SALT

Salt Sustainable Global Shares Fund Fact Sheet – November 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 30 November 2022

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	$53.02 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 30 November 2022

Application	0.9954
Redemption	0.9913

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 November 2022

Global equities	98%
Cash	2 %

Fund Performance to 30 November 2022

Period	Fund Return*	Benchmark Return
1 month	1.36%	0.04%
3 months	1.42%	2.64%
6 months	1.56%	2.95%
1 year	-4.45%	-2.59%
Since inception	-0.67%	1.79%

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 November 2022.

Fund ESG Scores	Portfolio	Index
Sustainable Global Shares	26T CO_2 /$m	162T CO_2 /$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). See p.4 for further ESG details.

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

Source: MSIM, data as at 30 November 2022. The Top 10 Holdings represented 46.5% of the total portfolio.

Market Review

- Equity markets continued their recovery from mid-October's lows with developed markets rising a healthy 7% and emerging markets up by nearly 15% (both in USD). In NZD terms, the index return was almost flat (+0.04%) as the NZD strengthened 8% versus USD during November.
- Despite further aggressive rate hikes from the US Federal Reserve and the Bank of England, who hiked their respective policy rates by 75bp, the Global Aggregate Bond Index rallied 4.7% (in USD) over the month as US inflation data printed below expectations. This was the first below expectations data print in four months, contributing to the view that the Fed would be able to slow the pace of rate hikes from December.
- In the United States, consumer spending continues to prove resilient, however there is a strong downtrend emerging in the housing market. Housing starts peaked at an annualised 1.8m in April but had fallen to 1.4m by October. Consumer spending continues to be supported by an equally resilient labour market, though signs of weakness are emerging there too as unemployment claims have risen and job openings have declined.
- In Europe higher energy prices continue to fuel new highs in consumer price increases. The October eurozone CPI came in at 10.6% but eased to 10.0% in November. At the same time, activity indicators improved over the month including consumer confidence, albeit from very low

levels. The risk of Europe running out of gas this winter continues to diminish thanks to mild temperatures and soft demand. Storage is over 90% of capacity thanks to strong planning actions earlier.

- Policymakers in China have started a gradual easing of Covid controls and have stepped up efforts to vaccinate the elderly. The easing of controls includes a shortening of the quarantine period and taking secondary contacts out of scope for quarantine. But it has not all been positive news as some new restrictions were put in place towards the end of the month. Despite the setback, equity markets rallied on the back of hopes of an eventual end of the Covid-zero policy.
- Activity data in China was mostly weaker than expected over the month. Monetary policy was eased, and we expect there is more easing in the pipeline.
- Australian data remains mixed with the labour market continuing to show resilience. However, Australian retail sales suffered their first fall of 2022 in October as rising prices and higher interest rates finally seemed to have an impact on spending. The RBA has continued to hike at the reduced rate of 25bp per meeting, despite above-forecast Q3 inflation data.
- In New Zealand, the RBNZ delivered its largest ever interest rate increase of 75bps in November, 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. The New Zealand dollar has rallied 10% since its lows in early October, reflecting a combination of hawkish domestic monetary policy and the softer USD. This has offset some gains from the rally in unhedged international equities, after the opposite dynamic prevailed through the bulk of 2022.

Portfolio Review

- In November, the Portfolio returned +1.36% (after fees,) ahead of the MSCI World Net Index which returned +0.04%. The Portfolio has underperformed for the three month period, returning 1.42% (after fees) versus 2.64% for the index.
- The November outperformance was due to stock selection, driven by outperformance in Financials and Information Technology, helped further by Consumer Staples outperformance.
- Sector allocation was negative, hurt by the lack of Materials holdings, offsetting the milder benefit from the portfolio's avoidance of Energy.

Key contributors

- For the month, the largest absolute contributors were TSMC (+53 basis points [bps]), AIA (+34 bps), Prudential (+25 bps), Microsoft (+24 bps) and SAP (+23 bps).
- The largest absolute detractors were Fidelity National Information Services (-40 bps), Medtronic (-36 bps), Visa (-14 bps), PayPal (-13 bps) and Broadridge Financial Solutions (-11 bps).

Portfolio Outlook

Global equity markets gained significant ground during the month of November, with the MSCI World Index returning +6.95% in USD. Two consecutive months of strong performance has seen MSCI World claw back some of its hefty year-to-date (YTD) losses: the index is now down 'only' 14.5% in USD for the YTD.

Scientists believe that it takes most of us anywhere between two months and a full year to form a new habit. It would therefore seem reasonably safe to assume that two decades of falling global interest rates have left a lot of corporate managers and equity investors accustomed to debt available on demand, and at a fairly insignificant cost.

As higher interest rates work their way through the economy, some behaviour that was facilitated by cheap debt is likely to disappear. Froth in the global housing market is likely to go away as consumers grapple with higher mortgage costs. We are also likely to see fewer advertisements for a shiny new grocery delivery business, for example, as investors reassess the opportunity cost of capital that is required to "disrupt" a new market. However, as it becomes harder to engineer growth through debt, we think the relative value of businesses that can consistently grow organically should only go up. As we've argued before, resilient earnings matter less in good times; it is when the going gets tough that the combination of recurring revenue (protecting the top line) and pricing power (protecting margins) really pays off.

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

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Sustainability metrics provided to Salt by MSIM

As of 30.11.2022, 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.

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