Salt Sustainable Global Shares Fund Fact Sheet – September 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

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 30 September 2024

Fund Assets	$76.21 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 30 September 2024

Application	1.3124
Redemption	1.3071

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 30 September 2024

Global equities	97.7%
Cash & sundry items	1.3%

Fund Performance to 30 September 2024

Period	Fund Return	Benchmark Return
1 month	0.26%	0.13%
3 months	4.93%	1.86%
6 months	3.36%	2.62%
1 year	22.76%	25.04%
2 year p.a.	18.30%	19.81%
3 year p.a.	10.74%	12.05%
Since inception p.a.	10.12%	11.15%

Performance is before fees and tax and adjusted for imputation credits.
Benchmark performance is gross.

Fund holdings

Top 10 holdings	
Microsoft (US)	Alphabet (US)
SAP (DE)	Intercontinental Exchange (US)
VISA (US)	United Health Group (US)
Aon (US)	Proctor & Gamble (US)
Accenture (US)	Becton Dickinson (US)

Source: MSIM, data as at 30 September 2024.
The Top 10 Holdings represented 38.77% of the total portfolio.

Market Review

- The September quarter was a good one for diversified investors with solid returns across most major asset classes. However, it was not a smooth ride with several bouts of volatility along the way. A weak labour market report out of the US combined with an interest rate hike by the Bank of Japan saw stocks hit hard in August. That was soon followed by the long-awaited start of the US rate cutting cycle, a less hawkish tone from the BoJ and a super-sized stimulus package in China that all helped sentiment and paved the way for a strong rally in stocks by quarter end.

- Developed market equities rose 6.4% over the quarter, while the global aggregate bond index rose 7.0%. Interest rate sensitive asset classes did particularly well with global REITs up 16.2%. All percentages are in USD terms.

- The US Federal Reserve began its easing cycle with a 50bp cut at its September meeting. While a cut had been well-telegraphed, the quantum was a surprise. Various FOMC member comments had increasingly focussed on the softening labour market, though markets weren't of the opinion that the deterioration had been sufficiently significant to warrant a super-size cut. While 25bp cuts appear likely from here, the Fed has demonstrated a willingness to be more aggressive if needed.

- The European Central Bank has been taking a "cut at every other meeting" approach, cutting in June and September while skipping August. Ongoing disinflation and recent weak activity data could see them stepping up to cuts at every meeting from October. The Bank of England has taken a similarly cautious approach by cutting in July but skipping September on the back of persistent strength in wage growth.

- In Japan a rate hike by the BoJ along with hawkish guidance from Governor Ueda led to a sharp appreciation in the Yen and a sudden unwinding of "carry trades" that rely on cheap Japanese borrowing costs. Stocks fell sharply, though pared those losses as Ueda struck a less hawkish tone later in the quarter.
- The Chinese authorities announced a raft of easing measures in September. None of them were significant in themselves, but the fact they were all announced together as a package was welcomed as a sign the authorities were taking China's challenges more seriously.
- The Reserve Bank of Australia continues to take a hawkish tone in its Statements. While some progress has been made in the disinflation process, it has been too slow and of insufficient magnitude. The labour market is the key concerned where renewed demand for labour has stalled the opening up of spare capacity.
- In New Zealand, data continued to point to the dire state of the economy. June quarter GDP growth came in at -0.2% q/q which was better than expected but underlined the ongoing weakness in activity. The unemployment rate rose to 4.6%, also in the June quarter, and is expected to head sharply higher over the next few months. The RBNZ cut the Official Cash Rate by 25bp to 5.25% in August and signalled further cuts to come in the months ahead.

Portfolio Review

- In September, the Portfolio returned 0.26% (Gross/NZD), while the Benchmark Index returned 0.13%. For the three-month period, the Portfolio returned 4.93% gross, well ahead of the Index's 1.86% quarterly return in NZD.
- The portfolio showed its defensive characteristics during the "summer tremor" between 16th July and 5th August, returning +1.15% against the index's peak to trough fall of -5.34%.
- The Portfolio has returned +16.37% for the 2024 year to date (Gross/NZD), versus +18.27% for the Index. Our focus is on absolute compounding over the long term.
- Stock selection was positive in September, thanks to outperformance in Health Care, Financials and Consumer Staples. Sector allocation meanwhile was negative, as the drag from the Heath Care overweight and Consumer Discretionary underweight outweighed the benefit from the Portfolio's avoidance of Energy.
- For Q3 overall, the outperformance was primarily due to stock selection, where strength in Information Technology, Health Care, Financials and Consumer Staples comfortably outweighed Communication Services weakness. Sector allocation was also positive, as the benefit from the Portfolio's avoidance of Energy and overweight to Financials was more than enough to counter the drag from the lack of Utilities holdings.
- The largest contributors to absolute performance during Q3 were AIA (+51 basis points [bps]), Accenture (+47 bps), Intercontinental Exchange (+45 bps), Haleon (+44 bps), and SAP (+41 bps).
- The largest absolute detractors were Microsoft (-46 bps), Alphabet (-43 bps), Universal Music Group (-15 bps), Roper (-11 bps), and AutoZone (-10 bps).
- At the strategy level, some key detractors were Alphabet, due to ongoing concerns surrounding the tech industry's significant AI capex spend, and Revvity, after very strong performance in July, while RELX and Broadridge Financial, were roughly flat in the month.

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

The MSCI World Net Index returned +1.8% in USD in September, and despite the July/August volatility, still managed a very decent return in Q3 of +6.4% USD although NZD strength in Q3 meant the NZ dollar return was +1.9%. This pushes up the index's YTD return to a mighty +19% in USD, and +18.3% in NZD terms.

At the time of writing consumer staples appear out of favour. Since the end of the pandemic, while the sector's earnings have grown mid-single digit per year [1], close to the broader market's growth, its stock prices have struggled in relative terms. Compared to the MSCI World Index, consumer staples are now at a near 25-year low in terms of relative valuation and are at their lowest weight in the index this century [2]. In contrast, investor interest has shifted toward more fashionable sectors and themes. Despite this, we believe the consumer staples sector still encompasses some of the world's most resilient and dependable companies.

High quality characteristics

High quality staples companies can play a crucial role in a portfolio by delivering consistent, reliable growth, driven by recurring revenue from the everyday products they sell. Their typical operating resilience during economic downturns serves as a key advantage, offering relative downside resilience and acting as a stabilising force within the portfolio.

Challenging times

While recent stock price returns for some consumer staples have not met expectations, over the past four years the sector has demonstrated impressive resilience, navigating the pandemic, soaring commodity costs, and numerous emerging market currency devaluations. Despite these challenges, the USD sales and earnings of our staples' holdings have managed to grow at mid-single digit levels [3], affirming their resilience and compounding potential.

The right company in the right categories

As investors we don't allocate capital by sector but focus on reasonably valued individual companies with strong fundamentals and long-term growth potential. In our view, being in the right category where brands matter and the consumer responds to innovation is key. Importantly, companies need to sustain high levels of investment in their brands in the form of marketing, research and development (R&D), supply chain capabilities and talent.

Being innovative and remaining relevant is crucial

Our holdings across beauty, home care, consumer health and beverages innovate to solve consumer needs. This expands consumer usage and drives category growth. These innovations are supported by well invested supply chains and high levels of marketing support, meaning the brand's "share of voice" is above their market share. In so doing, the companies outpace their market and grow share. We avoid food retailers, which are typically low return, capital intensive, price takers – a well-known player in the space, is successful precisely because it operates a high volume, low margin business – and mass food producers, whose competitive moats may face threats from local or specialist producers.

Pivoting to where the growth is

Agility is a key attribute we seek in our selection of consumer staples. In a world of economic and geopolitical uncertainty, the ability of management teams leading global operations to swiftly allocate resources – capital, talent and marketing – to the most promising markets is essential.

Why we believe our consumer staples can continue to compound

Looking ahead, after an exceptionally turbulent four years in which the consumer staples sector faced its most challenging environment in a generation yet demonstrated resilience, with mid-single-digit sales and EPS growth (albeit below market EPS growth),[4] we remain confident that staples justify a place in the portfolio. Our staples holdings are now at record levels of marketing and R&D spend, [5] setting them up to outgrow their market. Efficiency gains are coming from investments in automation, upgraded ERP systems, digitalisation and AI. As a result, we expect earnings growth to return to high-single-digit levels driven by a more balanced combination of volume, price mix, margin improvement and strong free cashflow. Additionally, valuations are attractive, with our holdings trading at their 20-year average, compared with what we view as a generally extended market.[1].

Sources:
1,3,4 – FactSet as of September 30, 2024
2 – FactSet as of September 30, 2024. MSCI World Index
5 – Company Reports. International Equity Team Research