SALT

# Salt Sustainable Global Shares Fund Fact Sheet – March 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 31 March 2023

| | |
|---|---|
| **Benchmark** | MSCI World (Net) Index in NZD |
| **Fund Assets** | $54.44 million |
| **Inception Date** | 12 July 2021 |
| **Underlying Manager** | Morgan Stanley Investment Management |

## Unit Price at 31 March 2023

| | | |
|---|---|---|
| **Application** | 1.0218 | 0.9954 |
| **Redemption** | 1.0176 | 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 31 March 2023

| | |
|---|---|
| **Global equities** | 98.1% |
| **Cash** | 1.9% |

## Fund Performance to 31 March 2023

| Period | Fund Return* | Benchmark Return |
|---|---|---|
| **1 month** | 4.48% | 2.08% |
| **3 months** | 8.39% | 8.90% |
| **6 months** | 6.17% | 6.90% |
| **1 year** | 3.35% | 3.35% |
| **Since inception p.a.** | 1.13% | 2.74% |
| **5 year*** | 13.25% | 11.13% |

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 March 2023. *5 year 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 March 31, 2023, the Portfolio's carbon footprint was 85% lower than the MSCI World Index and 87% below AC World.

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

Source: MSIM, data as at 31 March 2023. The Top 10 Holdings represented 47.2% of the total portfolio.

## Market Review

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

The MSCI World Index managed a positive return of +3.1% in US dollars (USD) during the month of March and +2.5% in local currency and +2.1% in NZD, despite a sudden intramonth bank crisis. The growth-tilted sectors that suffered in 2022 were strong, with Information Technology (+10%), Communication Services (+9%) and to a lesser extent, Consumer Discretionary (+4%) all ahead of the index he Portfolio's key defensive sectors Consumer Staples (+5%) and Health Care (+3%) were in line. Meanwhile, Financials (-8%) suffered, with the Banks (-12%) subsector off double digits, and Real Estate and Energy (both -2%) down on the month. There was far less variation by geography, as the UK (-1% in USD, -3% in Sterling) was the only major market that deviated notably from the overall index.

- Global growth has generally surprised to the upside in the first quarter of 2023. This has largely been enabled by lower energy prices (including oil) and has been reflected in upbeat purchasing manager indices.

- Reflecting the lower energy prices, headline inflation rates continued to ease over the quarter, though in line with our long-held view, core inflation remains stickier. As a result, central banks continued to tighten monetary policy over the period.
- The collapse of Silicon Valley Bank and problems in several finance firms along with a swift response from policy makers set off a wave of finance sector volatility during the quarter. We do not see these issues as systemic, or signalling any kind of generalised finance sector malaise, but rather as symptomatic of idiosyncratic factors relevant to each institution. That said, it serves to illustrate the lags between monetary policy actions and their impact being felt is just as relevant to the finance sector as it is to the real economy.
- In the US, the labour market remains particularly resilient. The economy added 815,000 jobs in the first two months of the year, though the unemployment rate ticked higher in February and wage growth is moderating. The Federal Reserve hiked 25bp in March to a target range of 4.75%-5.00% but left the projected terminal rate at 5.1%.
- Despite the finance sector turmoil, the European economy continued to benefit from lower energy prices, avoiding the much-anticipated contraction in activity expected for the fourth quarter of 2022. Headline inflation fell over the quarter, but core inflation rose. The ECB hiked its deposit rate by 50bp, with the next move data dependent.
- The abandonment of China's Covid-zero policy has led to a sharp rebound in economic activity, while inflation has remained surprisingly in check. 2023 is the first time in four years that economic, regulatory and Covid policies have been aligned in a pro-growth, pro-business fashion. This is being reflected in improving PMIs that are all in expansionary territory.

## Portfolio Review

- In March month, the Portfolio returned +4.51% (NZD/Gross) and +4.48% (after fees,) well ahead of the MSCI World Net Index which returned 2.08%. The Portfolio has underperformed slightly for the three- and six-month periods while it has matched its benchmark for the full year, returning +3.35% (after fees.)
- The March outperformance was driven by stock selection, largely due to outperformance in Financials given the Portfolio's avoidance of banks, as well as strong performance in Consumer Staples. This more than offset Information Technology and Health Care weakness.
- Sector allocation was positive, due to the Information Technology overweight and the Portfolio's avoidance of Energy, which more than compensated for the drag from the overweight to Financials and underweight to Communication Services.
- The largest contributors to absolute performance during the month were Microsoft (+106 basis points [bps]), SAP (+54 bps), Alphabet (+40 bps), Accenture (+35 bps) and Adobe (+33 bps).
- The largest monthly absolute detractors were Prudential (-20 bps), IQVIA (-15 bps), Medtronic (-6 bps), CDW (-6 bps) and Abbott Laboratories (-5 bps).
- For Q1 overall, underperformance was due to stock selection. Whilst Financials and Consumer Staples were positive contributors, weakness in Information Technology and Health Care left stock selection negative for the quarter.
- Sector allocation was positive, helped by the overweight to Information Technology and the avoidance of Energy stocks. This offset the drag from the overweight to Health Care and underweights to Consumer Discretionary and Communication Services.
- The largest contributors to absolute performance during the quarter were Microsoft (+154 basis points [bps]), SAP (+124 bps), Constellation Software (+73 bps), TSMC (+64 bps) and Visa (+60 bps).
- The largest absolute detractors were Baxter Int'l (-49 bps), Abbott Laboratories (-22 bps), Danaher (-18 bps), ADP (-11 bps) and AIA (-6 bps).)

## Portfolio Commentary & Outlook

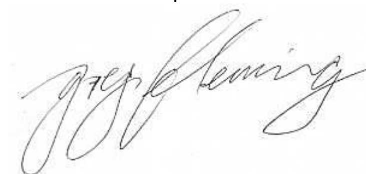
It was a strong quarter for markets, with the MSCI World Index in positive territory all quarter and finishing up 8% USD, on top of the 10% rise in Q4 2022.

The market looks far from cheap, with the forward multiple of 16.2x 14% above the 2003-19 average, though perceptions may be skewed by the c. 20x multiples of 2020-21. In addition, the earnings that lie behind that multiple, and especially the margins, still look high.

The inflation threat remains. Wages are still rising, in nominal terms at least, and companies are still pushing up prices, protecting their margins. Goods pricing pressures are easing, with 0% goods inflation in the US in February, as the physical economy is recovering from the COVID supply chain disruptions, but the more wage-linked services sector saw prices up 7%. This bifurcation of inflation will continue.

Given the vulnerability of the currently high earnings to an economic slowdown, we would argue that quality is a relative safe haven. Companies with proven long-term track records of pricing power and recurring revenues are likely to show more resilient earnings than the general market when the downturn comes, and history suggests that resilience will be rewarded by outperformance.

So far, the market's 2022 decline and 2023 recovery have all been about de-rating and then a partial re-rating, with earnings roughly flat, meaning that quality companies have not been able to differentiate themselves. The real test will come when the market's earnings fall, perhaps later this year, which should allow quality companies to outshine. Investing in a portfolio of resilient earnings companies at a reasonable multiple does seem a sensible approach in uncertain times.



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