SALT

Salt Sustainable Global Shares Fund Fact Sheet – August2022

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 August 2022

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	$52.08 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 31 August 2022

Application	0.9814
Redemption	0.9774

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 August 2022

Global equities	98%
Cash	2 %

Fund Performance to 31 August 2022

Period	Fund Return*	Benchmark Return
1 month	-3.70%	-2.00%
3 months	0.13%	-0.07%
6 months	-2.94%	-2.29%
1 year	-3.92%	-3.11%
Since inception	-2.06%	-0.26%

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 August 2022.

Fund ESG Scores	Portfolio	Index
Sustainable Global Shares	27T CO2 /$m	162T CO2 /$m
Portfolio Carbon Footprint:	17% of MSCI World Index*	

Source: MISM Quarterly Investment Report, 30.6.2022 & 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)	SAP (DE)
Accenture (US)	Becton Dickinson (US)
Reckitt Benckiser (UK)	Intercontinental Exchange (US)
Danaher (US)	Baxter International (US)

Source: MSIM, data as at 31 August 2022. The Top 10 Holdings represented 46.4% of the total portfolio.

Market Review

- After a brief respite in July, equity and bond markets were rattled again in August as central banks renewed their respective commitments to bring inflation under control, despite the growing risks to the outlook for economic activity.
- The level of nervousness about the outlook for global growth remains high. This is especially the case in Europe as concern over the security of energy supplies intensifies on the back of the ongoing conflict in Ukraine.
- In the United States GDP June quarter data recorded a second consecutive quarterly decline, meeting the definition of a technical recession. However, given the narrowness of the weakness and the strength of other data, particularly the labour market, this is unlikely to be classified as an economic recession.
- US headline inflation appears to be past its peak; however, core inflation will remain more difficult to get under control, especially as the labour market remains strong. This saw Federal Reserve Chair Jerome Powell deliver a hawkish commentary at the annual

monetary policy symposium in Jackson Hole, keeping alive the prospect of ongoing interest rate hikes by the FOMC, including the possibility of a third consecutive 75bp hike at its September meeting.

- Eurozone second-quarter GDP surprised on the upside but revealed marked divergences in performance amongst member states. Several countries (Spain, Italy) continue to benefit from the post-Covid bounce in services activity while Germany, heavily reliant on gas imports from Russia, stalled.
- In China, the domestic economy continues to struggle as ongoing Covid disruptions have morphed into disruptive weather events. July activity data was weak, with the service sector also losing momentum over the month. The People's Bank of China eased monetary conditions further and the State Council announced new fiscal stimulus measures.
- The unemployment rate in Australia came in well ahead of expectations in June, dropping sharply to 3.5%. While the labour market is undoubtedly strong, the decline in the unemployment rate may have more to do with a reduction in job-shedding, rather than renewed hiring, as the labour market remains tight.
- Headline Consumer Price Index inflation for the second quarter in Australia rose by 6.1% y/y while the core rate came in at 4.6%. The Reserve Bank of Australia hiked a further 50bp in August, signalling more to come.
- There are increasing signs of a slowdown in growth in activity in the New Zealand economy. June quarter retail sales volume growth came in significantly weaker than expected and employment growth has clearly stalled, though the labour market remains tight overall.
- The Reserve Bank of New Zealand remains ahead of the rest of the world in tightening monetary conditions. The RBNZ hiked 50bp in August to take the Official Cash Rate to 3.0%. We expect a further 50bp hike in October. However, with monetary conditions now tight and given the emerging weakness in some activity data, we are fast approaching the point at which the RBNZ's next move is not immediately obvious.

Portfolio Review

In August, the Portfolio returned -3.7% (NZD after fees), underperforming the MSCI World Net Index which returned -2.0% in gross terms. The Portfolio has slightly lagged the benchmark on a net of fees basis, gaining 0.13% versus a gross benchmark return of -0.07% on a 3-month basis and is behind its benchmark over the 1 year timeframe. For the 5 year period, the Portfolio remains well ahead of its benchmark return with an annualized net outperformance of 2.76% p.a. (13.9% p.a. for the Fund versus 11.1% p.a. for the index.)

- The August monthly underperformance was due to both stock selection and sector allocation. Negative stock selection was largely a result of underperformance in the Industrials sector.
- The overweight to Information Technology and Health Care as well as the Portfolio's avoidance of the Energy sector drove the negative sector allocation.
- The largest contributors to absolute performance during the month were Becton Dickinson (+19 basis points [bps]), Broadridge Financial (+12 bps), ADP (+6 bps), PayPal (+6 bps) and ICE (+4 bps).
- The largest absolute detractors were Constellation Software (-33 bps), Microsoft (-32 bps), Thermo Fisher (-30 bps), Danaher (-26 bps) and Visa (-24 bps).

Portfolio Outlook

After a short-lived rally in July, global equity markets were back under downward pressure in August. Central banks' unequivocal commitments to raise rates and curb inflation despite signs of a slowing global economy saw the MSCI World Index fall -2% in NZD for the month. Falling markets, rising rates and inflation, pestilence, war, deglobalisation, drought, the energy crisis, acerbic politics, and a less sanguine regulatory environment have our team glad of the benefits of our bottom-up stock picking approach.

High quality is by its nature less exposed to potential adverse events. We cannot influence or even predict the macroeconomic or political or regulatory environment, but we can aim to ensure that the stocks we hold are the most robust we can find… and that the managements who run the companies that we select are more likely anticipating, mitigating, and managing resiliently through adversity. Active portfolio managers that own stocks for the long term rather than just rent them are used to filtering short-term noise and data for relevant and material drivers of long-term return.

We believe that markets have yet to fully reflect the phalanx of issues that will make the going tougher for companies from here, and that longer term all companies are likely to face greater structural cost pressures which may well pressure their earnings. As such, and as we have been signalling for some time, earnings resilience and pricing power are likely to become ever more significant assets.

With our portfolios' primary skew to quality defensive sectors, it gives us some comfort going forward that the portfolios' earnings are likely to hold up better than the market as a whole and that investors who choose active will be vindicated.

Greg Fleming, MA

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Sustainability metrics provided to Salt by Morgan Stanley Investment Management

As of 31 August 2022, the Portfolio's carbon footprint is 85% lower than the MSCI AC World Index's and 83% 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 white 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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