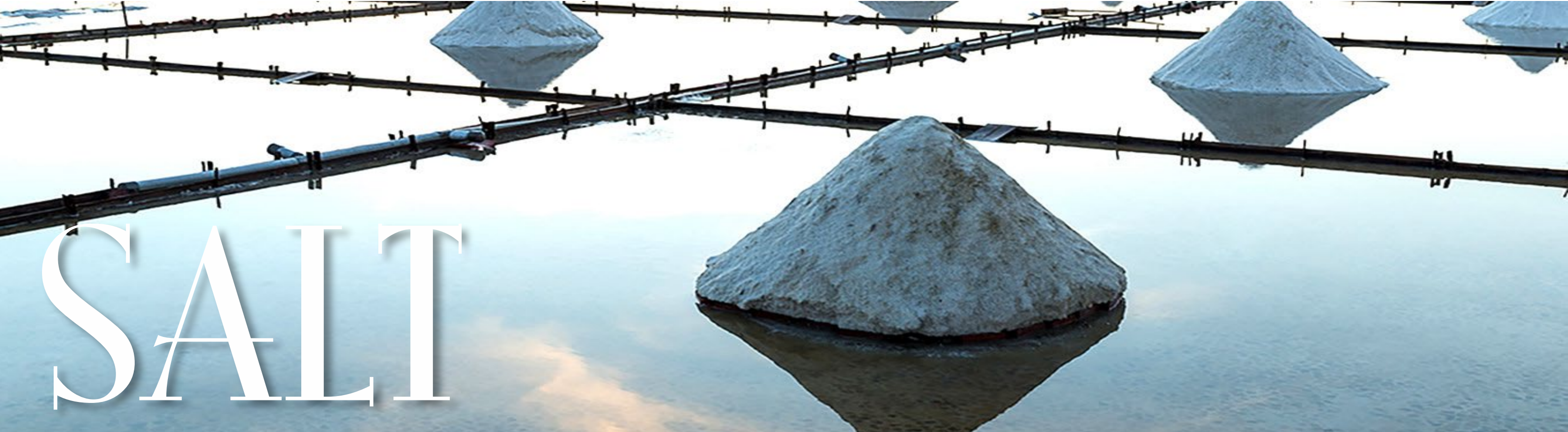

Salt Sustainable Global Shares Fund Fact Sheet – March 2022

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 March 2022

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	$45.81 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 31 March 2022

Application	0.9887
Redemption	0.9846

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 2022

Global equities	98%
Cash	2 %

Fund Performance to 31 March 2022

Period	Fund Return*	Benchmark Return
1 month	-2.22%	-0.03%
3 months	-10.45%	-6.64%
6 months	-1.60%	1.37%
Since inception	-1.34%	1.38%

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 2021.

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

Source: MSIM, data as at 31 March 2022

Market Review

The first quarter of 2022 was very challenging for markets. Concerns over the need for a faster pace of interest rate hikes to combat higher inflation, along with the economic implications of Russia's invasion of Ukraine, weighed on both equity and bond markets. Russia is a major energy and commodity producer, with the invasion exacerbating the current surge in inflation and already constrained global supply chains, posing risks to global growth. These developments sharply disrupted most asset classes. Energy prices surged, disadvantaging sustainability- and carbon-footprint focussed investment funds in the first quarter.

Central banks became gradually more hawkish as the transitory inflation narrative was overtaken by rising core inflation, higher inflation expectations and stronger wage inflation. Bond yields rose rapidly as the market feared monetary authorities are now seriously behind the curve. Even the European Central Bank was more hawkish than expected and indicated the end of its asset purchase program was likely some time in Q3 2022 and declined to push back on expectations of rate increases before the end of the year. The US Federal Reserve hiked the Fed funds rate for the first time this cycle in March.

The flattening of the US yield curve and, at times, inversion of certain parts of the curve has generated a degree of consternation about the prospect of recession in the US. We don't dismiss the prospect of future US recession but it's important to not get too negative too soon.

Central Bank's shift in tone to a more inflation-adverse stance, combined with the rapidly escalating Ukraine crisis, has challenged investor sentiment throughout the Quarter. It appears unlikely that such factors darkening the global growth outlook for the present will not clear quickly, and we will maintain a preference for high-quality compounders and more defensive industries, subject to sustainability.

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Global equity markets moved up in March month, but insufficiently to pull Q1 equity returns out the red. For March month, The MSCI World Index rose 2.5% but ended the quarter lower by -5.7% compared to the end of 2021. in NZD terms, the index declined -6.6% for the First Quarter. The Australian equity market was among the few showing resilience, gaining 0.7% largely due to the Resources sector which benefits from the current jump in raw materials prices. However, the NZX 50 Index lost -7.1% for the three months, lagging the US S&P 500 Index, which closed the quarter -5.0% lower. In regional terms, Europe in particular suffered, through being both an energy importer and having trade and investment exposure to Russia.

Portfolio Review

In March, the Portfolio returned -2.22% (after fees), behind MSCI World Net Index which returned -0.03%. The Portfolio underperformed for the first quarter (Q1 2022), returning -10.45% (after fees) versus -6.64% for the index. The March underperformance was due to stock selection, in particular underperformance in Consumer Staples, Health Care and Industrials. Sector allocation was neutral, as the benefit of the Health Care overweight was balanced by the drag from the lack of Energy exposure and other smaller sector effects.

For Q1 overall, both stock selection and sector allocation were negative. As in the month, negative stock selection was driven by underperformance in Consumer Staples, Health Care and Industrials, which more than offset outperformance by Communication Services holdings. The underweights in Consumer Discretionary and Communication Services helped sector allocation, as did the overweight in Health Care. However, this was not enough to counter the drag from the Portfolio's lack of exposure to the stronger performing sectors of the quarter, notably Energy and Materials, as well as the hit from the Information Technology overweight and Financials underweight.

- The largest contributors to absolute performance during the month were Thermo Fisher (+24 basis points [bps]), ADP (+24 bps), Danaher (+18 bps) Accenture (+18 bps), and Medtronic (+11 bps.)

- The largest absolute detractors were Reckitt Benckiser (-63 bps), Henkel (-62 bps), Baxter International (-53 bps), Stanley Blank & Decker (-36 bps) and Becton Dickinson (-20 bps).

Four positions were during the first quarter: IQVIA, Otis, Atlas Copco and Equifax, and the portfolio exited from Cerner, FactSet and Henkel.

As of 31 March, 2022, the Portfolio's carbon footprint is 84% lower than the MSCI AC World Index' and 81% lower than the MSCI World's.

Portfolio Outlook

Against a backdrop of persistently high global inflation and the prospect of faster US interest rate hikes, alongside the Ukraine crisis, the sell-off in global equity and bond markets has dominated 2022 year-to date. In equities, this market drop has been down to a de-rating in terms of investors accepting lower price-earnings multiples for a set of major companies, rather than to any sharp fall in market earnings expectations. Forward earnings estimates, perhaps optimistically, have actually risen recently, although the Q1 2022 Earnings Season will be important in assessing the impact of inflation and input costs on profits.

The process for selecting stocks has been consistent for a quarter of a century in MSIM global strategies. Both this history and basic economics suggest that the Sustainable Global Shares Portfolio's earnings should be relatively resilient in a squeeze on wider market profitability, be it due to inflation, governments' reaction to inflation or a geopolitical crisis. Higher interest rates challenge firms with distant profit prospects.

The market remains vulnerable, especially if the current geopolitical crisis worsens, with the MSCI World Index over 16.7 times forward earnings, a multiple never reached between 2003 and 2019, and the S&P 500 at over 19 times forward earnings. In a deeply uncertain world climate, we would argue that limiting uncertainty by owning a portfolio of relatively predictable compounders makes sense, particularly when they are available at a modest free cash flow premium to the market

Inflation is a significant potential threat to both multiples and earnings. 2022 has so far seen a multiple compression on the more expensive stocks, as higher discount rates have a bigger effect on "growthier" and therefore longer duration assets. Going forward, inflationary costs pressures may well squeeze margins and thus earnings. Importantly, our view is that the portfolio is positioned to provide some resilience to both threats.

The team's focus on valuation risk over the last few years has contributed to the portfolio's relatively low free cash flow premium relative to the index. Moving on to the earnings risk, **pricing power is one of the key characteristics we look for in our stock selection process**. The companies' intangible assets, be they brands or networks, should allow them to pass on rising input costs to their customers, protecting margins. In addition, in the case where government actions against inflation cause an economic slowdown, or even a recession, recurring revenue, another factor we focus on, should protect the portfolio's earnings just as it did in 2008-9 and in early 2020.

Whatever the pace of change in 2022, efforts to create a sustainable future is a game that's played out in decades, not months. As the transition takes place, we believe companies with a strong awareness are more likely to stay on top of their game and deliver long-term returns for clients. As bottom-up stock pickers, we're determined to keep seeking better outcomes, to learn and improve our offering to you, and to keep pressing for progress from the world's best companies.

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