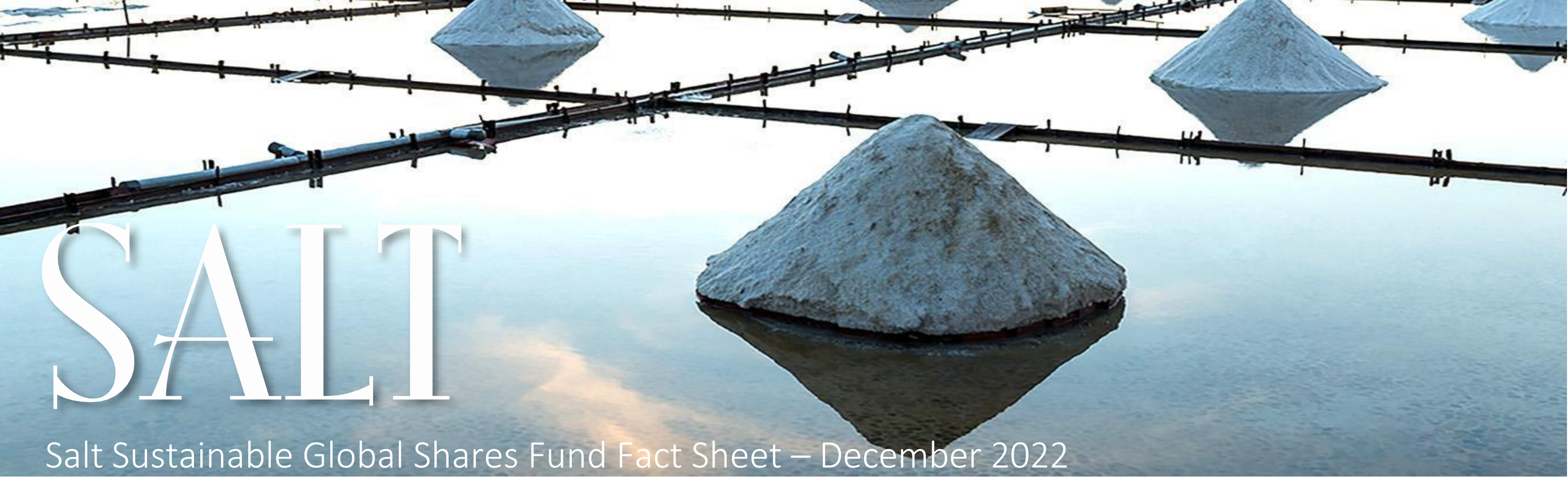


Salt Sustainable Global Shares Fund Fact Sheet – December 2022

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 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 December 2022

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	$50.25 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 31 December 2022

Application	0.9427
Redemption	0.9388

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 December 2022

Global equities	98.2%
Cash	1.8%

Fund Performance to 31 December 2022

Period	Fund Return	Benchmark Return
1 month	-5.30%	-5.97%
3 months	-2.06%	-1.83%
6 months	-1.70%	1.23%
1 year	-14.62%	-11.39%
5 year (p.a.)*	11.39%	8.66%

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 December 2022. *5-year returns are shown gross of fees.

Fund ESG Scores	Portfolio	Index
Sustainable Global Shares	26T CO2 /$m	162T CO2 /$m
Portfolio Carbon Footprint:	14% 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).

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

Source: MSIM, data as at 31 December 2022. The Top 10 Holdings represented 46.7% of the total portfolio.

Market Review

- December month saw a reversal in sentiment to a more cautious tone, after a tentative recovery earlier in the quarter. Equity markets around the world weakened during the month, led by a 5.8% fall in the US S&P 500 Index.
- The global equity market rally that started early in the December quarter partly reversed in the December month. Global equities lost 3.9% (in USD) in the December month, trimming the gain for the fourth quarter to 9.8%.
- The gains early in the quarter reflected the growing confidence that the worst of the inflation surge was now behind the world's major economies. This optimism was tempered late in the quarter by central banks which, despite reducing the magnitude of rate hikes, signalled they still had more tightening work to do, exceeding markets views of the various terminal rates. This included the US Federal Reserve, the European Central Bank and the Reserve Bank of New Zealand.
- This was exacerbated by a surprise move from the Bank of Japan to adjust its Yield Curve Control policy by allowing a widening of the trading band around 10-year JGBs. This was seen by markets as a de facto tightening in monetary policy.
- Political turmoil continued in the UK as Prime Minister Liz Truss was

replaced by her competitor in the earlier selection process, Rishi Sunak.

- China was immune from the global sell-off in markets as the Government, in the face of widespread social unrest, moved swiftly to unwind still-stringent Covid restrictions. We had expected such a move following the conclusion of the 20th National Congress of the CCP, but the pace of this move surprised us and does not come without risks.
- In Australia, the economy is showing signs of slowing and will weaken further in 2023 but is expected to avoid recession.
- In New Zealand, the RBNZ delivered its largest ever interest rate increase of 75bps during the quarter, taking the Official Cash Rate to 4.25%. Cementing the hawkishness even further was the admission the Bank had considered a 100bp hike. The projected terminal rate of the OCR was lifted from 4.1% to 5.5%, higher than was expected by the market.
- NZ GDP growth appears remarkably resilient, rising 2.0% over the September quarter. However, we believe this strength continues to reflect Covid "noise" and the reopening of borders. The latest ANZ Business Outlook survey is a more important indicator of things to come with all key activity indicators moving more negative in the December month. This suggests the New Zealand economy may already be close to recession and that a 5.5% OCR may not be required.
- In summary, the December quarter marked the end of a challenging 2022 for markets and investors as the highest inflation, along with the most aggressive rate hikes from the world's major central banks in decades, put pressure on both equity and bond markets at the same time.

Portfolio Review

- In December, the Portfolio returned -5.30% (after fees), ahead of MSCI World Index which returned -5.97%. In the fourth quarter (Q4), the Portfolio returned -2.06% (after fees) roughly in line with the index which returned -1.83%. The Portfolio underperformed for the full year 2022, returning -14.62% (after fees) versus -11.39% for the index. Over the five-year horizon, the Portfolio is 2.72% p.a. ahead of its benchmark return (0n a gross of fees basis.)
- For Q4 2022, strong performance by Information Technology and Consumer Discretionary names drove positive stock selection, cancelling out the drag from underperformance in Health Care. For sector allocation, the drag from the Portfolio's overweight to Information Technology and avoidance of Energy offset the benefit from the Consumer Discretionary underweight.
- The largest absolute contributors for the quarter were SAP (+49 bps), Prudential (+33 bps), Nike (+31 bps), AIA (+28 bps) and Visa (+25 bps). The largest absolute detractors in the quarter were Microsoft (-52 bps), Alphabet (-52 bps), Baxter International (-48 bps), Danaher (-36 bps) and Fidelity National Information Services (-34 bps).

For 2022, underperformance was driven by stock selection. Health Care was particularly weak. Industrials and Consumer Staples also underperformed, cancelling out strong performance in Information Technology. Sector allocation was modestly negative, as the benefit from the Portfolio's Health Care overweight and Consumer Discretionary and Communication Services underweights was balanced by the drag from the Portfolio's lack of exposure to the strongly performing Energy sector and overweight to the lagging Information Technology sector.

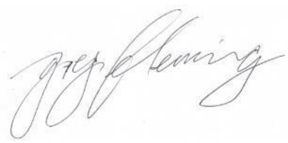
- The largest absolute contributors for 2022 were Becton Dickinson (+38 bps), AIA (+26 bps), Visa (+25 bps), Deutsche Boerse (+23 bps) and Coca-Cola (+16 bps). The largest absolute detractors in 2022 were Microsoft (-156 bps), Baxter International (-152 bps), Accenture (-147 bps), Stanley Black & Decker (-126 bps) and Alphabet (-113 bps).

Portfolio Outlook

The MSCI World Index managed an impressive Q4 return of +9.8% in USD. For 2022 overall, it was a tough environment for global equity markets, with the MSCI World Index down 18.1% in USD – wiping out most of the index's 2021 gains.

At the start of 2023, our two worries from 12 months ago (multiples and earnings) have reduced to one and a bit. The fall in the MSCI World multiple to 15x, now only 5% above the 2003-19 average as against the 36% premium at the start of the year, suggests that the market is no longer clearly overvalued, though of course the multiple could fall below average levels if there is a major economic downturn. It is earnings that remain the major concern. Inflation should help top-line growth, in nominal terms at least, but the margins do look stretched, with the MSCI World forward EBIT margin at 16.3%, 100 bps above the pre-COVID peak and a full 300 bps ahead of the 2003-19 average. It is striking that bottom-up forward earnings estimates still look relatively healthy despite what has been described in various forums as the most predicted recession in history, with 2023 MSCI World earnings estimated to be 3% higher than 2022 despite the headwind from the strong dollar, and 36% above the pre-COVID 2019 level. Central Banks, particularly in the US, are raising rates aggressively to deal with inflation by attempting to slow demand.

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

Sustainability metrics provided to Salt by MSIM

As of 31.12.2022, the Portfolio's carbon footprint is 86% lower than the MSCI AC World Index's and 84% lower than the MSCI World's.

Engagement

- We engaged on more than 90% of our holdings across all strategies – far above the industry average of 19%* for asset managers.

1. Board composition, executive compensation, and sustainability governance – beverage company.

The challenge: A board composed entirely of Europeans, reservations about LTIP structure and lack of measurable ESG KPIs in pay plan.

The action: We continued to raise the issue of board diversity, the firm's hiring process and executive compensation structure.
The outcome: Encouraged to see the appointment of a female board member of Indian heritage with business experience from Asia, LTIP now 100% performance-based shares and new ESG-related targets to hold management accountable.

2. Find, Fix, Prevent – biodiversity, circular economy, supply chain management – food processing and retail conglomerate.

The challenge: Complex supply chains can create low visibility and direct control over labour conditions; water usage also a challenge.

The action: We revisited how they monitor labour conditions at suppliers' factories and pressed for more ambitious water use reduction targets.
The outcome: Confirmed our view that the company's sustainability plan is one of the most detailed and transparent in the industry. We will continue to encourage more action on garment recycling and water use.

3. You can't manage what you can't measure – decarbonisation, climate change and executive compensation - consumer credit reporting company.

The challenge: Despite strong progress on their carbon emissions reduction journey, only 34% of electricity is from renewable sources.

The action: We engaged to better understand emissions across the value chain and sought evidence they are on track with targets. We also pressed for E and S KPIs in compensation calculations.
The outcome: They acknowledged our engagement was the most in-depth meeting on decarbonisation they had experienced and were receptive to our suggestions. They outlined proposed solutions to increase renewable energy sourcing in US and EM and supplier engagement to reduce Scope 3 emissions.

* A recent report by the United Nations-supported Principles for Responsible Investment (PRI) suggests the industry average for corporate engagement is just 19% of holdings.