Salt Sustainable Global Shares Fund Fact Sheet – October 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 October 2022

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	$52.22 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 31 October 2022

Application	0.9820
Redemption	0.9780

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 September 2022

Global equities	98%
Cash	2 %

Fund Performance to 31 October 2022

Period	Fund Return*	Benchmark Return
1 month	2.03%	4.36%
3 months	-3.65%	0.54%
6 months	-0.50%	2.68%
1 year	-3.80%	0.42%
Since inception	-2.00%	1.75%

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 October 2022.

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, 31.10.2022 & Trucost based on the Scope 1 & 2 carbon emissions per $1million of Portfolio companies' sales, and as weighted average carbon intensity (WACI). See p.4 for further ESG details.

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)	Baxter International (US)

Source: MSIM, data as at 31 October 2022. The Top 10 Holdings represented 46.3% of the total portfolio.

Market Review

- Following a near double-digit decline in September, global equity markets gained significant ground in the month of October, with the MSCI World Index up an impressive 7.2% in US Dollars for the month, and a similar 7.1% in local currency (+4.3% in NZD).
- It was a tough month for emerging markets which ended 3% lower, dragged down primarily by weakness in China.
- Bond yields continued to push higher, making new cyclical peaks of 4.2% in the US, 2.4% in Germany and 4.7% in New Zealand. Yields rallied into the close of the month. The tough talk was followed up by aggressive action as the key global central banks raised interest rates over the quarter, by 1.5% (in the US) and 1.25% (in the eurozone). Guidance indicative of further hikes saw markets price in significantly higher terminal rates as the quarter progressed.
- Inflation, central banks, recession risk and geopolitical tensions were all key foci over the month. Good news came in the form of a further reduction in supply chain constraints.

- The combination of high inflation and tight labour markets saw further aggressive action from central banks over the month. The European Central Bank hiked by 75bp, with the US Federal Reserve and the Bank of England widely expected to hike by similar amounts in early November. The Reserve Bank of New Zealand delivered a hawkish 50bp hike in the sense that the bank actively considered a larger 75bp hike. The interest rate outlook and rising geopolitical tensions saw the US dollar continue its inexorable rise. USD strength was most notable against the Japanese Yen and the Chinese renminbi, the currencies of the two central banks that continue to maintain an accommodative stance.

- The US economy showed signs of softening over the month, particularly in the housing market as higher mortgage rates started to bite. Flash PMIs were soft, with all forward-looking components weak. However, inflation came in stronger than expected and the labour market remains tight, keeping pressure on the FOMC. The Committee is expected to signal a slower pace of tightening into the end of the year, though the peak terminal rate remains uncertain.

- Europe announced further plans to address the energy crisis, including a proposed price cap and a common purchases system. Both should support the recent downside in energy prices. PMI data moved into recessionary territory. The ECB is continuing to prioritise inflation over growth and is expected to continue tightening, though probably at a slower pace than recently.

- Growth in China rebounded in the third quarter, though continued Covid lockdowns has seen a softening in the higher frequency activity data. Inflation remains low which we expect will lead to further interest rate cuts by the PBoC. As expected, President Xi was reappointed at 20th Party Congress.

- Over the fourth quarter of the year, growth conditions will continue to deteriorate as central banks continue to tighten with terminal rate likely to be met in late 2022 or early 2023.

Portfolio Review

- In October, the Portfolio returned +2.03% (after fees,) behind the MSCI World Net Index which returned +4.36%. The Portfolio has underperformed for the year, returning -3.80% (after fees) versus 0.42% for the index.

- The October underperformance was due to negative stock selection, largely driven by weakness in Health Care. Financials, Consumer Staples and Industrials were also weak. Sector allocation was positive, as the benefit from the underweights to Consumer Discretionary and Communication Services more than outweighed the drag from the Portfolio's avoidance of Energy.

- Despite the precarious economic outlook, an overall reassuring earnings season saw the index claim its second-best monthly performance of the year so far, although it still remains down 20% in USD and -16% in local currency (-5.8% in NZD) for 2022 overall.

- All sectors benefitted from the rally, with some of the perceived inflation winners doing particularly well. Energy (+20%) managed a mighty 10% lead over the next – best performing sector in the month – Industrials (+10%) – on the back of surging oil and gas prices, while Financials (+9%) also did well. The Portfolio's key sectors were closer to the overall index: Health Care and Information Technology (both up 8%) were slightly ahead, while Consumer Staples was just behind (+6%).

Key contributors

- For the month, the largest absolute contributors were VISA (+78 bps), SAP (+63 bps), Accenture (+38 bps), IQVIA (+32 bps) and Roper Technologies (+24bps).

- The largest absolute detractors in October were TSMC (-29 bps), Danaher (-24 bps), AIA (-19 bps), Microsoft (-19 bps) and Prudential (-14 bps).

Portfolio Outlook

Global equity markets gained significant ground in the month of October, with the MSCI World Index up an impressive 7.2% in USD. Despite the precarious economic outlook, an overall reassuring earnings season saw the index claim its second-best monthly performance of the year so far, although it still remains down 20% in USD for 2022 overall. All sectors benefitted from the rally, with some of the perceived inflation winners doing particularly well.

In the current climate of rising prices and a global squeeze on the cost of living, a question we hear quite frequently from our clients is whether big brands - with their premium pricing versus cheaper alternatives - face the risk of consumers "trading down", where such alternatives exist. What matters here is the perception of price. The consumer equation is price + quality = value to me. What's important is the price gap difference? What is the spread between the branded product and the alternative? What premium is the consumer paying? Ironically, in a world of fast rising prices, this gap typically narrows rather than widens, increasing the relative value proposition for the branded product. This is because in order to maintain its margin, the lower margin alternative must raise its price more than the branded operator.

From a portfolio perspective, the right category exposure matters. Beauty, beer, spirits, soft drinks and niche homecare segments are more strongly correlated to advertising and promotion and research and development spend, and are much less vulnerable than food or laundry for example – categories with weaker pricing power, coupled with challenging competition from private label and increasingly sophisticated discounters.

Elsewhere, we like the long-term opportunity the emerging market consumer offers, in countries where brands are particularly strong owing to the absence of a large scale and consolidated retailer network, where a strong brand heritage already exists and the demographics are compelling – young, growing and engaging with brands.

The results we've seen so far this year from our branded Consumer Staples holdings have been encouraging. Moreover, in a very challenging year for the broader market, the relatively defensive characteristics of the Consumer Staples companies we own have come to the fore, just as they did in previous tough times, from the 2001 recession to the 2008 financial crisis, and more recently at the nadir of the Covid-19 pandemic in 2020.

Greg Fleming, MA

Sustainability metrics provided to Salt by MSIM

As of 31.10. 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 94% of our holdings across all strategies – far above the industry average of 19%* for asset managers.
- 62% of meetings with at least one vote against management
- 29% of votes on say-on-pay proposals against management
- 143 of 280 engagement meetings included discussions on ESG topics. Below are some examples.

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.