Salt Sustainable Global Listed Infrastructure Fund Fact Sheet – October 2022

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 31 October 2022

Benchmark	FTSE Global Core Infrastructure 50/50 Net Tax Index
Fund Assets	$51.79 million
Inception Date	18 August 2021
Underlying Manager	Cohen & Steers

Unit Price at 31 October 2022

Application	0.9718
Redemption	0.9678

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 31 October 2022

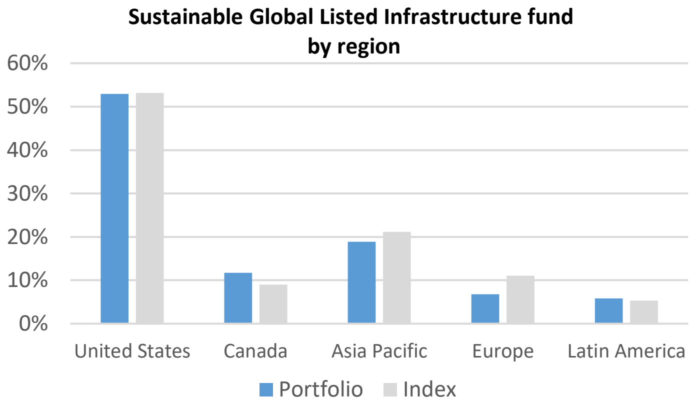
Global equities	96.1%
Cash and FX forwards	3.9%

Fund Performance to 31 October 2022

Period	Fund Return*	Benchmark Return
1 month	3.11%	3.11%
3 month	-8.89%	-9.04%
6 month	-6.70%	-7.80%
1 year	-2.15%	-2.72%
Since inception	-1.03%	-2.14%

*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 31 October 2022.

Fund regional weightings as at 31 October 2022*



Source: Cohen & Steers, Salt *data to 31 October 2022

Top 10 holdings	
NextEra Energy	TC Energy
Transurban	Cheniere Energy
Norfolk Southern Rail	PPL Corporation
American Tower	American Electric Power
Sempra Energy	SBA Communications

The fund's top 10 holdings comprise 38.4% of the portfolio

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.5	6.4
MSCI ESG score	6.2	6.3

Source: Cohen & Steers Quarterly Investment Report, 30.9.2022

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Market Review

October month saw a moderate rebound in markets including listed infrastructure, following the sharp corrections of the third quarter. Over the last year, infrastructure has continued to perform substantially more resiliently than broader equity markets. 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.

- Despite a rough start to the month, developed market equities ended October 7% higher (in USD terms). It was a tough month for emerging markets which ended 3% lower, dragged down primarily by weakness in China.
- Bond yields continued to push higher, making new cyclical peaks of 4.2% in the US, 2.4% in Germany and 4.7% in New Zealand. Yields rallied into the close of the month.
- Inflation, central banks, recession risk and geopolitical tensions were all key foci over the month. Good news came in the form of a further reduction in supply chain constraints.
- The combination of high inflation and tight labour markets saw further aggressive action from central banks over the month. The European Central Bank hiked by 75bp, with the US Federal Reserve and the Bank of England widely expected to hike by similar amounts in early November. The Reserve Bank of New Zealand delivered a hawkish 50bp hike in the sense that the bank actively considered a larger 75bp hike.
- The interest rate outlook and rising geopolitical tensions saw the US dollar continue its inexorable rise. USD strength was most notable against the Japanese Yen and the Chinese renminbi, the currencies of the two central banks that continue to maintain an accommodative stance.
- The US economy showed signs of softening over the month, particularly in the housing market as higher mortgage rates started to bite. Flash PMIs were soft, with all forward-looking components weak. However, inflation came in stronger than expected and the labour market remains tight, keeping pressure on the FOMC. The Committee is expected to signal a slower pace of tightening into the end of the year, though the peak terminal rate remains uncertain.
- Europe announced further plans to address the energy crisis, including a proposed price cap and a common purchases system. Both should support the recent downside in energy prices. PMI data moved into recessionary territory. The ECB is continuing to prioritise inflation over growth and is expected to continue tightening, though probably at a slower pace than recently.
- Growth in China rebounded in the third quarter, though continued Covid lockdowns has seen a softening in the higher frequency activity data. Inflation remains low which we expect will lead to further interest rate cuts by the PBoC. As expected, President Xi was reappointed at 20th Party Congress.
- In Australia, activity data continues to slow. However, a higher-than-expected inflation print for the September quarter has challenged the recent decision by the RBA to reduce the pace of interest rate increases. The RBA hiked by only 25bp at its October meeting. Maintaining this slower pace risks needing to become more aggressive further down the track and causing a sharper economic downturn.
- Activity data continues to slow in New Zealand, while September quarter inflation came in stronger than expected. The HLFS report for the same period showed the labour market remains tight with very strong wage growth. Market pricing expects the RBNZ to lift its forecast terminal OCR rate at its November meeting and deliver a 75bp hike.
- Over the fourth quarter of the year, growth conditions will continue to deteriorate as central banks continue to tighten with terminal rate likely to be met in early 2023.

Portfolio Review

Listed Infrastructure stocks moved higher along with broader equity markets in October. Investor sentiment in the US was supported by a solid start to third quarter earnings, excluding the technology sector. European markets rebounded due to lower interest rates, more supportive fiscal policy in the UK and lower global gas prices. On the flip side, Chinese equities underperformed after further consolidation of power by President Xi Jinping. While most central banks maintained their commitment to tightening monetary policy, the Reserve Bank of Australia and Bank of Canada were somewhat more dovish in their commentary and actions. For the month, global bond yields were mixed, the US dollar's rally stalled, and oil prices moved higher. Nearly all listed infrastructure subsectors posted positive returns in October.

A number of commercial sectors performed well. Midstream energy (8.4% total return) rallied along with the price of oil. There was also an increase in upstream production in the US and companies in the space have largely improved their balance sheets. It remains the top year-to-date performer. Railways (7.2%) were buoyed by overall solid earnings from North American freight rail companies. Marine ports (1.7%) underperformed, partially driven by weak results in China as its zero-Covid policy remained in place.

Transportation-related sectors performed well in October. Airports (9.3%) recouped some of their losses earlier in the year. In particular, several Mexican airport operators benefited from robust traffic. Toll roads (4.6%) outperformed; a more dovish tone by Australia's central bank and higher traffic numbers were beneficial, whereas performance was weak in China given concerns over Covid policies.

The utility subsectors generated mixed results. Water utilities (9.2%) were among the best performers in October. US water companies generally performed well despite rising interest rates, while UK companies, including Pennon Group, rallied amid improved fiscal policy under the new Prime Minister. Electric utilities (1.1%) underperformed as more defensive parts of the market lagged during the month. Gas distribution's (–0.7%) weakness was driven by several Chinese companies, whereas a number of US-based companies performed relatively well. Communications stocks (–2.8%) were negatively impacted by rising interest rates in the U.S. In general, US tower and data centre companies were hindered by higher rates and mixed third quarter results.

The portfolio had a positive total return for the October month of 3.1% (after fees) and modestly outperformed its benchmark.

Key contributors

• Underweight position and stock selection in electric utilities (1.1% total return in the index): Our non-investment in The Southern Company was beneficial; the company reported solid earnings but was dragged down by rising US. Interest rates as well as by project risk from the construction of its nuclear plants in Georgia.

• Stock selection in railways (7.2%): An overweight in Norfolk Southern contributed to performance; the company's shares appreciated as it reported solid third quarter results.

• Stock selection in airports (9.3%): Overweight positions in Mexican airport operators GPO Aeroportuario and Grupo Aeroportuario del Pacífico helped; they benefited from continued strong passenger volumes.

Key detractors

• Stock selection and an overweight position in gas distribution (–0.7%): An overweight in ENN Energy detracted from performance; its shares were hampered by political concerns in China and continued weakness in the country's economy. An out-of-index position in Altagas was also negative for performance as it reported lacklustre earnings.

• Stock selection in water utilities (9.2%): An overweight in China-based Guangdong Investment detracted from performance; it declined amid the aforementioned macro concerns in the region.

• Overweight in communications (–2.8%): The overweight was not rewarded as communication was the weakest index sector during the month. However, this was offset by strong relative stock selection in the sector.

Investment Outlook (Cohen & Steers commentary)

We maintain a balanced portfolio as we continue to monitor the impact from elevated inflation, aggressive central bank tightening and weakening global growth. We made a few adjustments to the portfolio during the month, including selling some US gas utilities on strength. In contrast, we continued to add exposure to several high-quality companies (principally freight rails) that we believe maintain solid growth potential even amid a weaker economic environment.

Higher interest rates and inflation may impact certain subsectors, although infrastructure returns have historically shown positive sensitivity in inflationary environments. We expect inflation and interest rates to remain elevated from a historical perspective. Performance dispersion among infrastructure subsectors can be significant in challenging economic periods and amid rising bond yields.

Most infrastructure businesses can generally pass rising costs along to consumers and, as a result, they have tended to perform well during periods of unexpected inflation. We expect private investor interest in acquiring listed infrastructure assets to continue despite higher interest rates. Several significant transactions were recently announced or are pending across various subsectors and geographies. Although the pace of transactions may moderate given economic uncertainties, we generally expect this trend to continue, which may support listed infrastructure valuations.

The passage in the US of the Inflation Reduction Act could be a long-term benefit to some companies with renewables exposure. The bill should accelerate development in renewables by providing substantial subsidies.

Greg Fleming, MA