Salt Sustainable Global Shares Fund Fact Sheet – November 2023

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 30 November 2023

Benchmark	MSCI World (Net) Index in NZD
Fund Assets	$59.81 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 30 November 2023

Application	1.1247
Redemption	1.1201

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 30 November 2023

Global equities	98.05%
Cash	1.95%

Fund Performance to 30 November 2023

Period	Fund Return*	Benchmark Return
1 month	3.58%	3.00%
3 months	-2.22%	-2.03%
6 months	5.21%	5.51%
1 year	14.45%	13.60%
2 year p.a.	5.26%	5.20%
Since inception p.a.	6.29%	6.49%
5 year p.a.*	12.79%	12.34%

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 30 November 2023. *5 year strategy performance is 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). *At November 30, 2023, the Portfolio's carbon footprint was 85% lower than the MSCI World Index and 86% below AC World.

Top 10 holdings	
Microsoft (US)	Constellation Software (CA)
Accenture (US)	Intercontinental Exchange (US)
VISA (US)	Becton Dickinson (US)
SAP (DE)	Danaher (US)
Thermo Fisher Scientific (US)	IQVIA (US)

Source: MSIM, data as at 30 November 2023.
The Top 10 Holdings represented 46.2% of the total portfolio.

Market Review

- After a tough October for markets, November provided a degree of respite with developed market equities and bonds both making gains over the month.
- Data over the month supported the soft-landing scenario for the US with a broader easing in inflation readings across developed markets. Developed market equities rose 9.4% (in USD) over the month with the global aggregate bond index up 5.0% (also in USD).
- In the US, still resilient though cooling data supported hopes of a soft landing in the US. Payrolls expanded at a slower rate in October while retail sales fell over the same month, suggesting consumers are moderating their spending after a stronger-than-expected run of gains. At the same time, October CPI inflation came in softer than expected. This lowered investor expectations of a final rate hike at the Fed's December meeting. However, while we may have seen the peak in rates, the minutes of the November FOMC meeting make it clear not to expect early cuts.

- Activity data in Europe remains weak, particularly for industrial production and manufacturing activity. However, the labour market continues to buck the weakening trend with a modest rise in employment over the September quarter. Lower energy price was the major contributor to the decline in the annual rate of headline CPI inflation to 2.4%. The core measure remains at a more worrisome 3.6%, prompting the European Central Bank to comment that it remains vigilant to upside inflation risks.
- Activity data in Japan remained somewhat sluggish. September quarter GDP data showed weaker-than-expected domestic demand, consumption, and capital expenditure. The focus remains on wage growth where the strength of corporate earnings supports the expectation of further wage growth next year. This should see the Bank of Japan continuing to relax its Yield Curve Control policy and end its Negative Interest Rate Policy as early as its January meeting.
- China activity data continued its improved run with retail sales up 7.6% y/y in October, however the housing market remains a source of concern. New home sales continued their year-on-year decline in October. The People's Bank of China injected further liquidity into the banking system over the month and we expect further fiscal stimulus will be provided to support consumer demand.
- As we expected, the Reserve Bank of Australia resumed rate hikes in November following a run of stronger than expected activity, labour market and inflation data. The 25bp hike took the cash rate to 4.35%. We expect one further hike to 4.6%, most likely at the February meeting.
- In New Zealand, there was a meaningful softening in labour market pressures with a decline in employment and a rise in the unemployment rate from 3.6% to 3.9% over the September quarter. Wage growth also moderated. This, along with further weakness in key activity data despite strong population growth saw the Reserve Bank of New Zealand (RBNZ) keep the Official Cash Rate on hold at 5.5% at the November Monetary Policy Statement. However, the Statement was at the hawkish end of expectations with the RBNZ maintaining its tightening bias and reinforcing the length of time for which interest rates will need to remain restrictive.

Portfolio Review

- In November, the Portfolio returned +3.58% (NZD/Gross), ahead of the MSCI World Net Index which returned +3.00%. The Portfolio is slightly behind the index for the year to date (YTD), returning +20.6% versus the index's +20.8% gain.
- The November outperformance was due to both stock selection and sector allocation. For stock selection, strength in Health Care and Industrials more than offset weakness in Financials.
- Within sector allocation, the benefit from the Information Technology overweight and the Portfolio's avoidance of Energy more than counteracted the drag from the overweight in Health Care.
- The largest contributors to absolute performance during the month were SAP (+61 basis points [bps]), Microsoft (+38 bps), Constellation Software (+36 bps). Accenture (+36 bps) and IQVIA (+34 bps.)
- The largest absolute detractors were Becton Dickinson (-45 bps), AIA (-14 bps), Steris (-12 bps), Reckitt Benckiser (-12bps), and Procter & Gamble (-8 bps).

Commentary & Outlook
(Morgan Stanley Investment Management)

After a three-month dip, November saw a very strong rebound in global equity markets, with the MSCI World Index steadily rising during the month and ending up +9.4% in USD in the month (+3.0% in NZD,) its best monthly performance in over two years. The market seems to have concluded that the federal funds rate has peaked for this cycle, with 4-5 cuts now priced in for next year, as against 2-3 a month ago. The favorable US CPI inflation reading in November (3.2% year-on-year overall, and 4.0% for the core) also helped sentiment.
The index is now up +18.0% for the year-to-date (YTD) in USD and +18.2% in local currency (+20.8% in NZD). Looking at sectors, the growth-tilted, AI-fueled Information Technology (+14%) sector was the strongest performer in November, adding further to its impressive YTD return (+47%). Other cyclical sectors were also strong; Consumer Discretionary, Financials (both +11%) and Industrials (+10%) were all up double digits. The Portfolio's key defensive sectors, Health Care (+6%) and Consumer Staples (+4%), unsurprisingly lagged in this cyclical rally, although both sectors were ahead of Energy (0%) which struggled amid falling oil prices

As noted above, the sharp rebound in the NZD/USD exchange rate in November meant that unhedged global equity returns were diluted when expressed in NZD terms. The Sustainable Global Shares Fund outperformed its benchmark index by 58 bps, with a 3.58% rise. This compared with a 3.00% rise in the MSCI World Index (NZD) for the month of November, and a 20.8% year-to-date gain. The Sustainable Global Shares Fund was in line, with a 20.6% ytd gross return.

Special Topic: GLP-1 anti-obesity drugs and associated stocks

Obesity is one of the most prevalent health crises, with almost a quarter of the global population expected to be classified as obese by 2035, up from 14% in 2020. Beyond the mental and physical impacts that obesity poses to the individual, it has far-reaching implications for the global economy: the negative macroeconomic impact is estimated to be 3.6% of U.S. GDP with a potential $1.24 trillion in indirect costs from lost productivity. GLP-1 drugs have been heralded as game changers in tackling obesity, with certain drug manufacturers building out capacity following recent U.S. Food and Drug Administration (FDA) approvals.

GLP-1 (glucagon-like peptide 1) is a natural hormone released to the gut and brain in response to food, helping to regulate blood sugar by stimulating insulin-producing cells of the pancreas when blood sugar rises too high. GLP-1 analogues have been around since 2010, largely as a treatment for Type 2 diabetes.

What's new? Previously, when injected, GLP-1 did not last long enough to reach the pancreas. The new drugs on the market solve this problem. This is a significant leap forwards in tackling obesity; studies show that it reduces body weight by 10-20%, may reduce consumption volume by up to 50% and patients may avoid more processed foods and snacks when taking GLP-1. Beyond this, patients have anecdotally reported a reduction in consumption of alcohol, drugs and tobacco as GLP-1 drugs can weaken the brain's association between stimulus and feelings associated with pleasure.

This has led to interesting reading on the potential impact of widespread use of this medication across multiple industries, e.g., airlines saving on fuel given lighter passengers. The market has recently rewarded the GLP-1 drug manufacturers as immediate beneficiaries, and MedTech and US food and beverage stocks as losers.

As long-term investors conducting bottom-up in-depth research, we believe that the medium to long term impact on our portfolios is minimal, but that is not to understate the broader effect. Today less than 1% of the US population is on GLP-1 drugs for weight loss, while ~30% of the US population is clinically obese.

In the interest of keeping things simple, we hypothesize that ~10% of the US population will be on the drug come 2034.

Consumer Staples possible impact
Some analysts estimate that GLP-1 drugs could reduce calorie intake by 15-20%. Extrapolating this figure and projecting that 25-50 million Americans would be taking the drug by 2030 could reduce the nation's calorie intake by 1-3%.5 Whilst the evidence of GLP-1 drugs negatively affecting consumption in these categories remains unproven, the advent of these new drugs may significantly challenge the US food/beverage industry's ability to compound at mid-single digit rates going forwards. The market has made its judgement with the U.S food, beverage & tobacco sub-sector down 9.9% YTD, trading at a PE discount of over 10% relative to the US market.