in its benchmark. For the third quarter overall, the gain of 1.63% comprised of 1.27% from the Dividend Appreciation and 1.02% from Enhanced Property components, -0.38% from Infrastructure and -0.27% from Bonds.

International Bonds were also negative for the month, with a decline of -1.24%, reflecting concerns on inflation The Global Fixed Interest Fund moderately outperformed the index for the third quarter, returning 0.27% compared with the benchmark's 0.09% three-month return. PIMCO is maintaining its cautious view towards both interest rates and corporate credit and maintained its underweight duration position versus the index with absolute duration now 6.4 years vs 7.5 years, focussing on relative value between regions. PIMCO is slightly underweight US and Japanese duration versus the benchmark and maintain a dollar bloc bias for its resilience should the global economy worsen.

The RBNZ was poised to initiate an increase in the Official Cash Rate (OCR) in August but was forestalled from doing until the 6th October meeting, when it lifted the OCR to 0.5%. Current inflationary pressure is elevated, and we expect the Reserve Bank to move rates higher at the remaining 2021 Monetary Policy Statement assuming no new domestic surge in Covid infections.

Greg Fleming

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