Salt Sustainable Global Shares Fund Fact Sheet – December 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 31 December 2021

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	$49.58 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 31 December 2021

Application	1.1040
Redemption	1.0995

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 2021

Global equities	98%
Cash	2 %

Fund Performance to 31 December 2021

Period	Fund Return*	Benchmark Return
1 month	5.98%	3.37%
3 months	9.88%	8.58%
Since inception	10.17%	8.59%

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 31 December 2021.

Top 10 holdings	31 December
Microsoft (US)	Abbot Laboratories (US)
Accenture (US)	Baxter International (US)
VISA (US)	Thermo Fisher Scientific (US)
SAP (DE)	Danaher (US)
Reckitt Benckiser (UK)	Becton Dickinson (US)

Source: MSIM

Market Review

Developed market equities continued to rally in the final quarter of the year, delivering equity investors their third consecutive calendar year of strong returns. Strong earnings growth drove equities higher over the quarter, despite fresh volatility as news broke of the emergence of the new Omicron variant of Covid-19. Markets quickly recovered however as early indications suggested Omicron was less likely to lead to serious illness. The jury is still out on the full implications of Omicron. In general, solid earnings reports plus the prospect of continued, albeit lower, earnings growth in 2022 proved sufficient to negate risk factors. The MSCI World Index rose 7.6% (in USD) over the quarter to up 20.4% over the year. Sovereign bonds rallied during the quarter but ended generally flat as central banks turned more hawkish.

In the **United States** the CPI reached a 40-year high of 7.0% in the year to December and the unemployment rate fell to 3.9%. This combination of factors led to what is now being described as the "Powell pivot" which saw the term "transitory" inflation retired from the FOMC lexicon and a faster taper of the Fed's asset purchase program announced. The program is now scheduled to end in March 2022, paving the way for higher interest rates from that time. The S&P 500 rose 11.0% (in USD) over the quarter to be up 28.7% over the year. 10-year US Treasury yields fell slightly over the quarter from 1.55% to 1.52% but traded as low as 1.35% during the quarter. This reversed in early January 2022, as yields gained around 0.2%.

In **Europe** the economy rebounded strongly in the middle of 2021, though confidence surveys have softened in recent months. A combination of factors led to a sharp rise in gas and electricity prices across the continent over the quarter, adding to already robust inflationary pressure. The ECB signaled an initial though moderate step towards less accommodative policy at its December meeting. The MSCI

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
P: +64 9 967 7276 | E: info@saltfunds.co.nz | www.saltfunds.co.nz

Europe ex-UK index rose 7.0% (in EUR) over the quarter to be up 24.4% over the year.

In **Japan,** a contraction in Q3 GDP has been followed by more robust Q4 data. Recent data for retail sales, industrial output and the broader service sector activity level saw solid gains. The Government's supplementary fiscal package, amounting to around 6.5% of GDP, was passed just prior to Christmas and will provide support for economic activity in 2022. The TOPIX index returned -1.7% (in JPY) over the quarter and is up 12.7% over the year.

The **Australian** economy contracted a better-than-expected -1.9% in Q3. Q4 activity data has bounced back suggesting a strong recovery in Q4 and the unemployment rate fell to 4.6% in November with jobs employment surging 366,100. However, Omicron arrived in Australia in late November and daily case numbers are surging. The S&P/ASX200 rose 1.5% (in AUD) over the quarter and was up 13.0% over the year.

Portfolio Review

- In December, the Portfolio returned +6.00% (NZD/gross), ahead of the MSCI World Index which returned +3.37%.
- The Portfolio has returned +9.88% net for Q4, and +10.17% Since Inception (July 12, 2021,) ahead of the gross index which returned +8.58% in Q4 2021 and +8.59% Since Inception.
- Sector allocation and stock selection were both positive in Q4. Sector allocation was boosted by the overweight in Information Technology, along with the underweights in Communication Services and Financials. For stock selection the impact of outperformance in Communication Services and Industrials was greater than the underperformance in Information Technology and Consumer Staples.
- The largest absolute contributors during the quarter were Microsoft (+155 basis points [bps]), Accenture (+143 bps), Automatic Data Processing (+80 bps), Abbott laboratories (+79 bps), and Thermo Fisher Scientific (+69 bps).
- The largest absolute detractors in the quarter were Medtronic (-64 bps), Henkel (-49 bps), AIA (-19 bps), FIS (-17 bps) and Prudential (-17 bps).

As of December 31, 2021, the Portfolio's carbon footprint is 81% lower than the MSCI AC World Index.

Portfolio Outlook

Markets look vulnerable with the MSCI World trading at peaky 19x multiples of next year's earnings even after a sharp forward earnings surge. Companies are likely to face **structural cost pressures**, post-COVID whether it is investing in their supply chains, needing to pay up for labour and ultimately may need to pay more than they do today for the negative externalities of their actions – be it carbon, plastics, water or even the mental and social impact of internet giants.

Pricing power is likely to be a significant asset going forward in a rising cost environment and recurring revenue also crucial with shorter economic cycles in a more inflationary world. Taking that into consideration, focusing on quality continues to offer resilient earnings at reasonable relative valuations.

Our outlook as always remains cautious. We have seen massive government interventions and the vaccines fuelling a strong economic recovery and earnings growth. 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 broad market to hold on to the forecast peak margins.

If there is a sustained reflationary recovery this 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.

Whatever the pace of change in 2022, efforts to create a sustainable future is a game that's played out in decades, not months. Just like any journey, there will be bumps in the road but as the transition takes place, we believe companies with a strong awareness are more likely to stay on top of their game and deliver long-term returns for clients. As bottom-up stock pickers, we're determined to keep seeking better outcomes, to learn and improve our offering to you, and to keep pressing for progress from the world's best companies.

Greg Fleming

Greg Fleming, MA