SALT

Salt Sustainable Global Shares Fund Fact Sheet – April 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 30 April 2023

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	$56.04 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 30 April 2023

Application	1.0580
Redemption	1.0536

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 30 April 2023

Global equities	98.0%
Cash	2.0%

Fund Performance to 30 April 2023

Period	Fund Return*	Benchmark Return
1 month	3.54%	3.07%
3 months	8.00%	7.11%
6 months	7.73%	5.58%
1 year	7.19%	8.41%
Since inception p.a.	3.06%	4.36%
5 year*	13.20%	11.03%

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 30 April 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:	11% 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 April 30, 2023, the Portfolio's carbon footprint was 85% lower than the MSCI World Index and 89% below AC World.

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

Source: MSIM, data as at 30 April 2023. The Top 10 Holdings represented 49.9% of the total portfolio.

Market Review

April month saw global stocks again moving higher despite periods of volatility. Global markets overcame uncertainty over economic growth, still-elevated inflation, central bank policy and banking industry risks to post positive returns. This strength was partially catalysed by lower interest rates and expectations for reduced monetary tightening going forward.

- Global economic news remained generally positive in April, again highlighting the resilience of growth to higher interest rates. Purchasing Manager Indices (PMIs) beat expectations in the United States and the eurozone, while better-than-expected GDP growth in China also aided the story of positive economic momentum. Developed market equities rose 1.8% (in USD) over the month and 3.07% in NZ dollar terms.

- Headline inflation continued to moderate over the month as energy prices continued to fall. OPEC announced a cut in production aimed at stabilising prices, but when compared with significantly higher prices last year, energy prices should still contribute to lower inflation over the next few months.

- Core services inflation continues to prove sticky. Despite that, we believe we are close to a pause in the hiking cycle amongst the major central banks. The Reserve Bank of Australia hit the pause button in April, though signalled more tightening was likely. The Reserve Bank of New Zealand is also close to pausing.

- In the US there were further signs of cooling in the labour market as the monthly gains in non-farm payrolls continued to moderate, the unemployment rate rose to 3.5% and wage growth moderated to an annual rate of 4.2%. Markets are pricing a final 25bp hike in the fed funds rate in May, followed by a pause. Interest rate cuts are expected before the end of the year, which we believe is too early. However, much will depend on ongoing stresses in the financial sector.

- Activity data continued to surprise to the upside in April. While the economy skirted the expected recession expect at the end of 2022, that just means the European Central Bank has more work to do to slow demand. Markets are pricing a further 75bps of hikes by the ECB.

- China activity data released over the month confirmed the expected reopening "bounce". GDP data for the March quarter and retail sales for the March month both came in stronger than expected. But despite the better data, the local equity market continues to suffer from ongoing geo-political tensions.

- March quarter inflation data in Australia was largely in line with expectations and confirms that inflation peaked at the end of 2022. However, we believe the split between goods and services inflation was cause for concern. While the annual rate of goods inflation slowed sharply, services prices rose. This suggests that despite the pause in the rate hiking cycle early in the month, the RBA still has more work to do.

- Despite clear and obvious signs of a slowing domestic economy, the RBNZ surprised markets with a hawkish 50bp hike in the Official Cash Rate, taking it to 5.25%. Later in the month March quarter inflation printed significantly lower than market and RBNZ expectations, though the important tradeables component was only marginally lower than expected. Markets are current pricing a likely final 25bp increase in the OCR to 5.5% in May.

Portfolio Review

- In April, the Portfolio returned +3.54% (after fees), ahead of the MSCI World Net Index which returned +3.07%. The Portfolio has outperformed for the six month period, returning +7.73% after fees versus +5.58% for the benchmark index, Gross.)

- April's outperformance was due to stock selection. Outperformance in Information Technology, Industrials and Consumer Staples more than made up for weakness in Health Care.

- Sector allocation was negative, as the drag from the Information Technology overweight and zero weight in Energy were bigger than the allocation benefits elsewhere.

- The largest contributors to absolute performance during the month were Microsoft (+57 basis points), SAP (+53 bps), Reckitt Benckiser (+37 bps), Abbott Laboratories (+33 bps) and Becton Dickinson (+27 bps.)

- The largest absolute detractors were TSMC (-23 bps), Danaher (-21 bps), CDW (-17 bps), Texas Instruments (-14 bps) and IQVIA (-12 bps.)

Portfolio Commentary & Outlook
(Morgan Stanley Investment Management)

It was a strong overall start to the 2023 year for markets, with the MSCI World Index (in NZ Dollar terms) moving up by 12.25% for this year-to-date, as at 30 April. This is despite a wide array of market challenges.

As a team, the high-quality companies we look for exhibit deep, wide and well-managed economic moats. These moats bring long-term, sustainable competitive advantages, helping to protect and grow market share, sustain or improve profitability, and deliver attractive long-term returns. Maintaining these moats requires effective and sustained investment by management in the unique attributes of the company's offerings, ranging from brand recognition and pricing power, to patented technologies, high switching costs, network effects and scale and reach.

For example, last year one of our US health care names invested in building out its mass-spectrometry platform to bring high resolution analysis to toxicology and metabolomics (the large-scale study of small-scale molecules in cells, tissues, and organisms). Overall, the company invested USD 2.5 billion in CapEx across its businesses to strengthen partnerships and accelerate growth.

We are always looking for focused allocation of capital when we engage with the management teams we meet. This commitment of capital isn't likely to change the next quarter's or even next year's results. What it will do is enhance the long-term prospects of the franchise. It will keep the moat deep and wide, which in turn should keep the fundamental compounding of earnings and cash flows steadily growing over the long term – exactly what we want to see.

Greg Fleming, MA

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