

# SALT

## Salt Sustainable Global Shares Fund Fact Sheet – February 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 28 February 2022

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	\$45.57 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

### Unit Price at 28 February 2022

Application	1.0111
Redemption	1.0070

### 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%
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### Fund Allocation at 28 February 2022

Global equities	98%
Cash	2%

### Fund Performance to 28 February 2022

Period	Fund Return*	Benchmark Return
1 month	-6.23%	-5.41%
3 months	-2.94%	-3.46%
Since inception	0.90%	1.80%

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 28 February 2021.

### Top 10 holdings

Microsoft (US)	Baxter International (US)
VISA (US)	Becton Dickinson (US)
Reckitt Benckiser (UK)	Abbott Laboratories (US)
Accenture (IRE)	Thermo Fisher Scientific (US)
SAP (DE)	Proctor & Gamble (US)

Source: MSIM, data as at 28 February 2022

### Market Review

**Equity and bond markets experienced a difficult month in February as geopolitical tensions rose between Russia, Ukraine, and NATO. Russia launched a large-scale invasion of Ukraine on February 24th.**

The first half of the month was dominated by increasing expectations of the number of rate hikes likely to be delivered by the major developed central banks in 2022, most notably the US Federal Reserve, and that growth would suffer consequently. As Ukraine tensions grew, rate hike expectations were reassessed downwards, but growth concerns intensified. However, corporate profit reports remain robust.

There is still a high degree of uncertainty as to how the Russia-Ukraine conflict will play out. Right now, the clearest economic impact appears likely to be via energy and food prices. This will have a dampening impact on growth, intensifying concerns of a period of stagflation, particularly in Europe.

Activity data in Europe improved over the month with PMI results pointing to increasing economic momentum. Headline inflation reached 5.1% y/y, with more than half of that increase already coming from higher energy prices. The ECB signalled a calm and gradual approach to withdrawing stimulus, which seems even more appropriate now.

Early 2022 concerns about the strength of the US consumer were allayed with the release of a strong January retail sales report showing that consumers had simply delayed spending due to Omicron. The headline CPI reached 7.5% y/y in January and the payrolls report was stronger than expected with nominal wage growth reaching 5.7% y/y.

### SALT FUNDS MANAGEMENT

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Interest rate markets expected six rate hikes in 2022 from the US Federal Reserve at the end of the month, though the evolution of the Russia-Ukraine conflict will impact rate-hiking expectations.

The US Federal Reserve is on schedule to end its bond purchase programme in March. The January meeting of the Federal Open Market Committee (FOMC) and subsequent statements by officials all-but-confirmed interest rate lift-off in March and that they are actively pursuing plans to reduce the size of their bloated balance sheet. Investors' concern about significantly tighter overall monetary conditions, given high equity valuations, translated into a rapid deterioration in sentiment, compounded by the Ukraine crisis.

### Portfolio Review

- In February, the Portfolio returned -6.23% (NZD/after fees), behind the MSCI World Index which returned -5.41%, in NZ dollar terms (gross.) The absolute return to the Sustainable Global Shares Fund's portfolio was impacted by the 3.0% rebound in the value of the NZD/USD exchange rate, largely offsetting a comparable depreciation of NZD against USD that took place over the month of January.
- The Portfolio returned -2.94% (after fees) for the three-month period to February 28th, 0.52% ahead of benchmark, and due to the drag on returns from the 2022 correction in markets has returned +0.9% since inception (12 July, 2021).
- Sector allocation was neutral for the month, as the benefits from the overweight in **Health Care** and underweight in Consumer Discretionary were offset by **Information Technology** weakness and the lack of **Energy** stocks in the Portfolio.
- Underperformance was due to negative stock selection, in particular underperformance in Information Technology and Health Care.
- The largest contributors to absolute performance during the month were Becton Dickinson (+13 basis points [bps]), Reckitt Benckiser (+11 bps), Steris (+1 bps), Equifax (+0 bps), and Roper Technologies (-1 bps).
- The largest absolute detractors were Accenture (-62 bps), SAP (-52 bps), Microsoft (-45 bps), Fidelity National Information Services (-44 bps) and Visa (-41 bps).

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

### Portfolio Outlook

Against a backdrop of persistently high global inflation and the prospect of US interest rate hikes, escalating Russia-Ukraine tensions saw the sell-off in global equity markets continue into February, with the MSCI World Index down -8% in USD year to date, albeit still up more than 10% over the last 12 months. 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 fall in market earnings expectations. Forward earnings estimates, perhaps optimistically, have actually risen 3% over the last two months.

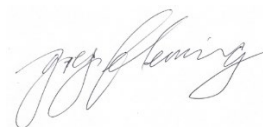
The process for selecting stocks has been consistent for a quarter of a century in our global strategies. Both this history and basic economics suggest that the Portfolio's earnings should be relatively resilient in a squeeze on the wider market's profitability, be it due to inflation, governments' reaction to inflation or a geopolitical crisis.

The market still looks vulnerable, especially if the current geopolitical crisis worsens, with the MSCI World Index over 17 times forward earnings, a multiple never reached between 2003 and 2019, and this on earnings estimates up 57% from June 2020 and 23% above the pre-COVID peak. In a deeply uncertain current 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 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.



Greg Fleming, MA

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