Salt Sustainable Income Fund Fact Sheet – October 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 October 2021

Benchmark	Bank deposit rates
Fund Assets	$41.6 million
Inception Date	19 June 2021
Portfolio Manager	Greg Fleming
Current yield to 31/3/22	3.75% per annum

Unit Price at 31 October 2021

Application	1.0240
Redemption	1.0198

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 October 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 October 2021

Period	Fund Return	Benchmark Return
1 month	-0.23%	0.09%
3 months	0.86%	0.26%

Performance is net of fees and tax, but not adjusted for imputation credits. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.

Top Holdings at 31 October 2021

Goodman Property Trust	Argosy Property Trust
Fisher & Paykel Healthcare	Meridian Energy
Precinct Properties NZ	Mainfreight
Kiwi Property Group	Vital Healthcare Property Trust
Spark New Zealand	Property for Industry

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Monthly Market Commentary

Global equity markets rebounded strongly in October, erasing the declines seen in international markets in the course of the September. This led to a sharp monthly rise in the MSCI World Index of 5.0%% (in USD) led by a very robust 7.0% gain in the US S&P 500. Rising supply disruptions and inflation pressures remained on the negative influences, but investors focussed more on healthy corporate earnings for the third quarter, particularly in the US, as well as on a perception that Central; Banks may not rush to lift interest rates. As the quarter progressed, Covid-reopening once again became a theme, allowing equities to recover upward momentum in the main global markets. NZ equities were softer, declining -1.3% for the month as concerns rose that the Reserve Bank may hike rates soon, and Auckland lockdowns hit sentiment.

The US market surged back, gaining 7% for October month, and bringing its year-to-date (YTD) return to 24% in USD terms, while full-year returns were 40.8%. European ex-UK shares also rebounded, rising 4.9% for the month and a remarkable 39.1% for the full year. Emerging Markets remained weakest, due to continuing East Asian concerns, and inflation risks which restrained returns to 1.0% for the month and a flat performance YTD in USD terms. Japanese equities slipped from recent highs, mainly due to a stronger Japanese Yen, losing -1.4%% for the month in JPY terms.

The inflation implications of resurgent world growth has caught up with bond markets, with most sovereign and investment grade securities experiencing flat or modestly negative total returns. High yield bonds declined slightly and were outperformed by investment grade securities in October, inverting the recent pattern of high yield invulnerability. Corporate bonds in general performed modestly better than sovereigns for the month. Indications of Quantitative Easing being tapered (scaled down) in the US biased sovereign yields upward, as did mounting inflation surprises.

Evidence of a sharp slowdown in the **Australian** economy continues to mount as the key states of NSW and Victoria remained under Covid-related restrictions. The evident slowdown in the Chinese economy continues to cloud the outlook. The S&P/ASX200 declined 0.1% (in AUD) over the month and was up 23.6% over the year.

In **New Zealand,** the economy is in the midst of a slowdown on the back of renewed Covid restrictions and a mounting delta wave. At the same time, inflation continues to rise, the labour market remains tight and the RBNZ delivered the first interest rate hike of this cycle during the month. New Zealand 10-year yields rose over the month from 1.97% to 2.61%. The NZX50 fell 1.3% (in NZD) over the month and is up 8.4% over the year. The negative return from the S&P NZ X NZ Fixed Interest Composite Index has declined a hefty -7% to end-October, with NZ Government-only indices even weaker. This vindicates our present avoidance of NZ bond securities, as we prefer better opportunities in the international bond markets.

Salt Sustainable Income Fund Commentary

The Sustainable Income Fund was little changed in October with a modest decline of -0.23% reflecting a softer phase in the NZ dividend focussed equity component of the portfolio. For the three-month period, international assets contributed positively, highlighting the benefit of the wide diversification in underlying assets targeted in this fund.

Returns for the Sustainable Income Fund in October month were dominated by the equity components, where positive returns from the Salt Sustainable Global Infrastructure fund (+0.51%) helped to balance a negative return from the Salt NZ Dividend Appreciation fund (-0.55%.) This reflects the benefits of the inflation-resilient and legislatively topical sector or international infrastructure equity. The holding size of Global Listed Infrastructure being half that of the NZ Dividend Appreciation fund in the portfolio, meant that despite a value gain of 3.2% in our Infrastructure vehicle for the month, the positive factors were not quite sufficient to offset the downward returns pressure exerted by the larger positions in Australasian equities and property securities. However, the primary objective of the Salt Sustainable Income Fund is to invest in quality sustainable yield payers and minimizing short-term capital price fluctuation is secondary. Accordingly, the fund has made its quarterly income distribution at the indicated annual rate of 3.75% p.a. and this distribution yield guidance will remain unchanged for the remaining months of 2021.

Returning to the pattern of October's monthly return, the overall monthly return from Australasian equity components detracted, however in the reverse relationship to September. Last month, the Dividend Appreciation Fund was declined -1.54% while the Salt Enhanced Property fund proved more resilient, despite rising domestic bond yields, and moved lower by just -0.51%.

International Bonds within the fund were slightly negative for the month, with a decline of -0.27%, reflecting world-wide concerns on inflation. PIMCO is maintaining its cautious view towards both interest rates and corporate credit and maintained its underweight duration position versus the index. PIMCO is slightly underweight US and Japanese duration versus the benchmark and maintain a dollar bloc bias for its resilience should the global economy worsen.

We expect the Reserve Bank to move the OCR rate higher at the remaining 2021 Monetary Policy Statement on 24 November.

Greg Fleming, MA

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