SALT

Salt Sustainable Global Shares Fund Fact Sheet – April 2024

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 April 2024

Fund Assets	$65.75 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 30 April 2024

Application	1.2340
Redemption	1.2290

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 April 2024

Global equities	98.1%
Cash & sundry items	1.9%

Fund Performance to 30 April 2024

Period	Fund Return*	Benchmark Return
1 month	-3.37%	-2.67%
3 months	3.52%	7.77%
6 months	14.24%	18.24%
1 year	18.15%	23.57%
2 year p.a.	13.28%	15.74%
Since inception p.a.	9.07%	10.82%
5 year p.a.*	12.24%	13.13%

Performance is before fees and tax and adjusted for imputation credits. Benchmark performance is gross. Past performance is not a guarantee of future results. Data as of 30 April 2024. *5 year strategy performance is also gross of fees.

Fund ESG Scores	Portfolio	Index
Sustainable Global Shares	26T CO2 /$m	162T CO2 /$m
Portfolio Carbon Footprint:	15% of 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 at 30 April 2024, the Portfolio's carbon footprint was 85% lower than that of the Benchmark Index.

Top 10 holdings	
Microsoft (US)	Thermo Fisher Scientific (US)
SAP (DE)	Alphabet (US)
VISA (US)	UnitedHealth Group (US)
Accenture (US)	IQVIA (US)
Intercontinental Exchange (US)	RELX (UK)

Source: MSIM, data as at 30 April 2024.
The Top 10 Holdings represented 40.93% of the total portfolio.

Market Review

- After a generally positive first quarter of 2024, the second quarter is off to a rough start. In the US, continued higher-than-expected inflation and a GDP print that, while weak at first blush, revealed still strong private demand. This fuelled fears that central banks will not ease monetary policy as quickly as previously hoped.
- Both equity and bond market reacted negatively to this development with developed market equities down -3.7% (in USD) over the month and the global aggregate bond index down-2.5% (in USD).
- There was no US Federal Reserve meeting in April, though there were plenty of opportunities for FOMC members to voice their opinions. The most important of these was Chair Powell's observation that recent data had shown a lack of further progress on inflation, and it was therefore appropriate to give restrictive monetary policy more time to work.
- In Europe the annual rate of CPI inflation was unchanged at 2.4% in April, but the policy-critical services component fell from 4.0% to 3.7%.

- This, combined with low growth in the Euro area, has given markets confidence that a rate cut in June is still likely, though there are now fewer cuts priced in over 2024 than previously.
- Japanese equities gave up some of their recent gains in April. Ongoing downward pressure on the Yen in leading to fears of higher imported inflation weakening domestic demand.
- China's official manufacturing and non-manufacturing PMI indices for April weren't great but weren't bad either. Both came in lower than March but still in expansion territory (over 50). That suggests that growth is stabilising rather than sprinting ahead. That's consistent with the modest stimulus deployed to date. And given the ongoing issues in the property sector, stability isn't a bad thing.
- March quarter inflation came in hotter than expected in Australia. This led to speculation the RBA may be forced to hike interest rates again. Indeed, markets shifted from pricing in rate cuts this year to a chance the next move could be a hike.
- In New Zealand, March quarter inflation printed in line with expectations. The annual rate of CPI inflation fell to 4.0%, though the disinflationary process remains unbalanced. Tradeable (imported) inflation came in at 1.6% for the year while non-tradeable (domestic) inflation came in at 5.8%. However, economic activity remains weak allowing the RBNZ a degree of confidence that monetary policy is working, and that message was reflected in the statement following the April RBNZ Monetary Policy Review.

Portfolio Review

- In April, the Portfolio returned -3.37% (NZD/Gross), behind the MSCI World Net Index which returned -2.67%. The Portfolio underperformed for the 6-month period, returning +14.24%, versus +18.24% for the gross index over the half-year to 30 April.
- Sector allocation was roughly neutral in April, while stock selection was negative. In sector terms, this negative was driven by underperformance in Financials, Industrials and Information Technology, which outweighed the outperformance in Communication Services and Consumer Staples, but it is more meaningful to look at it at the stock level, where Accenture, Aon and Equifax were all down a double-digit percentage in the month.
- In all three cases it was mainly derating rather than any significant earnings fall – in fact forward EPS is higher than it was at the start of 2024 for the three companies.
- Accenture suffered from the hangover from its Q2 results in February, as the industry's overall contraction combined with a seeming deterioration in relative performance of the company compared with its history of outgrowing the industry. All the signs are that the industry is at or very near the trough and should return to revenue growth as the year progresses, while much of Accenture's relative performance issues may be due to mix, while the company's bookings remain strong. The concern around Aon is that the revenue growth, while still healthy, is lagging some peers, particularly in the Commercial Risk segment. The issuance of 19m shares to fund the NFP acquisition was also a headwind.
- For Equifax, the main concerns were the lower Q2 guidance, which reduced confidence that management would achieve the maintained guidance for the year, and anxiety that the reduction in outperformance of the Workforce Solutions Mortgage business, based on the company's unique workforce database, was down to increased competitive pressures, rather than just a matter of short-term mix factors, as management claims. The rise in rates will also have hit sentiment.
- The largest contributors to absolute performance during the month were Alphabet (+27 basis points [bps]), AIA (+22 bps), Atlas Copco (+10 bps), Procter and Gamble (+8bps) and Haleon (+6 bps).
- Three of the largest absolute detractors were the companies mentioned above: Accenture (-55 bps), Aon (-48 bps), and Equifax (-34 bps). The other two were the large IT-sector holdings, Microsoft (-42 bps) and SAP (-34 bps.)

Commentary & Outlook for Q1 2024
(Morgan Stanley Investment Management)

The market had a very strong Q1, with MSCI World up 9% (USD), on the back of the 11% rise in the previous quarter. The market rise has been about multiples rather than earnings, with the MSCI World Index at 18.6x the next 12 months earnings, versus the 13.7x trough in September 2022. This is close to the peaks reached during the COVID earnings slump and 10% above the highest multiple of 17x reached between 2003 and 2019. The forward earnings number has been edging up, gaining 2% year-to-date and 8% in the last year. However, this is not due to an improving outlook, with forecasts for 2024 and 2025 flatlining, but the passage of time moving higher estimates to later years.

These 'higher later' earnings are dependent on margins rising from already high levels, given 10% per year earnings growth on sales that are expected to be up less than 5% per year. MSCI World's EBIT margin is expected to go from an already peaky 15.7% in 2023 to 17.2% by 2025. As ever, there are only two ways of losing money in equities, either the earnings going away or the multiples going away… and right now we are worried about both.

2023 was the story of the "Magnificent Seven". The Seven have diverged in 2024, with talk of the "Fabulous Four", but it is really the "Omnivorous One", Nvidia, up another 89% in Q1 to a $2.3tn market capitalisation on the back of 2023's 239% return. For anyone benchmarked against the MSCI World Index, not owning Nvidia cost 151 basis points (bps) of relative performance in Q1 2024, on top of 155 bps in 2023, a relative hit of over 300 bps in 15 months. The largest five stocks now make up 17% of the MSCI World Index and tend to be both fairly volatile and correlated.

This combination of ebullient and concentrated markets makes for a challenging investment environment, particularly in relative terms. Our response is to continue to think absolute… and look to compound over the long run.

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