Salt Sustainable Global Shares Fund Fact Sheet – April 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 30 April 2025

Fund Assets	$82.44 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 30 April 2025

Application	1.3936
Redemption	1.3880

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%

* Effective 28 April 2025 the underlying Morgan Stanley Global Sustain Strategy was renamed the Global Quality Select Strategy. There is no change to the Strategy's investment philosophy and process or ESG approach.

Fund Allocations at 30 April 2025

Global equities	98.3%
Cash & sundry items	1.7%

Fund Performance to 30 April 2025

Period	Fund Return	Benchmark Return
1 month	-4.59%	-3.72%
3 months	-7.57%	-8.82%
6 months	2.93%	1.23%
1 year	14.46%	11.84%
2 year p.a.	16.29%	17.56%
3 year p.a.	13.67%	14.43%
Since inception p.a.	10.70%	11.34%

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)	Procter & Gamble (US)
Microsoft (US)	Aon (US)
VISA (US)	Booking Holdings (US)
L'Oreal (FR)	Alphabet (US)
Thermo Fisher Scientific (US)	Keyence (JP)

Source: MSIM, data as at 30 April 2025.
The Top 10 Holdings represented 41.1% of the total portfolio.

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

Market Review

- Markets were volatile in April as the implications of the evolving changes to the global trade environment impacted on share, bond and currency markets. The month started badly as President's Trump's Liberation Day tariffs surprised in both scale and scope. Share markets recovered later in the month as some measures were softened or delayed. Developed market equities ended the month up +0.9% (in USD terms) but were down -3.7% in NZD terms, with the US underperforming.
- Bond markets were similarly volatile as the yield on 10-year US Treasuries reached 4.6% in the immediate aftermath of Liberation Day, before recovering to 4.2% at the end of the month. The global aggregate bond index returned +0.9% (fully hedged to NZD) over the month. This was helped by a rally in Euro area bond yields over the month.
- US data over the month supported the case of an emerging slowdown in activity. The flash composite Purchasing Managers' Index (PMI) fell to 51.2, while the University of Michigan consumer sentiment index fell to levels not seen since the pandemic. Inflation data came in better than expected with markets pricing in up to 4 interest rate cuts from the Fed this year, which is too aggressive in our view.

- The Eurozone flash composite PMI came in at 50.1 in April. The manufacturing index was largely unchanged as the negative impact of tariffs was offset by expectations of easier fiscal policy. The European Central Bank cut the discount rate 25bp to 2.25%, with the statement noting the disinflationary process remained "well on track". The EU has not retaliated on tariffs, instead hoping to create conditions favourable to a constructive conversation with the US.
- In Japan, a rebound in the services sector saw the all-industry flash PMI rise to 51.1, however, the manufacturing index remained in contractionary territory. This reflects the heightened risks related to the expected negative impact of US tariffs on Japan's export-oriented companies.
- In the first part of the month, tit-for-tat retaliation saw US tariffs on Chinese goods increase to 145%. The US administration's apparent willingness to negotiate helped to ease tensions later in the month. A better-than-expected first quarter GDP print of 5.4% y/y also helped support a rebound in Chinese stocks.
- Global trade disruptions and the implications for Chinese growth saw markets pricing in a significant easing in monetary policy by the Reserve Bank of Australia.
- NZ March quarter CPI was at the top end of market expectations, with inflation ticking higher to 2.5%. Activity data was broadly consistent with the theme of a stabilisation seen in recent months. The RBNZ cut the Official Cash Rate 25bp, lower than their recent pace of 50bp cuts, to 3.5%. The accompanying statement outlined that downside risks to inflation and growth had risen from tariffs, but there is scope to lower the OCR further should it be deemed appropriate.

Portfolio Review

- In April, the Portfolio returned -4.59% (NZD/Gross) while the MSCI World Net Index returned -3.72% (in NZD). In USD terms the markets finished the moth modestly positive.
  A headline return that tells little of the high levels of intramonth market volatility witnessed in April. Following the 'liberation day' tariff announcement at the start of the month, markets sold off aggressively, during which time the Portfolio proved resilient, drawing down significantly less than the market. However, after news of a 90-day pause on 'non-reciprocal' tariffs, markets rallied strongly to make back all of their losses from earlier in the month (in USD terms), during which time the Portfolio failed to keep pace with the rising index. Nonetheless, the Portfolio has outperformed the MSCI World for the year to date (YTD), returning -3.20% (before fees/tax) versus the index's -6.46% (in NZD).
- The largest contributor to absolute performance during the month was L'Oréal (+69 basis points [bps]), which returned an impressive +19% in USD on the back of better-than-expected first quarter (Q1) 2025 results, with organic growth bolstered by strong demand in Europe and a modestly improving China market.
  The company also affirmed its strong position in the face of U.S. tariffs, which it expects to be able to manage by virtue of its local production facilities and healthy gross margins.
- Other key contributors in the month were: SAP (+57 bps), following healthy Q1 results backed by impressive cloud revenue growth (+26% in the quarter) and sharply improving margins; Booking Holdings (+35 bps), which, despite initially falling on tariff news, rallied to return double-digits in the month, helped by its strong international presence and a solid set of results, Microsoft (+34 bps), as the share price partly recovered after the first quarter tech sell-off in anticipation of its Q1 results in May, and; Constellation Software (+26 bps), where strong defensive attributes and a history of disciplined capital deployment supported the stock's rally after a brief sell-off early in the month.
- Three of the five largest absolute detractors in the month were Health Care names. UnitedHealth (-40 bps) fell over 20% on the back of its Q1 results. Despite just a 1-2% miss on revenue and earnings per share (EPS) relative to consensus – the company's first quarterly earnings miss since 2008 – the decline was largely driven by an unprecedented 12% downgrade to full year EPS guidance, which took investors by surprise.
- Elsewhere in the sector, Thermo Fisher (-37 bps) was down double-digits as management cut full year guidance, citing negative tariff impacts and changes to U.S. federal spending, while Becton Dickinson (-23 bps) fell -9% mainly on account of tariff fears and concerns over upcoming results. In Financials, the insurance brokers, Aon (-45 bps) and AJ Gallagher (-22 bps), were also weak in the month. Both stocks had rallied strongly during the first quarter of 2025 on the back of good results and gave back some of these gains in April as investors took profits. The share price pullback for Aon was further aggravated by its Q1 results, reported in April, which fell modestly short of expectations.
- In terms of the relative performance picture, sector allocation was positive in the month, mainly due to the Portfolio's avoidance of Energy as the sector fell double digits. In terms of stock selection, outperformance in Consumer Discretionary and Consumer Staples was notable, however this was outweighed by underperformance in Health Care and Financials, given the stock-specific idiosyncrasies explained above.

Portfolio Outlook
(Morgan Stanley Investment Management)

- Extreme geopolitical and U.S. policy uncertainty drove considerable equity market volatility in April; since the start of the century, the VIX index has only ever been higher during the Global Financial Crisis in 2008-09 and at the onset of COVID-19 in 2020. Interestingly, the round trip of markets, which fell double-digits in the immediate aftermath of 'liberation day' tariff announcements only to recover following news of a 90-day pause, looks to be largely sentiment driven, given that by month end, multiples were still in line with March levels, while earnings expectations had edged a fraction higher.

While we are not macroeconomic experts, our view is that the announced tariffs[1], notwithstanding the 90-day pause for countries outside of China, may pose a major headwind to global growth. With the world's two leading economies now in open trade war, and uncertainty still elevated given the remaining threat of other non-reciprocal tariffs on the EU and other markets post the 90-day suspension, we may see an increase in the equity risk premium. Within the U.S. we are seeing falling consumer and business confidence coming through in data, with U.S. consumer confidence slumping to a near five-year low in April. These impacts to the U.S. economy may come on top of other potential U.S. growth headwinds from restricting immigration (and thus labour force growth) and pressures on government spending.

Internationally, major exporters to the U.S. also face significant challenges, and questions remain over companies' ability to pass on tariff impacts via pricing. There is also the potential for further pressure by the U.S. on the EU and Asia to separate from China on trade, which could mean major disruptions to many supply chains, given the importance of China in manufacturing.

Despite heightened elevated levels of uncertainty, markets still look far from cheap by historical standards, with MSCI World on over 18x forward earnings and the S&P 500 still above 20x. These multiples are on expected double-digit earnings growth for the next two years – a level we worried about even before the tariff announcements. Against this backdrop, we would advocate that it makes more sense than ever to own a portfolio of companies with pricing power, recurring revenues and resilient earnings which: 1) should be well-positioned to withstand the direct impact from tariffs, given the portfolio's high quality characteristics and skew to services 2) demonstrates stronger top-line growth expectations than the market for 2025 and 3) is currently trading at a very low premium to the index in free cash flow terms.

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.