Salt Sustainable Global Listed Infrastructure Fund Fact Sheet – February 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 28 February 2022

Benchmark	FTSE Global Core Infrastructure 50/50 Net Tax Index
Fund Assets	$53.19 million
Inception Date	18 August 2021
Underlying Manager	Cohen & Steers

Unit Price at 28 February 2022

Application	1.0209
Redemption	1.0167

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 28 February 2022

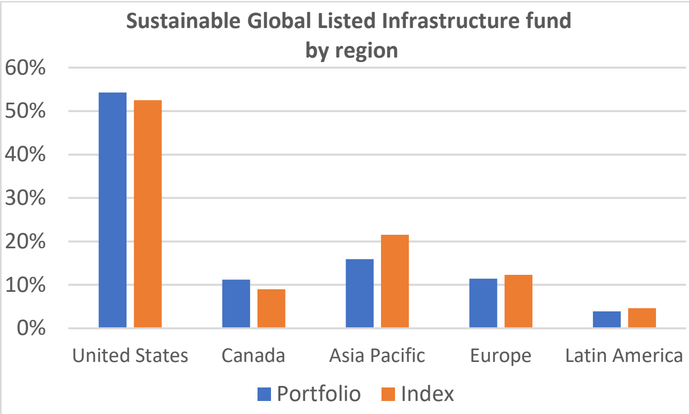
Global equities	96.77%
Cash and FX forwards	3.23%

Fund Performance to 28 February 2022

Period	Fund Return*	Benchmark Return
1 month	-0.64%	-0.75%
3 month	2.11%	2.94%
6 month	1.44%	0.81%
Since inception	1.87%	0.90%

*Performance is after fees and does not include imputation credits or PIE tax.

Fund regional weightings as at 28 February 2022*



Source: Cohen & Steers, Salt *data to 28 February 2022

Top 10 holdings	
NextEra Energy	Sempra Energy
Enbridge	Duke Energy
Norfolk Southern	Transurban Group
Canadian National Railway	AENA SA
American Tower	American Electric Power

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

Fund ESG Scores	Portfolio	Index
Cohen & Steers ESG score	6.4	6.3
MSCI ESG score	6.0	5.9

Source: Cohen & Steers Quarterly Investment Report, Q4 2021

Market Review

Equity and bond markets experienced a difficult month in February as geopolitical tensions rose between Russia, Ukraine, and NATO. Russia launched a large-scale invasion of Ukraine on February 24th.

The first half of the month was dominated by increasing expectations of the number of rate hikes likely to be delivered by the major developed central banks in 2022, most notably the US Federal Reserve, and that growth would suffer consequently. As Ukraine tensions grew, rate hike expectations were reassessed downwards, but growth concerns intensified.

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There is still a high degree of uncertainty as to how the Russia-Ukraine conflict will play out. Right now, the clearest economic impact appears likely to be via energy and food prices. This will have a dampening impact on growth, intensifying concerns of a period of stagflation, particularly in Europe.

Activity data in **Europe** improved over the month with PMI results pointing to increasing economic momentum. Headline inflation reached 5.1% y/y, with more than half of that increase already coming from higher energy prices. The ECB signalled a calm and gradual approach to withdrawing stimulus, which seems even more appropriate now.

Early 2022 concerns about the strength of the **US** consumer were allayed with the release of a strong January retail sales report showing that consumers had simply delayed spending due to Omicron. The headline CPI reached 7.5% y/y in January and the payrolls report was stronger than expected with nominal wage growth reaching 5.7% y/y.

Interest rate markets expected six rate hikes in 2022 from the US Federal Reserve at the end of the month, though the evolution of the Russia-Ukraine conflict will impact rate-hiking expectations.

The US Federal Reserve is on schedule to end its bond purchase programme in March. The January meeting of the Federal Open Market Committee (FOMC) all-but-confirmed interest rate lift-off in March and that they are actively pursuing plans to reduce the size of their bloated balance sheet. Investors' concern about significantly tighter overall monetary conditions, given high equity valuations, translated into a rapid deterioration in sentiment, compounded by the Ukraine crisis.

Listed infrastructure was resilient in February while the broad equity market continued to decline. The build-up and subsequent outbreak of war in Ukraine triggered heightened volatility in markets worldwide and negatively impacted investor sentiment. Sharply rising energy prices further fuelled inflationary fears, while the prospect of moderating global growth tempered expectations for aggressive monetary policy tightening. There was significant dispersion in the performance among the listed infrastructure subsectors.

Rising energy prices and a continuation of the recovery trade boosted several sectors. **Midstream energy** was the leading performer for a second consecutive month. Higher energy commodity prices, amplified by the dynamics in Eastern Europe, supported the sector. Strong earnings reports and expectations of increasing throughput volumes also drove midstream's outperformance. Marine ports outperformed as volumes remained strong overall; companies continue to benefit from increased pricing power, which is more than offsetting higher inflation.

Travel sectors outperformed as omicron concerns moderated. **Airports** generated strong returns in early February, although the outperformance moderated towards the end of the month after the outbreak of war in Ukraine. **Toll roads** were lifted by strong performance from the sector's largest component, Transurban, which benefited from improving traffic volumes. Among **railways**, earnings from freight rail companies were generally positive, as lower costs and efficiency gains have led to improved operating ratios. However, late in the month, several companies pared their forecasts for the second half of the year due to supply chain and labour constraints.

Utilities generated mixed returns in the uncertain environment. Gas distribution was a relative outperformer, as high-quality gas utilities reported strong earnings (offsetting weather headwinds), and as value stocks continued to recover. Electric utilities and water companies underperformed despite their defensive characteristics. With inflation at a 40-year high, there were concerns over the lag before some utilities could pass through higher costs to their customers.

Communications remained weak, driven by poor performance from American tower companies. The rotation from higher-growth/higher-multiple stocks (including US cell tower companies) to more value-oriented names remained an important theme in February, weighing on the communications sector in general.

Portfolio Review

From its August 19, 2021 inception through February 28, 2022, the portfolio had a positive total return and outperformed its benchmark. For February 2022, the fund had a negative total return of -0.64% (after fees,) and outperformed its gross benchmark by 0.11%.

Key contributors

• Security selection in midstream energy (5.0% total return in the index): Overweight positions in several US-based midstream companies were positive; they benefited from rising energy prices, positive demand and generally solid earnings reports. In particular, an overweight in a US-based liquefied natural gas exporter contributed given the pronounced rise in natural gas prices in Europe, a move that was amplified by the war in Ukraine.

• Security selection in electric utilities (–1.7%): A lack of exposure to a number of large-cap US utilities that are often seen as bond proxies was additive, given their poor performance. In addition, not owning shares of a US utility that is experiencing delays and rising costs for its new nuclear plant aided relative returns.

• Stock selection in gas distribution (0.0%): An overweight in a California-based company that focuses on natural gas and electric infrastructure contributed to performance. The company has some liquefied natural gas infrastructure facilities and could benefit over the long run from growing demand for U.S.-sourced natural gas.

Key detractors

• Selection in toll roads (1.1%): An underweight in an Australian toll road operator detracted from performance as its shares moved higher. The interest-rate-sensitive company was partially aided by expectations for less aggressive monetary tightening due to global growth concerns.

• Security selection in railways (–0.2%): An overweight in a US freight rail company detracted from performance. Its shares declined as the company pushed out expectations for a rebound in freight volumes to the second half of the year.

• Out-of-index allocation to environmental services: An out-of-benchmark position in Waste Management Inc. underperformed as investors favoured value-oriented shares over high-multiple, high-growth stocks in the month.

Portfolio Outlook (Cohen & Steers commentary)

The Ukrainian war could have a knock-on effect on several global infrastructure sectors. From a regional perspective, Europe is most vulnerable to the repercussions of the war. The portfolio has no direct exposure to companies domiciled in either Russia or Ukraine. We are closely monitoring potential political and regulatory risks in Europe. US LNG exporters could also benefit as low-cost suppliers to help meet European energy needs.

We maintain a largely balanced portfolio. We have marginally increased our defensive exposure, as we expect global growth to be negatively impacted by these geopolitical dynamics—with Europe facing amplified headwinds.

Supply chain constraints and higher inflation also continue to weigh on the global growth outlook. That said, tailwinds include the fading omicron variant and the potential for less aggressive monetary policy tightening. Within the portfolio's more defensive allocations, we remain overweight communications infrastructure, matched with an underweight in utilities. Among transport-related infrastructure, we prefer North American freight railways based on our expectations for improving freight volumes over the course of 2022.

Listed infrastructure appears attractively priced relative to broader equities. On a cash flow multiple basis, listed infrastructure currently trades roughly in line with global equities—in sharp contrast to the asset class's historical premium valuation. This mispricing occurs at a time, we believe, when infrastructure is well positioned to benefit from overall positive economic conditions and strong inflation protection characteristics. Longer term, secular trends such as the digital transformation of economies and the transition to clean energy will potentially be significant drivers of infrastructure returns.

While higher interest rates and inflation may impact certain subsectors in the near term, infrastructure returns have historically shown positive sensitivity to unexpected inflation. As the global economy continues to expand and uncertainties triggered by the war in Ukraine persist, we are keeping a close eye on inflation and interest rates, which are important drivers of asset allocation decisions in 2022.

Performance dispersion among infrastructure subsectors can be significant in dynamic economic periods and amid rising bond yields; however, 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 believe a strong trend of private investor interest in acquiring listed infrastructure assets will continue. Several significant deals were recently announced or are currently pending across various subsectors and geographies. We expect to see this trend continue in 2022, which may lend support to listed infrastructure valuations.

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