Salt Sustainable Global Shares Fund Fact Sheet – August 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 31 August 2023

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	$61.28 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 31 August 2023

Application	1.1538
Redemption	1.1491

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 31 August 2023

Global equities	98.06%
Cash	1.94%

Fund Performance to 31 August 2023

Period	Fund Return*	Benchmark Return
1 month	3.68%	2.02%
3 months	7.26%	7.70%
6 months	17.98%	15.60%
1 year	17.57%	19.02%
Since inception p.a.	6.80%	8.30%
5 year*	11.98%	10.70%

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 31 August 2023. *5 year strategy performance is gross of fees.

Fund ESG Scores	Portfolio	Index
Sustainable Global Shares	26T CO2 /$m	162T CO2 /$m
Portfolio Carbon Footprint:	15% of MSCI 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 August 31, 2023, the Portfolio's carbon footprint was 85% lower than the MSCI World Index and 88% below AC World.

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

Source: MSIM, data as at 31 August 2023. The Top 10 Holdings represented 46% of the total portfolio.

Market Review

- Volatility returned to global markets In August reflecting fresh strains in the Chinese property market and weakness in a broad range of activity indicators. Developed market sovereign bond yields also moved higher during the month. In this environment developed market equities declined -2.3% (in USD) over the month while the Bloomberg Global Aggregate bond index fell -1.4% (also in USD).

- The credit rating agency Fitch downgraded the US sovereign credit rating from AAA to AA+ during the month, citing unsustainable fiscal settings and increasing political dysfunction. The move was largely dismissed by US politicians and economists alike, though it does highlight our concern that without some form of political intervention the fiscal settings of several key developed economies are on an unsustainable path.

- US data remained solid over the month, keeping markets anticipating the possibility of one final interest rate hike from the FOMC. The jobs market remained strong with payroll gains ahead of forecast and a dip lower in the unemployment rate. Retail sales growth also exceeded expectations. Core inflation fell slightly over the month, but at 4.7%, it remains too high for comfort.

- Eurozone GDP data came in stronger than expected for the second quarter of the year and the labour market remains tight with the unemployment rate at its lowest ever level. The outlook remains uncertain, however, with the August composite Purchasing Managers Index falling to 47. Core inflation moved slightly lower but at 5.3%, markets are continuing to price in more tightening from the ECB.

- In Japan, the economy grew +6.0% q/q annualised in the second quarter, boosted by a strong contribution from net exports. The core CPI rose to 4.3% in July and the spring (Shunto) wage negotiations saw the biggest wage increase in three decades. That will have markets continuing to be alert to further tweaks to Japan's monetary policy settings.

- In China, activity data was much weaker than expected including retail sales and private investment, particularly in real estate. The annual rate of CPI increase turned negative in July. To address these challenges, the PBoC cuts rates twice during the month, though credit demand is yet to respond. China's troubles appear likely to weigh on markets for a few months yet.

- In Australia, data over the month has broadly tracked in line with the RBA's forecasts, with unemployment higher and inflation lower, providing little reason for the RBA to shift from its current "wait and see" approach. Still, we expect somewhat more challenging inflation dynamics over the next few months which will challenge the RBA's position.

- In New Zealand the labour market continues to ease, but only gradually. The unemployment rate came in at 3.6% in June, off the lows of 3.2% early 2022. We expect sharper increases in unemployment over the remainder of this year. Retail spending came in weaker than expected for the quarter, failing to deliver the expected "bump" from the FIFA women's world cup and strong population growth. As expected, the RBNZ left interest rates unchanged at the August Monetary Policy Statement.

Portfolio Review

- In August, the Portfolio returned +3.68% (after fees), significantly ahead of the MSCI World Net Index which returned +2.02%. The Portfolio is ahead of the index for the last six months, returning +17.98% (after fees) versus +17.98% for the gross benchmark return. For the 2023 year to date, the Portfolio was close to the benchmark return as at 31 August, while for the full year, the Portfolio trailed its benchmark by 1.39%.

- The August outperformance was due to stock selection, thanks to strength in Information Technology, Financials and Industrials. Meanwhile, sector allocation was roughly neutral.

- The largest contributors to absolute performance during the month were Visa (+45 basis points [bps]), Accenture (+43 bps), SAP (+34 bps), Danaher (+32 bps) and Thermo Fisher (+29 bps).

- The largest absolute detractors in August were PayPal (-28 bps), Abbott Laboratories (-10 bps), Prudential (-10 bps), Deutsche Boerse (-7 bps) and Experian (-6 bps).

Portfolio Commentary & Outlook (Morgan Stanley Investment Management)

Global equity markets were weaker in August, with the MSCI World Index returning -2.4% in USD, the index's largest monthly percentage drop since February. However, a larger drop in the NZD/USD exchange rate and other cross-rates led to a positive NZD return from the MSCI World benchmark (in NZD terms) of +2.02%. Year to date, the Index has risen a remarkable 23.3% (in NZD terms) matching the Portfolio's gross return.

For many in the market, being a quality investor within Financials might seem like a contradiction in terms; Financials is a value sector, they may argue – they are typically cheap and quite frequently not so cheerful. While that is certainly true in some parts of the sector, we believe that select, high quality companies within Financials do exist and that we can identify them for the benefit of our clients. However, this relies on a rigorous process to separate the wheat from the chaff.

Why may Financials be considered low quality? A key aspect is their dependence on macroeconomic factors such as interest rates and the outlook for equity and credit markets, which means that their operational fate is often not in their own hands – a bank is a prime example. In early 2023, the collapse of a few small- to mid-sized U.S. regional banks in the face of surging interest rates triggered the largest banking failure since 2008/2009. All this adds up to relatively opaque business models with numerous share price drivers – macro-economic and fundamental combined.

While we typically find the greatest proportion of high-quality compounders in the Consumer Staples, Information Technology and Health Care sectors, our bottom-up investment approach enables us to identify those niches of quality that exist within other sectors. Financials is a good example of this, and our exposure to investments in Financials as a percentage of the overall portfolio has increased over time.
The breadth of investment expertise on our portfolio management team has allowed us to turn over more stones and find the odd diamond in the rough to add to our portfolio.