

# SALT

## Salt Sustainable Income Fund Fact Sheet – July 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 diversified mix of growth & defensive assets with an aim to provide regular income and a positive return on capital on a rolling three year basis.

### Fund Facts at 31 July 2021

Benchmark	Bank deposit rates
Fund Assets	\$16 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Current yield to 31/3/22	3.75% per annum

### Unit Price at 31 July 2021

Application	1.0247
Redemption	1.0205

### 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 July 2021

New Zealand Fixed Interest	0%
International Fixed Interest	32%
Australasian Shares	38%
Global Listed Property	29%
Global Listed Infrastructure	0%
Cash or cash equivalents	1%

### Fund Performance to 31 July 2021

Period	Fund Return	Benchmark Return
1 month	0.54%	0.08%

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
Turners Automotive	Goodman Property Trust
Tower	Property For Industry
Spark	Ryman Healthcare
Marsden Maritime Holdings	Vital Healthcare Property Trust
Elanor Commercial Property Fund	Stride Property Group

SALT FUNDS MANAGEMENT

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## Monthly Market Commentary

**Global asset markets were broadly positive in July, as equity and commodity markets were again stronger while, surprisingly given the inflation implications of resurgent world growth, bond markets also continued to rally.**

Global equities achieved a 0.7% monthly gain, but strength was concentrated in the US and Europe, while Emerging Markets weakened due to political impact on China. In the United States the differing messages from equity and bond markets was most stark. The S&P 500 hit all-time highs during the month, ending July 2.4% higher (in USD) and bringing year-to-date gain to 18%. At the same time Treasury yields rallied to their lowest level since February. There were a number of factors at play – the renewed spread of Covid, concerns the US economy may be passed the peak in the cycle and signs the Federal Reserve is only moving incrementally towards removing monetary stimulus. This is despite a sharp drop in US unemployment, strong hiring, and upward wage pressure.

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. The high level of stimulatory liquidity and ultra-low cash interest rates are achieving the intended confidence rebound, and optimism is being reflected in strong investment security prices. We expect this to continue into Q4 2021.

## Salt Sustainable Income Fund Commentary

**The Sustainable Income Fund achieved a modestly positive performance in July, advancing by +0.54% compared to the +0.08% return from the Bloomberg NZBond Bank Bill Index. The return of bank Term Deposit rates for the month was 0.08%, which is the equivalent of an average offered 6-month deposit rate of 0.9% p.a.**

The overall monthly return from NZ and Australian equity holdings for the Income Fund for July was marginally positive, with a gain from the Salt Enhanced Property Fund helping to offset a negative return from the Salt NZ Dividend Appreciation Fund. The Enhanced Property Fund component returned 0.67% in July whereas the Dividend Appreciation Fund slipped -0.42%. This was almost offset by the valuation gain in the Global Fixed Interest Fund, which reflected the move downwards in global bond interest rates which accelerated in July and resulted in a 0.35% positive contribution to the Salt Sustainable Income Fund from its bond allocation.

**The RBNZ reiterated their belief in the transitory nature of current inflationary pressure, something we are less sanguine about. We have recently seen an exceptionally strong Labour Market report and an upside domestic inflation surprise. The unemployment rate continued to fall from its recent peak of 5.3 percent in the September 2020 quarter, dropping 0.6 percentage points in the June 2021 quarter, to reach 4.0 percent.**

Market pricing has brought forward the expected start of the interest rate tightening cycle to August and continuing into late 2021. We expect the RBNZ will soon start preparing the market up for an imminent tightening. The overnight interest swap market is now pricing a 0.25% rate hike in the 18 August Monetary Policy Statement, with a high probability of two more rate hikes by year-end. By February next year, the Reserve Bank is expected to have lifted the cash rate around 1%. **However, while term deposit rates in NZ will clearly edge higher, they are still well below the inflation rate and are very unlikely to deliver a positive real (i.e. net of inflation) return in the next year and potentially beyond.**

Whilst the Salt Dividend Appreciation Fund made a small negative July impact, this component had delivered a very strong month's performance in June. At quarter-end for Q2 2021, we estimate the Dividend Appreciation Fund has a forward gross dividend yield of circa 3.9%, which compares favourably to our estimate of 3.0% for the NZSE50 Gross benchmark. This is highly supportive of our income sustainability expectations for the Salt Sustainable Income Fund, overall.

The Income Fund's overweight position in listed Real Estate, via the Salt Enhanced Property Fund, also contributed positively in the three months to end-July. Performance was assisted by an average weight of approximately 6% in the Australian market, which outperformed NZ. Australian property holdings have been performing well, despite CoVid-19 disruptions, and contrast with the more subdued recent performance from NZ listed property. NZ listed property has been hampered both by high prior valuation and perceptions of more imminent increases in official interest rates on this side of the Tasman.

Within the Bond allocation of the Salt Sustainable Income Fund, positive performance was delivered by the Hunter Global Fixed Interest Fund, which returned 0.35% for the month of July. This translated into a modest positive impact for the Income Fund.

PIMCO is maintaining its cautious view towards both interest rates and corporate credit, focusing on relative value positions and diversified alpha strategies. Within broader risk exposures, they maintain tactical tilts designed to benefit across a range of scenarios. The Fund also has a small allocation to inflation linked bonds (ILBs) which are trading below fair value.

It is anticipated that the Salt Sustainable Income Fund will initiate its allocation to Global Listed Infrastructure in the coming quarter, as this asset class possesses desirable defensive and inflation-hedging characteristics, whilst maintaining an advantageous dividend yield.



Greg Fleming, MA