SALT

Salt Sustainable Global Shares Fund Fact Sheet – June 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 June 2023

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	$58.99 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 30 June 2023

Application	1.1109
Redemption	1.1064

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 June 2023

Global equities	97.82%
Cash	2.18%

Fund Performance to 30 June 2023

Period	Fund Return*	Benchmark Return
1 month	3.28%	3.75%
3 months	8.73%	9.10%
6 months	17.85%	18.80%
1 year	15.85%	20.26%
Since inception p.a.	5.36%	7.00%
5 year*	12.36%	11.27%

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 June 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:	15% of MSCI 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 June 30, 2023, the Portfolio's carbon footprint was 85% lower than the MSCI World Index and 88% below AC World.

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

Source: MSIM, data as at 30 June 2023. The Top 10 Holdings represented 47% of the total portfolio.

Market Review

June month saw global stocks rebounding 6.1% and by 7.0% for the June quarter, in USD terms. Expressed in NZD terms, global equities (MSCI World Index) returned less for the month (+3.75%) but more for the three-month period (+9.10%,) reflecting volatility in the NZD/USD exchange rate. Global markets overcame uncertainty over economic slowing, still-elevated inflation and central bank policy and focused on now-lower recession probabilities.

- The first half of 2023 has been much better for balanced portfolios than the challenging 2022 year. A 9.1% (in NZD) gain for developed market equities over the quarter leave them 18.8% higher year to date. Global sovereign bonds have lagged but are still doing better than last year rising 1% (in USD) year to date.

- The positive tone in markets this year has been driven by a generally improving outlook for global growth as economies have proven to be more resilient than expected to the recent aggressive tightening in monetary conditions. However, underlying inflation has also proven to be more persistent, so we are not out of the woods yet.

- US inflation has fallen sharply from a peak of 9% to 4%, but mostly due to lower oil prices. Core inflation has remained stickier as the labour market has remained tight and wage growth in excess of the level consistent with target inflation.

- The US consumer has continued to spend, reflecting still high excess cash, lower savings and continued employment gains that have averaged 314,000 per month since the start of the year. Weaker business investment intentions and weak corporate loan demand pose risks for growth going forward.

- Economic activity in Europe has proven stronger than expected as the lower energy prices has delivered real income gains back to consumers. However, in order to contain still problematic underlying inflation pressures, what lower oil prices have delivered to consumers, the European Central Bank has had to take away. With core inflation still in excess of 5% the ECB has raised interest rates to 3.5%, with more hikes still to come.

- After the end of the zero-Covid bounce in activity in China, macro data over the June quarter has pointed to a renewed slowdown. We think that the slowing reflects the payback of front-loaded production and policy easing, which are one-off factors, but the recovery is far from over, given that the job market recovery is incomplete. Given that the recovery has remained fragile, we believe the authorities would stand ready to support growth as needed.

- In Australia there are increasing signs that the activity is slowing after a very strong period of growth in 2022. The labour market has remained resilient though it typically lags growth. The RBA is taking a stop-start approach to raising interest rates. We think they have more work to do; we see the cash rate rising to 4.6% in the next few months.

- It was a busy quarter in New Zealand. The RBNZ delivered a hawkish 50bp hike in the Official Cash Rate in April which was followed by a dovish 25bp hike in May. They have called time on the tightening cycle, and we agree they have done enough.

- The NZ economy is in a technical recession with clear signs of a further slowdown in domestic demand. However, with inflation still uncomfortable high, we don't anticipate conditions will be appropriate for interest rate cuts until we are well into 2024.

Portfolio Review

- In June, the Portfolio returned +3.28% (after fees), lagging of the MSCI World Net Index which returned +3.75% gross. The Portfolio has been in line with index for the three-month period, returning +8.73% after fees versus +9.10% for the benchmark index, gross.) Over the last six months, the portfolio return was 17.85% after fees, lagging its gross benchmark by 0.95%.

- The June month saw positive stock selection but negative sector allocation. Stock selection was helped by outperformance in Health Care and Financials, which more than compensated for weakness in Information Technology. Negative sector allocation was largely driven by the drag from both the underweight to Consumer Discretionary and the overweight to Health Care.

- For Q2 overall, positive sector allocation roughly balanced negative stock selection. Sector allocation was helped by the overweight in Information Technology and, to a lesser extent, the zero-weights in Energy, Materials and Utilities, outweighing the drag from the underweight in Consumer Discretionary and the overweight in Health Care. Stock selection was particularly hit by weakness in Information Technology, where the Portfolio is less exposed to the growthier, AI perceived winners. Consumer Discretionary underperformed, while Communication Services and Industrials both outperformed.

- The largest contributors to absolute performance during the quarter were Microsoft (+140 basis points [bps]), SAP (+70 bps), Accenture (+68 bps), Alphabet (+61 bps) and IQVIA (+50 bps). The largest absolute detractors were Thermo Fisher (-35 bps), PayPal (-18 bps), Danaher (-14 bps), Nike (-9 bps) and Deutsche Börse (-3 bps).).

Portfolio Commentary & Outlook

At the end of 2021, we were worried about both multiples and earnings. Following the de-rating in 2022, our multiple anxieties faded, just leaving us worried about earnings. The last three quarters have put both concerns back on the table, with the MSCI World Index's forward earnings multiple back up to 17.0x, a level never reached between 2003 and 2019, while the multiple of the Information Technology sector at 27.4x is now worryingly close to its COVID highs.

This elevated multiple is not on depressed earnings, with expected margins still close to all-time peaks, and consensus earnings expected to be flat this year before rising 10% in 2024, despite all the worries about a potential recession. It is true that the U.S. economy has proved more robust than expected, but the downside of that is that labour markets remain very tight, meaning that a continued monetary squeeze is required to get inflation down.

Our view is that any resultant downturn is not in today's earnings expectations… or the current multiple. We maintain that the world is an asymmetric place, with earnings downsides in bad times far higher than the upsides in good 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 in any downturn, and the market will once again come to favour companies which have resilient earnings in tough times.

Greg Fleming, MA

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