Salt Sustainable Global Shares Fund Fact Sheet – March 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 31 March 2024

Fund Assets	$68.10 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 31 March 2024

Application	1.2785
Redemption	1.2733

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 2024

Global equities	97.7%
Cash	2.3%

Fund Performance to 31 March 2024

Period	Fund Return*	Benchmark Return
1 month	2.02%	5.13%
3 months	12.58%	15.25%
6 months	18.76%	21.85%
1 year	26.73%	30.86%
2 year p.a.	15.19%	16.30%
Since inception p.a.	10.77%	12.31%
5 year p.a.*	14.30%	15.05%

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 31 March 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 31 March 2024, the Portfolio's carbon footprint was 85% lower than the Benchmark Index.

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

Source: MSIM, data as at 31 March 2024.
The Top 10 Holdings represented 42.06% of the total portfolio.

Market Review

- The first quarter of 2024 was a positive period for equity markets as activity data around the world was supportive of a soft landing. In response, developed market equities rose 9.0% (in USD) over the quarter. A 5% fall in NZD/USD boosted unhedged returns in Q1 2024.
- It was a more challenging period for bond investors as the resilient growth along with sticky inflation prints and a less dovish Federal Reserve saw the global aggregate bond index returning -2.1% (in USD) over the three-month period.
- The most obvious implication of the strong activity/sticky inflation scenario was reflected in the shift in market pricing of the number of US rate cuts expected in 2024. At the end of 2023 seven rate cuts were expected in the US in 2024. By the end of the quarter that had been brought into line with the Fed's "dot plot" of three cuts.
- The best performing equity market of the quarter was once again Japan, with the Topix up 18.1% over the three months. That's despite the Bank of Japan beginning normalisation of its monetary policy in

March. The central bank announced the end of its negative interest rate policy, yield curve control, and its purchases of equity exchange traded funds and real estate investment trusts.

- Inflation in the Euro area continued its downward trajectory, coming in at 2.6% in February. The ECB left interest rates on hold in March, with President Lagarde saying the ECB was unlikely to be able to cut rates in April, though June remains live for a first cut.
- The Swiss National Bank became the first developed central bank to ease policy, surprising the market with a 25bps cut in its policy rate to 1.5%. This was in the context of inflation already having fallen back to below the central bank's 2% target. The annual rate of increase in headline inflation came in at 1.2% in February.
- The Chinese economy appears to be responding to recent stimulus. Official data on retail sales, industrial production and fixed asset investment for January and February beat expectations across the board. However, we continue to believe further stimulus will be required if the official target of around 5% GDP growth in 2024 is to be met.
- In Australia, Q4 GDP data confirmed a subdued end to 2023. More recent partial indicators point to ongoing below-trend growth in early 2024. With the effects of tight monetary policy increasingly evident in activity data and inflation trending in the right direction, monetary policy is expected to remain on hold for the foreseeable future.
- In New Zealand, December 2023 quarter GDP came in at -0.1% q/q and -0.3% y/y. The economy has now contracted in four of the last five quarters. This justified the RBNZ's decision to keep rates on hold at its February Monetary Policy Statement, where it also signalled a reduced probability of future interest rate increases. We continue to believe the next move is a cut, but not until November.

Portfolio Review

- In March, the Portfolio returned +2.02% (NZD/Gross), behind the MSCI World Net Index which returned +5.13%. The Portfolio underperformed for the first quarter (Q1) returning +12.58%, versus +15.25% for the index.
- The March underperformance was largely due to stock selection, in particular weakness in Financials and, to a lesser extent, Industrials, Health Care and Consumer Staples. Sector allocation was also negative as the benefit from the underweight in Consumer Discretionary was more than offset by the Portfolio's lack of exposure to Energy and a combination of other smaller sector effects.
- For Q1 overall, underperformance was attributable to stock selection, where Financials, Health Care, Consumer Staples and Industrials underperformed. Encouragingly, sector allocation was positive due to the overweight in Information Technology, the underweight in Consumer Discretionary and the Portfolio's avoidance of the lower quality, more cyclical sectors – Materials, Real Estate and Utilities.
- The largest contributors to absolute performance during the quarter were SAP (+173 bps) as the cloud transition started to pay off, Microsoft (+118 bps) which was helped by excitement about potential GenAI revenues, TSMC (+96 bps) which forecast a return to strong 20%+ growth in 2024, Visa (+73 bps) a large position up in line with the index and Thermo Fisher Scientific (+64 bps.)
- The largest absolute detractors were AIA Group (-46 bps) held back by general China concerns and its financial results aside from the strong new business profits, Reckitt Benckiser (-32 bps) hit by disappointing Q4 numbers and then an adverse court judgement for its Baby Nutrition business, Zoetis (-7 bps) which was hit by an EU competition investigation, Nike (-2 bps) concerns about the economics of its direct-to-consumer business (DTC) and L'Oreal contributing (+1 bps) which gave up some of last year's gains despite decent results.

Commentary & Outlook (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.