Salt Sustainable Global Shares Fund Fact Sheet – January 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 31 January 2025

Fund Assets	$89.93 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 31 January 2025

Application	1.5126
Redemption	1.5064

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 31 January 2025

Global equities	97.8%
Cash & sundry items	2.2%

Fund Performance to 31 January 2025

Period	Fund Return	Benchmark Return
1 month	4.73%	2.59%
3 months	11.36%	11.02%
6 months	14.01%	13.51%
1 year	28.19%	32.19%
2 year p.a.	25.89%	27.41%
3 year p.a.	13.41%	15.15%
Since inception p.a.	13.70%	14.82%

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	
SAP (DE)	Aon (US)
Microsoft (US)	Procter & Gamble (US)
VISA (US)	Alphabet (US)
L'Oreal (FR)	Keyence (JP)
Accenture (US)	Intercontinental Exchange (US)

Source: MSIM, data as at 31 January 2025.
The Top 10 Holdings represented 39.6% of the total portfolio.

The Portfolio's weighted average carbon intensity (WACI) was 82% lower than the MSCI AC World Index.[A]

Market Review

- It was a strong start to 2025 for developed market equities with a rise of 3.5% (in USD) and 2.6% in NZD, led by Europe. Bond yields were volatile over the month with the global aggregate index eking out 0.6% USD / 0.4% NZD hedged, on tighter credit spreads.
- The return of Donald Trump to the White House and his "America First" agenda was positive for US equities, but the policy detail of tax cuts, immigration curbs and tariffs fuelled expectations of higher US inflation in the period ahead, pushing up sovereign yields.
- The emergence of the Chinese artificial intelligence company Deepseek challenged the already stretched valuations of the US technology sector. Market concentration in the US tech sector is at record levels and is vulnerable to disruption or earnings disappointment.
- Europe's equity market outperformance over the month was aided by better economic data with the composite Purchasing Managers' Index (PMI) nudging into positive territory at 50.2 in January. The market was also helped by its lower exposure to technology. The European Central Bank cut the deposit rate 25bp to 2.75% at the end of the month.

- The Bank of Japan raised interest rates by 25bp to 0.5% at its January meeting. This reflects the Bank's growing confidence of sustained increases in wages and core inflation. Further interest rate increases appear likely.

- China saw more positive economic news over the month, suggesting past stimulus measures are having an impact. We also attribute some of the better manufacturing data to the front loading of exports to the US ahead of tariffs being imposed, which may not be sustained. Indications are that tariffs on China may be less aggressive than suggested prior to the US election.

- In Australia, better than expected inflation data has opened the door to first interest rate cut by the Reserve Bank of Australia in February. The interest rate cutting cycle appears likely to be short and shallow, especially given the ongoing tightness in the labour market.

- Activity data was mixed in New Zealand over the month, but on balance supportive of a bottoming out of the recent sharp decline in aggregate activity. Developments have been broadly in line with RBNZ projections, thereby providing nothing to dissuade the Bank from proceeding with the already flagged 50bp cut in the Official Cash Rate at its next meeting in February.

Portfolio Review

- In a strong start to the year, the Portfolio provided a positive return of +4.71% in January, while the MSCI World Net Index returned +2.59% in NZD.
- In January month, the Portfolio's outperformance relative to the market was mainly due to stock selection, with Information Technology (IT) a standout positive contributor against a relatively weak sector.
- Stock selection in Health Care and Industrials was also positive, and outweighed the negative impact from Financials.
- In terms of sector allocation, the Communication Services underweight and the IT overweight were detractors, partly mitigated by the benefit of the Portfolio's overweight in Health Care.

- For the month, the largest contributors to absolute performance were reassuringly driven by stock specifics, as companies reported strong results in the month.

- The top contributor was **SAP**, which delivered a good set of fourth quarter (Q4) and full year 2024 results, with revenues up 10% and margins lifting operating profit +26%. The company continues to benefit from growth in its cloud business, which is likely to experience further positive tailwinds from artificial intelligence (AI) demand. **Visa** also performed well after the company reported robust first quarter results and raised full year guidance, driven by strong payment and cross-border volumes over the festive period. **Thermo Fisher** was the third largest contributor, reporting solid Q4 and full year 2024 results where full year EPS (earnings per share) surpassed expectations, driven by +90 bps of margin expansion.

- Other top contributors included **Abbott Laboratories**, also driven by strong results and robust organic growth, and **Accenture**, as hope of a demand recovery strengthened.

- The largest absolute detractor in January was **Booking Holdings**, which was weak on the month, after a period of strong performance, caught up in the concerns around the impact of AI on online travel agents.

- **AIA** continues to be weak as the market worries about the China business. **Microsoft** was also weak after reporting Azure revenue growth of "just" +31%, trailing the previous two quarters. The generative AI (GenAI) element of Azure was very strong, with overall GenAI revenues at a $13 billion run rate, but management admitted that this had distracted from the core "non-AI" business, something they intend to remedy over the next few quarters. Despite this issue, overall revenue and earnings were better than expected. Also, amongst the top detractors were **Haleon**, which fell on the back of weak consumer demand, and **Procter & Gamble**, predominantly due to fears around Chinese demand, as revenue growth from the region, while improving, remains negative.

Market Review
(Morgan Stanley Investment Management)

The MSCI World Index had a reasonable start to the year, returning +3.5% in both U.S. dollars (USD) and local currency (+2.59% in NZD), despite a sudden end-of-month tech sell-off. January saw the return of President Trump to the White House with his policy agenda for 'America First' and although not officially announced before month end, new tariffs on both Canada and Mexico (25%) and against China (10%) were promised.

However, the last week of the month was somewhat of a rollercoaster for the U.S. market as the emergence of Chinese artificial intelligence (AI) start-up, DeepSeek, sent ripples through the U.S. technology sector, leading investors to question the impact of greater competition and the sustainability of margins and profits for the large incumbent AI-related stocks.

The sell-off saw NVIDIA's market value fall 17%, resulting in a market cap loss of nearly $600 billion, the largest fall for any company in a single day in U.S. history. As a result, Information Technology (-1%) was the only negative sector in the month. Communication Services (+9%) was the month's top performing sector, thanks in part to some of the contributions made by two of the Magnificent Seven[1] which managed to avoid the worst of the rout with Meta gaining 18% and Alphabet 16% in the month.

Financials followed second (+7%), whereas the Portfolio's key defensive sectors straddled the index, with Health Care (+6%) and Consumer Staples (+2%), while all other sectors were within 200 bps of the index.

In terms of geography, Europe outpaced all other major markets in January as investors fled the U.S. technology stocks and rotated into eurozone stocks, with Germany the best performing country (+9%), followed by Switzerland, France, Spain and Italy, all up +8%. The UK (+5%) and the U.S. (+3%) straddled the index whilst Hong Kong (-2%) was in the red.

Outlook: The tech takeover (Morgan Stanley Investment Management)

Why technology is everyone's business

We are witnessing a rapid technological revolution. Just 14 months after the launch of ChatGPT, generative AI has moved mainstream, while enthusiasm surrounding agentic AI – systems capable of independent decision-making – and robotics continues to build. As our largest sector weight, Information Technology serves as a cornerstone of our global portfolios, led by the software industry and other select high quality compounders.

These well established, highly profitable companies consistently deliver high returns on operating capital, fortified by sticky recurring revenues, robust pricing power, and strong free cash flows. We believe they represent the best of both worlds – resilient franchises with solid growth prospects. At the heart of our holdings lie long held, deeply embedded, market-leading firms like Microsoft, SAP and Accenture, driving transformative change for themselves and their clients.

But the story doesn't stop with the Tech sector itself. In today's fast-evolving global economy, technology transcends boundaries and sector classifications; it's everyone's business. Across every industry, from financial services to luxury goods, technological innovation is re-shaping growth trajectories and redefining operational excellence. Companies such as Intercontinental Exchange (ICE) and Visa showcase how digital integration, AI and cloud computing are now essential engines of competitive advantage. The future belongs to those who embrace this transformation – and we believe our global portfolios hold many of the companies that are leading the way.

From exchange pits to electronic bits

ICE was originally founded to digitise energy markets. Today, its technology underpins global financial infrastructure, enabling real-time data analytics and seamless transactions. Its latest initiative? Automating the real estate lifecycle to create seamless experiences for homeowners, lenders, and servicers.

Elsewhere, Visa uses AI-driven fraud detection systems to showcase the intersection of innovation and security. By using machine learning to analyse billions of transactions, Visa not only protects its network but fosters trust, driving transaction volumes and customer loyalty.

Consumer health provider Haleon has collaborated with Microsoft to improve the accessibility of its health products for those who are blind or have impaired vision. By integrating AI with the Microsoft Seeing AI application, users can scan barcodes of over 1,500 products to receive narrated information about the product including name, ingredients and usage directions.

The dual role of technology: growth and efficiency

Technology's power lies in its dual ability to drive growth while optimising operations. It enables businesses to capture new markets, improve profitability, and sustain relevance in an evolving landscape.

Take Jack Henry, for example. By delivering cloud-based solutions to community banks and credit unions, the company modernises operations, enhances scalability, and integrates seamlessly with third-party FinTech solutions. Its unified platform helps accelerate decision-making, reduce costs, and elevate service quality, demonstrating how technology can empower even smaller players to compete at scale.

SAP uses AI in predictive maintenance on its SAP HANA platform. Using deep learning algorithms to analyse key performance indicators, SAP HANA can proactively identify potential system anomalies before they lead to failures. Using predictive insights rather than reactive responses reduces downtime and helps optimise operational efficiency.

Digital reach and operational excellence

Companies like L'Oréal exemplify the opportunities digital reach provides. By leveraging social media, augmented reality, and data analytics, L'Oréal develops trend-responsive products and hyper-targeted marketing. Its makeup Genius app allows users to try on products virtually. By scanning the user's face, the app analyses over 60 facial features, enabling the simulation of various makeup looks in real time. Skin Genius and SkinConsult AI provide personalised skincare recommendations, and the company's collaboration with ModiFace extends the virtual "try-on" across the range including skincare, makeup and hair colour.

Operational efficiency is also transforming industries. In Health Care, Thermo Fisher Scientific integrates digital tools to streamline global research collaboration. Elsewhere, leading consulting firm Accenture uses AI and automation to optimise client operations, freeing resources for higher-value tasks.

Lessons from legacy: technology's evolutionary impact

History underscores the transformative power of technology. Procter & Gamble (P&G), for example, revolutionised marketing with its brand management system in the early 20th century, streamlined supply chains with electronic data interchange in the 1980s, and now uses AI and robotics to optimise manufacturing and inventory.

But not every success story has been smooth. Even today's tech giants have faced missteps. Microsoft was initially slow to embrace the internet revolution, ceding early ground in web browsers, search engines and e-commerce to rivals like Netscape, Google, and Amazon. The company also stumbled in mobile operating systems, where a late and unfocused entry left Apple and Android to claim the market. Satya Nadella revitalised Microsoft, prioritising cloud computing with Azure, pivoting to subscription-based software, establishing a leadership position in AI, building out gaming and enterprise services, and driving innovation across business units. The leadership's effective capital allocation through key investments and acquisitions has helped fuel sustained growth and market expansion.

AI is everywhere; looking beyond NVIDIA

AI innovation is proceeding at a very rapid clip – as seen by the remarkable progress recently announced by Chinese AI company DeepSeek, which released an

AI model with performance metrics on a par with OpenAI's o1, though critically built on a comparatively shoestring hardware budget. This reinforces our belief that in the long term, the implications of AI on the real economy are likely to be profound, as the reduced cost of AI technology services allows the development of more use cases.

Clearly to date a lot of the market's focus on AI has been on a handful of hardware providers (the so-called "picks and shovels"), most notably NVIDIA.

DeepSeek's progress was a reminder that there is a wide range of potential outcomes in terms of longer-term AI chip demand. This uncertainty, together with the risk of competition (including from its own hyperscaler customers), high cyclicality and rich valuation, is the reason we don't own NVIDIA.

We see significant AI-related opportunities for the tech companies we do own. We also own a significant number of data-centred companies (e.g. credit bureaus, information service providers, exchanges). These businesses hold significant levels of proprietary data which, together with their strong pricing power, we believe will allow them to be AI beneficiaries since they are able to offer through AI additional services and apply technology more efficiently.

The cost of technological complacency

The benefits of embracing technology are undeniable – but the risks of ignoring it are just as stark. Companies that fail to harness technological advancements risk losing market share, falling behind more agile competitors, and tarnishing their reputations. History is replete with cautionary tales. Take Intel, for example – a once-dominant innovator that struggled to adapt to shifts in the semiconductor market, from delays in advancing its manufacturing processes to missing the boat on key trends like mobile and GPUs (graphics processing units). Its missteps underscore how even market leaders can falter when they fail to prioritise technological progress.

Being actively selective

At a time when markets are mesmerised by a clutch of U.S. "big tech" names, it's useful to look beyond them to the digital transformation taking hold across industries. Whether we're evaluating a leading technology company, or a leader in any other sector, our approach is grounded in identifying the high-quality fundamentals that drive long-term compounding. Once we believe the quality foundations are in place, we dive deeper – assessing the strength of the franchise and the ability of the management team. How effectively are they building competitive advantages, particularly through the development and strategic application of technology? This focus on technology also forms a key pillar of our risk assessment. Is a company's technological adoption merely reactive or is it proactively setting the stage to gain market share, improve scalability, and achieve superior returns? By staying selective and engaged, we look to ensure we're investing in high quality businesses that are not simply keeping up with the times but leading the way.

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. "Magnificent Seven" is comprised of: Alphabet, Amazon, Apple, Meta, Microsoft, NVIDIA, Tesla.