SALT

Salt Sustainable Global Shares Fund Fact Sheet – February 2023

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 tax) the MSCI World (Net) Index in New Zealand dollars on a rolling three-year basis. To achieve this, the Fund targets a portfolio of global companies with high total return potential and high Environmental, Social and Governance (ESG) factor scores.

The strategy seeks to provide attractive long-term returns with less long-term volatility than the broader market by reducing the risks associated with poor ESG outcomes. The Fund will seek to achieve its investment objective by investing primarily in global equity.

Fund Facts at 28 February 2023

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	$52 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 28 February 2023

Application	0.978	0.9954
Redemption	0.974	0.9913

Investment Guidelines

The guidelines for the Sustainable Global Shares Fund are:

Global Equities	95% – 100%
Cash	0% – 5%

Target investment Mix

The target investment mix for the Salt Sustainable Global Shares Fund is:

Global equities	100%

Fund Allocation at 28 February 2023

Global equities	98.22%
Cash	1.78%

Fund Performance to 28 February 2023

Period	Fund Return*	Benchmark Return
1 month	-0.16%	1.80%
3 months	-1.75%	0.31%
6 months	-0.35%	2.95%
1 year	-3.28%	1.22%
Since inception p.a.	-1.47%	1.60%

Performance is after fees and tax, but not adjusted for imputation credits. Benchmark performance is gross. Past performance is not a guarantee of future results. Data as of 28 February 2023.

Fund ESG Scores	Portfolio	Index
Sustainable Global Shares	26T CO_2 /$m	162T CO_2 /$m
Portfolio Carbon Footprint:	13% of MSCI AC World Index*	

Source: MISM Quarterly Investment Report & Trucost based on the Scope 1 & 2 carbon emissions per $1million of Portfolio companies' sales, and as weighted average carbon intensity (WACI). As of January 31, 2023, the Portfolio's carbon footprint was 87% lower than the MSCI AC World Index.

Top 10 holdings	
Microsoft (US)	Danaher Corp (US)
VISA (US)	Reckitt Benckiser (UK)
SAP (DE)	Intercontinental Exchange (US)
Accenture (US)	Constellation Software (US)
Thermo Fisher Scientific (US)	Becton Dickinson (US)

Source: MSIM, data as at 28 February 2023. The Top 10 Holdings represented 46.7% of the total portfolio.

Market Review

February month saw yet another flip in sentiment, this time into a cautious mood after the strong returns which opened 2023 in January. Equity markets around the world declined modestly during the month, led by a -2.4% dip in the US S&P 500 Index. However, the -4.1% monthly drop in the NZD/USD exchange rate insulated unhedged NZ investors from the slippage in the US market. Elsewhere, there was a wide range of market returns among global regions, with the MSCI Europe Index gaining 1.4% in local currency terms, while the MSCI Emerging Market Index declined -4.6% bring its 2023 year-to-date returns down to 1.6%.

- After a strong start to the year, resilient economic data caused markets to give some of those gains back in February. The stronger data indicated central banks have more work to do and that rate cuts are far from imminent. Developed market equities were 2.4% lower (in USD) over the month, while the global aggregate bond index was 3.3% (USD) lower.
- Central banks in the US, the UK, Europe, Australia and New Zealand all delivered on expected rate hikes over the course of the month and all, with varying degrees of nuance, signalled they weren't done yet as inflation remains too high.
- In the US the January jobs report was much stronger than expected, retail sales surprised the upside, and while the monthly CPI print saw

annual inflation fall, the result was stronger than expected. This followed Fed Chair Powell's comments earlier in the month that the process of disinflation still has some way to go and that further rate hikes are likely needed.

- In Europe, falling energy prices contributed to a further decline in headline inflation. However, resilient core inflation remains the key focus for ECB President Lagarde who, at the same time as raising rates 50bp in February, expressed her intent to deliver another 50bp hike in March.
- In China, the end of Covid-zero and the swift re-opening of the economy is feeding strong rebound in growth. As we have seen in other countries, the significant amount of excess savings accumulated during the lockdown will fuel consumption spending in the period ahead. Despite this, Chinese stocks were lower over the month on escalating geo-political tensions.
- In Australia, the release of the minutes of the RBA's February meeting confirmed its hawkish tilt, indicating they had considered a more aggressive tightening at that meeting. This was followed by weaker than expected labour market data suggesting the unemployment rate may have troughed. While this was a weaker print than expected, likely continued wage pressure means this is unlikely to alter the RBA's hawkish shift.

Portfolio Review

- In February, the Portfolio returned -0.01% (NZD/Gross) and -0.16% (after fees,) behind the MSCI World Net Index which returned 1.80%. The Portfolio has underperformed for the YTD, returning +4.01% versus +6.68% for the benchmark index.
- The February underperformance was due to negative stock selection, driven by weakness in Information Technology and Health Care, and to a lesser extent Financials. Sector allocation was positive, helped by the overweight to Information Technology.
- For the three months to 28 January, the portfolio's benchmark relative performance remained negative and the fund returned -1.75% after fees, 2.06% behind the gross benchmark return.
- Over the five-year horizon, the portfolio is 1.77% p.a. ahead of its benchmark return per annum (on a gross of fees basis.) However since the inception of the Salt Sustainable Global Shares Fund, annualised performance lagged the benchmark by 3.07% (after fees.)
- The largest contributors to absolute performance during the month were Microsoft (+38 basis points), Otis (+13 bps), Constellation Software (+12 bps), RELX (+12 bps) and Roper Technologies (+10 bps).
- The largest absolute detractors were IQVIA (-15 bps), Adobe (-14 bps), Alphabet (-13 bps), Abbott Laboratories (-13 bps) and Becton Dickinson (-10 bps).

Portfolio Commentary & Outlook

Our commentary this month addresses Health Care companies, and in particular diagnostics. Diagnostics inform 70% of clinical decisions yet comprise only 2-5% of health care funding. Diagnostics and predictive analytics together can enable clinicians to make better treatment decisions and even keep patients out of hospital. Predictive algorithms have been used in intensive care units to identify patients more likely to need surgical interventions. Hospitals have reported reduction in mortality as a result. On top of this, 39% of surveyed health care executives said that using predictive analytics and diagnostics had reduced costs.

Indeed, cost reduction to the health care system from wider use of diagnostics and screening can be significant. For example, it is estimated that the cost of treating a specific type of lung cancer is $231,000 per year in the U.S. Compare this to an equivalent screening cost of $19,000 per year, or less than 10% of the cost of treatment.

Diagnostics companies are exposed to massively important trends in the improvement of health outcomes and the need for providers to manage costs. For the investor, these companies can offer high returns on operating capital employed, underpinned by the high levels of recurring revenues and barriers to entry they often demonstrate : once a diagnostic machine is installed, the manufacturer will sell consumables which allow the machine to run different diagnostic tests. This often ensures a captive customer for high margin and predictable revenue streams. We think that these features make diagnostics businesses high quality companies to invest in.

As the excess demand of 2021 and 2022 shifts towards excess supply in 2023, there is likely to be earnings recession, as margins fall from current peaks. Once again, the market will discover which companies have resilient earnings in tough times. Our bet, as ever, is that pricing power and recurring revenue, two of the key criteria for inclusion in our portfolios, will once again show their worth, as they did in the 2008-9 Financial Crisis and in H1 2020 during COVID. Compounders should continue to compound. The silver lining of the painful de-rating of 2022 is that any compounding is now coming on top of a lower multiple. Given that there are only two ways of losing money in equities – the earnings going away, or the multiple going away – owning a portfolio of resilient earnings at a reasonable multiple does seem a sensible approach in such uncertain times.

Greg Fleming, MA

Disclaimer: The information in this publication has been prepared from sources believed to be reliable and accurate at the time of preparation but Salt Funds Management Limited, its officers, directors, agents, and employees make no representation or warranty as to the accuracy, completeness, or currency of any of the information contained within, and disclaim any liability for loss which may be incurred by any person relying on this publication. All analysis, opinions and views reflect a judgment at the date of publication and are subject to change without notice. This publication is provided for general information purposes only. The information in this publication should not be regarded as personalised advice and does not take into account an individual investor's financial situation or goals. An individual investor should, before making any investment decisions, seek professional advice. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.