SALT

Salt Sustainable Global Shares Fund Fact Sheet – February 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 29 February 2024

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	$66.77 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 29 February 2024

Application	1.2543
Redemption	1.2492

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 29 February 2024

Global equities	98.0%
Cash	2.0%

Fund Performance to 29 February 2024

Period	Fund Return*	Benchmark Return
1 month	5.01%	5.32%
3 months	11.88%	12.19%
6 months	9.39%	9.91%
1 year	29.92%	27.06%
2 year p.a.	12.84%	13.41%
Since inception p.a.	10.27%	10.57%
5 year p.a.*	14.66%	14.19%

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 29 February 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 MSCI World 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 1 February 2024, the Portfolio's carbon footprint was 85% lower than the MSCI World Index and 84% below AC World.

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

Source: MSIM, data as at 29 February 2024.
The Top 10 Holdings represented 42.49% of the total portfolio.

Market Review

- February was a good month for equity market returns, reflecting generally resilient economic data and solid earnings reports, especially in the United States. Developed market equities rose 4.3% over the month (in USD). It was not such a good month for fixed income markets as the stronger data saw an ongoing pullback in interest rate reduction expectations, both in terms of quantum and timing. The global aggregate index was down -1.3% (in USD) over the month.
- Economic data was strong in the US. The US composite Purchasing Managers Index (PMI) remained in expansion territory in February, and the economy added 353,000 jobs in January. The unemployment rate has now remained unchanged for 3-months at 3.7%. Stronger than expected outcomes for both the CPI and PPI led to expectations of a strong core PCE result after 3-months of more muted increases.
- In Europe, the composite PMI rose more than expected to 48.9 in February. That is still in contraction but suggests the worst of the downturn may be over. January inflation came in at 2.8%, still above the ECB's 2% target. Expectations for a first interest rate cut from the

ECB next quarter have grown stronger recently, however, interest rate markets scaled back their bets on the magnitude of cuts this year after the PMI result.

- In Japan, the Topix saw another healthy rise of 4.9% over the month. That was despite a weaker-than-expected GDP print for the December quarter of -0.1%, placing the economy in a technical recession. It should be noted that the economy's reopening drove strong GDP growth in the first half of the year, so Japan's average annual growth for 2023 was strong both on a real basis (+1.9%) and on a nominal basis (+5.7%).
- The Chinese share market had a better month in February. Activity data over the Lunar New Year resulted in stronger economic activity while the authorities announced several stimulus measures, including a larger than expected cut to the 5-year loan prime rate. Speculation was also building through the month about the likelihood of some form of fiscal measures to be announced at the National People's Congress in early March.
- The Reserve Bank of Australia kept rates on hold in February and softened its tightening bias, but by less than expected. While risks are viewed as balanced, there is still concern about resilient inflation, especially services, which is contributing to cautious guidance. We think the RBA will be one of the last central banks to start cutting interest rates.
- In New Zealand, December quarter labour market was not as soft as expected. The unemployment rate rose from 3.9% to 4.0% over the quarter, but this was less than the 4.2% forecast by the RBNZ. This saw a significant change in market expectations of the next move in interest rates from a cut to further hikes. In the end, sense prevailed and the RBNZ left interest rates unchanged at the February Monetary Policy Statement. They also flagged less probability of future hikes.

Portfolio Review

- In February, the Portfolio returned +5.01% (NZD/Gross), behind the MSCI World Net Index which returned +5.32%. The Portfolio has outperformed for the year-to-date (YTD), returning +10.35% versus +9.63% for the index in the first two months of 2024.
- The Portfolio delivered strong absolute performance for the one-year period, returning +29.92%, which lifted its 12-month return to 2.86% above the index's +27.06% performance for the period.
- Given the Portfolio is designed for long-term capital appreciation through compounding and reduced downside participation, lagging the index in such a sharp up-year as 2023 can occur, as it previously did during the second half of 2020. This resolved in January 2024.
- The February 2024 underperformance was due to both stock selection and sector allocation. Strength in Health Care was not quite sufficient to overcome the weakness in Consumer Staples, Information Technology and Communication Services, while the Consumer Discretionary underweight hurt relative returns.
- The largest contributors to absolute performance during the month were IQVIA (+58 basis points [bps]), SAP (+46 bps), TSMC (+43 bps), ICE (+35 bps) and Microsoft (+34 bps).
- The largest absolute detractors were Reckitt Benckiser (-36 bps), New Stock Purchase (-7 bps), Moody's (-2 bps), whilst FactSet and Becton Dickinson both detracted -1 bps.

Commentary & Outlook (Morgan Stanley Investment Management)

In March 2024, Head of the International Equity Team William Lock celebrates 30 years as a member of the team. Taking this milestone as a chance for reflection, he shares lessons he has learned.

1. **Pick great businesses and get out of the way of the long-term compounding**
We seek well-managed companies which can grow at long-term sustainably high returns on operating capital with low volatility of operating profits, pricing power and limited leverage. Identifying companies with these characteristics is very important but just as important is giving these natural long-term compounders time to compound.

2. **You win twice with high quality equities**
Avoiding the permanent destruction of capital is just as important for investors as the chance to make money. I like to say you win twice by investing in our high-quality equity approach: you win by sticking with winning businesses that compound in a superior way over the long term and you win again by losing less in market downturns. Winning twice drives good long-term absolute returns.

3. **Think absolute, not relative**
We focus on absolute risk – the chance of losing money on an investment – not risks relative to a benchmark. We concentrate on mitigating any financially material franchise, regulatory, management, ESG, and valuation risks associated with our businesses. We believe that thinking in absolute terms means we are more likely to pick long-term winners and avoid the losers.

4. **What you don't own is just as important as what you do own**
Certain sectors or industries don't make the grade for our high-quality portfolios, for example banks, utilities, real estate and energy.

5. **Valuation matters**
We're not just fussy on quality, we're also fussy on price – call this being double fussy. Being double fussy has driven our long-term returns and the shape of those returns. We seek to buy and own companies at or below a conservative estimate of their long-term intrinsic value. Valuation discipline matters and we focus on free cash flows rather than earnings, because cash is real.

6. **Engage and trust your instincts with management**
We engage with management to understand if they share our same long-term perspective in how they run the company, and if they allocate cash accordingly. Many pay plans incentivise short-term outcomes which get management paid but could have damaging outcomes for long-term compounding. We seek to be aware of what behaviour is incentivised and whether management will act on these incentives, and we try to encourage change in pay plans we don't like.

7. **High quality asymmetric portfolios serve investors well as a core allocation**
Investment strategies which can compound over time with a high-quality asymmetric profile can reap stronger and steadier rewards over time; for example, it is better to capture 80% of the upside and only lose 50% on the way down than achieve 100% on the way up and lose everything on the way down.

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8. **Remain curious**
   I believe the secret to longevity in this business is to remain interested, to keep learning and to continue to ask the right questions. I've learned to encourage my team to question everything and everyone and foster a culture that rewards curiosity.

9. **Stay relevant**
   What we look for has never changed – buy businesses which can grow at sustainably high long-term returns on unlevered operating capital and at low volatility of unlevered operating profit. However, where we find such businesses has changed over the years. Recognise the need to stay relevant without giving up your basic principles and discipline.

10. **Quality is worth the wait**
    Our investment approach focuses on identifying high quality companies that can compound. The art, as we have learned, is being patient enough to allow them the time to do so.

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