



SALT

Sustainable Income Fund: asset allocation change notification

- We note bond yields have adjusted upwards in 2024, so we further reduce our underweight bond position.
- As NZ's domestic economy and interest rate influences remain a considerable headwind for equities, we lower our overweight position in the Enhanced Property Fund. As Australasian Listed Property still offers an attractive income yield, we are retaining a substantial overweight allocation, but at a reduced size.

Dynamic Asset Allocation change – Salt Sustainable Income Fund

Salt's Sustainable Income Fund (SSIF) aims to provide a gross fixed quarterly income in excess of bank deposit rates on a rolling three-year basis (proxied by the NZ Bank Bills Index, with Fund distributions adjusted to remain competitive with the Reserve Bank of New Zealand's monthly survey of offered 6-month Term Deposit rates.) Additionally, the Fund seeks to provide a positive return on capital, on a rolling three-year basis.

After a six-month period in which the yields on international bonds have fluctuated, reflecting market perceptions of the gradual fall in future expected inflation rates, and a less-restrictive global monetary policy orientation, we consider that upward risks to bond yields have now diminished considerably.

We are adjusting our asset allocation accordingly, to increase the proportion of total expected returns sourced from Fixed Income securities, whilst lowering the Fund's overall tactical bias to Growth: Income assets from a ratio of 70: 30 to 67: 33.

Within a period of low economic growth in New Zealand this year, as monetary policy restrictiveness continues to bring down inflation, we consider a reduced tilt towards domestic listed property appropriate. We consider NZ property equities more vulnerable than their international counterparts, given the more benign central bank policy outlook in the US and Europe.

Adjustment to Asset Allocations 26 March 2024

Sector	SAA Target	Range	New allocation	Change	DAA tilt
Global Fixed Interest	35%	0% – 60%	32%	+2.5%	u/weight
Australasian Shares	30%	15% – 45%	29%	-	u/weight
Global / NZ Listed Property	15%	0% – 35%	21%	-2.5%	o/weight
Global Listed Infrastructure	15%	0% – 35%	17%	-	o/weight
Cash or cash equivalents	5%	0% – 20%	1%	-	u/weight

Source: Salt Funds Management

Portfolio income sourcing from Fixed Income assets is expected to increase this year

The new Asset Allocation retains the active overweight positioning in Listed Property (where both dividends and valuations remain attractive) and in Infrastructure (which provides a stable source of defensive yield and inflation protection features.) Given gently slowing global economies and inflation, moving asset allocation closer toward a Neutral Fixed Interest weighting is appropriate, so we reduce the existing underweight position, from -5.5% to -3%.

Dynamic Asset Allocation rationale

- On a 12-month view, the expected income return from Global Bonds (6.7%) is close to the prospective income yield from Australasian property (7.0%).
- Whilst there is some scope for capital growth in Australasian property over the DAA horizon of 3-12 months, and thus, for potential to recuperate some of the capital losses the sector incurred in the two years to Feb. 2024, this valuation recovery is unlikely to occur until later this year.
- As the relationship between the level of bond yields and the performance from real assets such as property is elevated at present, a positive expected return from bonds would be expected to correlate with a positive return period for listed property. That is indeed our central scenario for the 2024 year as a whole.
- As bond yields are close to 4.3% for the UST 10-year, having moved upwards by 0.4% in 2024 YTD, we think this is a good opportunity to further reduce the Sustainable Income Fund's underweight to International Fixed Interest, to -3% (i.e. a 32% weighting within the Income Fund, vs 35% Neutral SAA weighting.)
- The additional International Fixed Income allocation will be funded by a reduction of -2.5% in the Australasian sleeve of the Global / NZ Listed Property allocation, which falls from 20% to 17.5% within the Income Fund.
- Due to a slight recent increase in the yield on Global bonds, the DAA change does not impact the Sustainable Income Fund's expected investment yield, which would remain unchanged at 5.5%, prospectively.
- In consequence, the distribution rate to investors in the Salt Sustainable Income Fund is not impacted.

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