

# SALT

## Salt Sustainable Global Shares Fund Fact Sheet – November 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'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 30 November 2021

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	\$35.58 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

### Unit Price at 30 November 2021

Application	1.0417
Redemption	1.0375

### 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%
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### Fund Allocation at 30 November 2021

Global equities	98%
Cash	2%

### Fund Performance to 30 November 2021

Period	Fund Return*	Benchmark Return
1 month	2.06%	3.13%
3 months	1.99%	2.73%
Since inception	3.96%	5.05%

Performance is net of fees and tax, but not adjusted for imputation credit. Benchmark performance is gross. Past performance is not a guarantee of future results. Data as of 30 November 2021.

### Contribution breakdown by security for November 2021

November (Month) Stock Attribution		
Top Absolute Contributors	Performance %	Contribution %
Microsoft	5.30	0.39
Danaher	8.77	0.33
ADP	8.43	0.27
Accenture	5.02	0.24
Reckitt Benckiser	4.91	0.24
Top Absolute Detractors	Performance %	Contribution %
SAP	-7.38	-0.36
Henkel	-7.63	-0.25
Medtronic	-6.14	-0.20
Prudential	-13.14	-0.18
Visa	-3.31	-0.15

Source: MSIM

Top 10 holdings	30 November
Microsoft (US)	Danaher (US)
Accenture (US)	Thermo Fisher Scientific (US)
Reckitt Benckiser (UK)	Abbot Laboratories (US)
SAP (DE)	Becton Dickinson (US)
VISA (US)	Baxter International (US)

Source: MSIM

### Market Review

Global equity markets declined in November, after a robust rise in October, as the new Covid-19 variant, Omicron, emerged and put a damper on recovering investor sentiment worldwide. Developed market equities started the month well, until the news flow shifted to rising Covid hospitalisations in Europe. New economic and social restrictions varied from country-to-country and were largely dependent on hospitalisation rates. Some countries reimposed work from home (Germany and Belgium) while others opted for a return to full lockdown (Austria). More will be learnt about Omicron in coming weeks, with key

### SALT FUNDS MANAGEMENT

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questions being the severity of symptoms, the efficacy of the current vaccine options and the hospitalisation and mortality rates.

Given this fresh uncertainty, the MSCI World Index fell -2.3% (in USD) over the month to be up 17.5% over the year. However, the NZD/USD exchange rate was also weak, with the kiwi dollar depreciating against the US currency by -4.9% for the month. This lifted our (unhedged) gross monthly portfolio returns to 2.2% in NZD terms. We expect moderate weakening in the NZD to continue into 2022, which should assist in cushioning periodic bouts of negative global equity market sentiment.

Turning to sectors, there was no obvious winner in the cyclical-defensive tussle. Information Technology (+2.6%) continued its strong year to date performance (+26.5%) and was the only sector in positive territory for November, although the Software and Services industry group (-3.9%) was a drag on returns. Consumer Discretionary (-0.2%) and Materials (-2.0%) were also ahead of the index, while Energy (-6.9%) and Financials (-6.4%) brought up the rear. Defensive sectors did not clearly outperform despite the market fall, with Utilities (-2.4%) and Health Care (-3.6%) finishing behind the index.

In the **United States** inflation continued to surge higher with the annual rate of increase in the CPI reaching 6.8%, its highest rate in 31 years. The labour market continues to improve and retail sales posted a strong increase for October, allaying concerns about waning consumer confidence. Fed Chairman Jay Powell was reappointed for a second term and came as close to admitting the FOMC has been wrong on inflation without admitting it outright. In what is now being described as the “Powell pivot”, the word “transitory” is now excluded from the FOMC lexicon. He also flagged a possible faster taper of their asset purchase program, though that will still depend on answers to the various Omicron questions. The S&P 500 fell -0.6% over the month to be up 25.5% over the year. 10-year US Treasury yields fell from 1.55% to 1.43%. Bond yields at these levels still appear unrealistic; however the market for debt remains distorted by the legacies of the QE era.

In **Europe**, data was mixed, depending on the local severity of the latest wave of Covid cases. The latest wave has impacted Germany more acutely than France. Fresh restrictions, along with inflation reaching 4.1% over the month, has taken a toll on consumer sentiment which has weakened recently. The FTSE Europe ex-UK index fell -2.5% (in EUR) over the month to be up 19.5% over the year.

The **New Zealand** economy is slowly emerging from a long lockdown in Auckland. Activity will rebound in the fourth quarter, but a full recovery won't be achieved until early 2022. The labour market has remained tight with the unemployment rate falling to 3.4% in the September quarter and the RBNZ raised interest rates for the second time this cycle during November. New Zealand 10-year yields fell over the month from 2.61% to 2.48%. The NZX50 fell -2.9% (in NZD) over the month and is up just 0.6% for the year. Thus, global equities continue to substantially outperform the domestic share market, partly due to the degree of over-valuation that prevailed in certain NZ stocks after their 2020 rally.

## Portfolio Review

- In November, the Portfolio returned +2.18% (NZD/Gross), behind the MSCI World Index which returned +3.13% in NZD for the month. The Portfolio has underperformed by -1% since inception, returning +4.05% Gross versus +5.05% for the Gross index return.

- The relative underperformance was driven by stock selection. This was primarily a result of underperformance in Information Technology, which outweighed the outperformance in the Health Care sector.
- Sector allocation was positive for the month, resulting from the sectoral overweight in Information Technology and the underweight in Financials, lessened to an extent by the overweight in Health Care and the underweight in Consumer Discretionary stocks.
- The top contributors to absolute performance during the month were Microsoft (+39 basis points [bps]), Danaher (+33 bps), ADP (+27 bps), Accenture (+24 bps) and Reckitt Benckiser (+46 bps). The five absolute detractors were SAP (-36 bps), Henkel (-25 bps), Medtronic (-20 bps), Prudential (-18 bps) and Visa (-15 bps).

**As of November 30, 2021, the Portfolio's carbon footprint is 80% lower than the MSCI AC World Index.**


## Portfolio Outlook

Our outlook as always remains cautious. We have seen massive government interventions and the vaccines fuelling a strong economic recovery and earnings growth. Over the last month we have seen that reverse with mounting concerns over the Omicron variant which left the MSCI World Index down at -2.3% in U.S. dollars (USD) for November (-1.5% in local currency) – the second largest monthly drawdown since September 2020.

Any fall in profitability from here will not just hit earnings for the market but could potentially hurt the currently elevated multiples as well. Cost pressures will make it tough for the market to hold on to the forecast peak margins. While quality stocks have been an uncomfortable hold, alternatives appear less comfortable going forward.

If there is a sustained reflationary recovery next year, the resulting healthy sales growth could drive further operational leverage. In addition, earnings estimates tend to be lagging indicators, meaning that there may be further earnings upgrades to come. Against this positive view, is the potential for significant cost pressures persisting over the next decade. Increases in US Producer Prices, for instance, are at ten-year highs, with the November PPI gaining 9.6% year-on-year.

Even if the macro environment remains favourable, which is far from a given, the resulting cost pressures will make it tough for the market to hold on to the forecast peak profit margins – in the absence of the precious pricing power, which is core to our stock selection in the Sustainable Global Shares fund.



Greg Fleming, MA

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