Salt Sustainable Global Shares Fund Fact Sheet – February 2025

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

To achieve the Fund's investment objectives, 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 2025

Fund Assets	$89.89 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 28 February 2025

Application	1.5127
Redemption	1.5066

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 Allocations at 28 February 2025

Global equities	98.3%
Cash & sundry items	1.7%

Fund Performance to 28 February 2025

Period	Fund Return	Benchmark Return
1 month	0.11%	0.17%
3 months	7.64%	5.68%
6 months	16.19%	16.69%
1 year	22.21%	25.72%
2 year p.a.	26.00%	26.39%
3 year p.a.	15.87%	17.37%
Since inception p.a.	13.43%	14.54%

Performance is before fees and tax and adjusted for imputation credits.
Benchmark (MSCI World Index in NZD) performance is gross.

Fund holdings

Top 10 holdings	
VISA (US)	L'Oreal (FR)
SAP (DE)	Accenture (US)
Microsoft (US)	Intercontinental Exchange (US)
Aon (US)	CME (US))
Procter & Gamble (US)	Arthur J Gallagher (US)

Source: MSIM, data as at 28 February 2025.
The Top 10 Holdings represented 39.5% of the total portfolio.

The Portfolio's weighted average carbon intensity (WACI) was 83% lower than the MSCI AC World Index.[A]

Market Review

- After a strong start to the year, equity markets lost their momentum in February. Uncertainty about the Trump policy agenda and re-emergent concerns about US growth was the key negative catalyst. The weak US market performance saw developed market equities down -0.7% over the month (in USD).
- Global bonds benefitted from the weaker growth sentiment despite the broader concern that tariffs would lead to higher inflation. We think there was also a geo-political "flight to safety" element in the stronger bond market performance. Treasury yields fell over the month, helping the global aggregate bond index to a +1.4% return (in USD).
- US consumer and business sentiment surveys weakened over the month. A survey of consumer confidence saw its biggest decline since August 2021 as inflation expectations spiked sharply higher. That will be of concern to the US Federal Reserve. Weaker Purchasing Manager Index (PMI) data has raised the risk of firms pulling back on or delaying hiring and investment intentions.
- European equities reacted positively to the prospects of a ceasefire in Ukraine. Defence stocks benefitted from a renewed focus on defence spending. Weak growth and favourable inflation data points to further easing in monetary conditions.

- Japan's GDP expanded at an annualised rate of 2.8% in the December 2024 quarter, significantly exceeding consensus analyst estimates and marking the third straight quarter of expansion. Stronger growth and rising inflation reinforce expectations of further interest rate increases ahead.
- Activity data in China continues to improve, though we think much of this improvement is due to manufacturing exporters front-running US tariffs. A more sustained improvement is still required, and we continue to believe that further consumption-focussed stimulus required.
- The Reserve Bank of Australia cut interest rates for the first time in February, reducing the cash rate 25bp to 4.1%. The accompanying Statement was hawkish, pushing back on expectations of more to come, at least automatically. The RBA's caution was driven by the fact that while inflation has fallen faster than expected, the labour market remains tight at levels well beyond estimated full employment. We are expecting a short, shallow cutting cycle with probably one or at most two 25bp cuts to come.
- Economic data in New Zealand continues to point to a stabilisation in activity following the weak June and September quarters. The Reserve Bank of New Zealand cut the Official Cash Rate 50bps to 3.75% and signalled 2-3 more cuts at a more subdued 25bp pace in the months ahead.

Portfolio Review

- At the end of a bumpy February, the Portfolio returned +0.11% (Gross/NZD) for the month. This takes the year to date (YTD) returns to +4.85%, outperforming the index. For reference, the MSCI World Net Index returned +0.17% in the month and +2.76% for 2025 YTD.
- In terms of the Portfolio's relative performance in February, outperformance in Financials and Consumer Discretionary were notable gains within stock selection, whilst Health Care, Information Technology and Communication Services were relatively weaker.
- Regarding sector allocation, the Portfolio was boosted by the Consumer Staples overweight as well as the Consumer Discretionary and Communication Services underweights.
- For the month, the largest contributors to absolute performance were: **AON** (+41 basis points [bps]), **Visa** (+39 bps), **Coca-Cola** (+34 bps), **Arthur J. Gallagher** (+31 bps) and **Intercontinental Exchange** (+28 bps).
- The largest absolute detractors during the month were **Alphabet** (-55 bps), **UnitedHealth Group** (-35 bps), **Accenture** (-32 bps), **Thermo Fisher** (-29 bps) and **TSMC** (-28 bps).

Market Review & Outlook
(Morgan Stanley Investment Management)

The MSCI World Index saw a lacklustre return of -1% (local currency; +0.2% NZD) in February, hampered by a slight derating of those sectors trading at a premium to the market – most acutely, consumer discretionary and communication services. Notwithstanding this mild compression, we believe market multiples remain elevated, with the MSCI World Index multiple still at a 19x next twelve-month (NTM) price-to-earnings (PE) ratio and margins hovering around record highs. [1]

Optimists might argue that high market expectations are backed by a relatively healthy U.S. economy, where forecasted gross domestic product (GDP) growth of plus 2% for 2025 is achievable through Trump's pro-growth agenda. The opposing argument is that inflationary risks tied to tariffs and immigration policies hit consumer sentiment and result in slower growth. The sharp deterioration in U.S. consumer confidence in February, attributed to "the current administration and its policies",[2] might suggest that some of these concerns are already beginning to play out.

Market earnings expectations for 2025 are also optimistic. The MSCI World Index is expected to deliver 12% annual earnings per share (EPS) growth over the next two years. This seems a tall order, given revenue growth is forecast to be only 5%, leaving a 7% delta to be made up through further margin improvement from already near-peak levels. While artificial intelligence (AI) might squeeze out further efficiencies in time, few corporates are talking about revenue and efficiency gains from GenAI (generative AI) in 2025.

As bottom-up, fundamental investors, we do not claim to have particular macroeconomic insights, however, we do believe caution is warranted. Outside the U.S., geopolitical tensions threaten an already meagre growth outlook in Europe, while looser fiscal and monetary policy measures in China reflect an attempt to prop up growth in the face of escalating headwinds. With a wealth of economic data set for publication in the coming month, including U.S. nonfarm payrolls, worldwide purchasing managers index (PMI) surveys and European Central Bank interest rates, the next few months might be a bumpy ride.

Where we can provide greater perspective, however, is the portfolio, which looks well placed in both a relative and absolute sense. Consensus puts the portfolio's EPS growth at around 11% per year over the next two years. This looks achievable, based on the estimated 7% annual revenue growth, with some modest help from operational leverage, acquisitions and buybacks making up the other 4% of EPS growth.

We believe this seems much more credible than the margin driven 12% annual EPS growth expected for the index. With markets at lofty levels, we believe that a strategy which should deliver steady compounding through decent top-line growth and resilient earnings, which is trading virtually in line with the index in free cash flow (FCF) terms, serves as a core allocation in clients' portfolios.

Notes

A. Source: Trucost. WACI is calculated using Scope 1 & 2 emissions per $m of company revenue. The term carbon refers to greenhouse gas (GHG) emissions, measured in metrics tonnes of carbon dioxide equivalent (CO_2e) emissions. Our data provider's methodology follows the GHG protocol and includes carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6) and Nitrogen Trifluoride (NF_3), calculated in metric tonnes of CO_2 equivalent. Some carbon/carbon equivalents data may be estimated by the data provider. Data excludes any portfolio cash holding in the denominator.

1. Source for data cited: FactSet. Valuation/multiple data as of 28 February 2024. Data reflecting consensus expectations for GDP and earnings growth as of 31 December 2024.

2. Source:https://www.conference-board.org/topics/consumer-confidence