Salt Sustainable Income Fund Fact Sheet – August 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 31 August 2021

Benchmark	Bank deposit rates
Fund Assets	$18.8 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Current yield to 31/3/22	3.75% per annum

Unit Price at 31 August 2021

Application	1.0398
Redemption	1.0355

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 31 August 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 31 August 2021

Period	Fund Return	Benchmark Return
1 month	2.41%	0.09%

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 Overweights	Top Underweights
Tower	Ryman Healthcare
Turners Automotive	Goodman Property Trust
Marsden Maritime Holdings	Elanor Commercial Property Fund
Spark	Fisher & Paykel Healthcare
Sky City	GDI Property Group

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Monthly Market Commentary

Global equity markets were positive in August, while commodity markets softened as the oil price dipped. The inflation implications of resurgent world growth caught up with bond markets, with most sovereign and investment grade securities experiencing modestly negative total returns. High yield bonds rose, reflecting the global hunt for yield and perceptions of diminishing Covid risk.

The global economic reopening continued in August with several key developed economies further modifying restrictions. Data was generally solid though it appears most economies are either close to, at, or just past the peak in the economic recovery. Global equities returned 2.5% (MSCI World index in USD) in the August month and 29.8% over the year. The Delta variant continued to spread, with a rise in daily case numbers around the world. In general, countries with higher vaccinations rates, including the UK and Europe, are continuing to reopen, while those with lower vaccination rates, including Australia and New Zealand are continuing to resort new economic and social restrictions until vaccination rates improve.

Our base case remains that economic reopening continues as vaccination rates continue to rise. Any ongoing economic impact from delta will have most effect on the supply side of the economy as monetary and fiscal stimulus will continue to support demand. Central banks will need to face into the inflationary implications soon. Although the US Federal Reserve has signalled potential adjustments to monetary policy in 2022, CoVid-19 factors and demand for both equities and bonds are still in play as supportive ingredients for markets. We expect this to continue into Q4 2021. Jay Powell's speech at Jackson Hole suggested an announcement on tapering the bank's asset purchase program was imminent, but that markets should not assume interest rate increases would automatically follow. The S&P 500 hit fresh all-time highs in August, ending 3.0% higher (in USD) and up 28.9% over the full year. 22% of this gain in the S&P was posted in calendar 2021. The 10-year US Treasury yield ended the month at 1.31%, up from 1.23% at the end of the July. US corporate credit spreads remained very tight at 87bps for Investment Grade credits and 288bps for High Yield debt.

The **Australian** economy is suffering under renewed economic and social restrictions as new virus cases emerge, particularly in New South Wales. The RBA seems likely to further delay the intended tapering of its asset purchase program. The S&P/ASX200 rose 1.9% (in AUD) over the month of August and the A-REIT Accumulation Index by a very robust 6.3%. Year-to-date, the ASX-200 is up 17.8%.

In **New Zealand** the economy has been performing very strongly and the labour market has been tightening. However, despite clearly wanting to pull the trigger, the Reserve Bank of NZ was prevented from hiking at its August meeting by an outbreak of the delta variant which forced the economy into a new lockdown. We expect this is only a temporary delay. New Zealand 10-year yields rose from 1.51% over the month to 1.74%. The NZX50 rose 5.0% in August, to be up 9.3% over the year, though still flat, year-to-date.

Salt Sustainable Income Fund Commentary

The Sustainable Income Fund achieved a solidly positive performance in August, advancing by +2.41% compared to the +0.05% return from the Bloomberg NZBond Bank Bill Index. The return of bank Term Deposit rates for the month was 0.09%, equivalent of average offered 6-month deposit rates of 1.01% p.a.

August's returns for the Sustainable Income Fund were dominated by the equity components, where returns were strong. The overall monthly return from NZ and Australian equity holdings each contributed, whilst International Bonds were flat for the month, contribution a mere 0.02%. Sustainable Global Listed Infrastructure was added to the fund during the month, and while this short inclusion period tempered its capital return the sector also contributed marginally positively (+0.07%.) The Salt Enhanced Property Fund delivered a 0.94% contribution in August and the Salt NZ Dividend Appreciation Fund provided 1.34% - this being the lion's share of the positive monthly return.

The RBNZ was poised to initiate an increase in the Official Cash Rate (OCR) but was forestalled from doing so by the nationwide Level 4 CoVid-19 lockdown put in place a single day before the Bank's latest policy announcement on 18 August. Current inflationary pressure is elevated, and we expect the Reserve Bank to move rates higher at the two remaining Monetary Policy updates in 2021. This trajectory has allowed small increases in the offered term deposit rates from retail banks. However, the 6-month average term deposit rate at end-August was just 1.01%. That is just 0.2% higher than the 0.8% rate offered throughout the year. **The term deposit rates for all maturities available also substantially lag the current inflation rate, which was 3.3% year-on-year as at 30 June.**

By early next year, the Reserve Bank is expected to have lifted the cash rate to around 1% *en route* to a terminal rate this cycle of 2%. **However, while term deposit rates in NZ will clearly edge higher, they are very unlikely to deliver a positive real (i.e. net of inflation) return in the next year and potentially beyond.**

The Salt Dividend Appreciation Fund made a very strong month's performance in August. At month-end, we estimate the Dividend Appreciation Fund has a forward gross dividend yield of circa 3.2%, which compares favourably to our estimate of 2.6% for the NZX50 Gross. Yields in Australasian Property markets have compressed, but still remain fairly high. This is supportive of our income sustainability expectations for the Salt Sustainable Income Fund.

Greg Fleming, MA