Salt Sustainable Global Shares Fund Fact Sheet – October 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 31 October 2024

Fund Assets	$79.09 million
Inception Date	12 July 2021
Underlying Manager	Morgan Stanley Investment Management

Unit Price at 31 October 2024

Application	1.3629
Redemption	1.3573

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 October 2024

Global equities	97.5%
Cash & sundry items	2.5%

Fund Performance to 31 October 2024

Period	Fund Return	Benchmark Return
1 month	3.95%	4.79%
3 months	2.38%	2.24%
6 months	11.20%	10.48%
1 year	27.03%	30.64%
2 year p.a.	19.34%	20.06%
3 year p.a.	11.55%	13.12%
Since inception p.a.	11.14%	12.43%

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

Fund holdings

Top 10 holdings	
SAP (DE)	Accenture (US)
Microsoft (US)	Intercontinental Exchange (US)
VISA (US)	L'Oreal (FR)
Aon (US)	Booking Holdings (US)
Alphabet (US)	United Health Group (US)

Source: MSIM, data as at 31 October 2024.
The Top 10 Holdings represented 40.0% of the total portfolio.

Market Review

- October was a volatile month for markets. Developed market equities gave back some of their gains of 2024 thus far, falling -2.0% over the month. The global aggregate bond index also posted a negative return for the month, falling -1.5% (NZD-hedged.) This was largely on the back on the recalibration of the likely pace of interest rate cuts by the US Federal Reserve.
- In the US, inflation data for September came in hotter than expected. Headline CPI posted its lowest annual rate in over three years, though core remained sticky at 3.3% y/y. Activity and labour market data also came in stronger than expected. This has seen markets pare back the likely pace of US interest rate cuts. After cutting the Fed Funds rate by 50bp in September, markets now expect the Fed to deliver smaller 25bp moves in November and December.
- US election uncertainty also contributed to higher bond yields. Market focus is on fiscal sustainability and likely bond issuance, as well as the prospect of tariffs after a Trump victory.
- In Europe, annual inflation moved up to 2.0% in October, but this was primarily due to energy base effects. There were signs of weakening economic momentum over the month, particularly in the manufacturing sector. This prompted the European Central Bank to deliver a third 25bp cut in the deposit rate, taking it to 3.25%.

- In the UK, headline inflation fell to 1.7% y/y, though core remained higher at 3.2%. The labour market remains tight with the unemployment rate falling to 4.0%, while the UK Budget announcement put upward pressure on Gilts.
- The Bank of Japan left interest rates unchanged in October, though the tone of the statement was hawkish. Annual Tokyo inflation came in at 1.8% y/y, supporting the case of higher wage increases flowing through into more generalised inflation.
- The Chinese authorities announced further support measures for the ailing property market over the month. Collective stimulus measures to-date should result in improved activity levels, but we still think more is required, particularly more meaningful action to boost consumption.
- The labour market remains tight in Australia. Jobs growth beat expectations for the sixth consecutive month in September. For now, that demand is being met by increased labour supply. The disinflation process is continuing, but the risk for the central bank is that labour supply growth cools before demand does, reigniting wage inflation. No interest rate cuts are expected here until next year.
- In New Zealand annual CPI inflation came in at 2.2% in the year to September, the first time it has been in the RBNZ's 1-3% target band since the March quarter of 2021. Most of the work has been done by the lower cost of imports and import-competing goods (-1.6% y/y), while non-tradeable inflation remains too high (+4.9% y/y). The RBNZ will be watching the latter closely as they now muse on the challenge of sustaining inflation within the target band.

Portfolio Review

- Global equity markets declined in October, breaking a five-month streak of increases, with the MSCI World Index returning -1.98% in USD.
- The sharp decline in NZD/USD in October however translated a weaker global equities return into a monthly portfolio gain.
- In October, the Portfolio returned 3.95% (Gross/NZD), while the Benchmark Index returned 4.79%. For the three-month period, the Portfolio returned 2.38% gross, just ahead of the Index's 2.24% quarterly return in NZD.
- The October month's underperformance was due to stock selection, as outperformance in Consumer Discretionary was overshadowed by weakness in Consumer Staples and to a lesser extent, Information Technology and Health Care. Sector allocation was roughly neutral.
- The largest contributors to absolute performance during the month were **Visa** (+61 basis points (bps), **SAP** (+53 bps), **Booking Holdings** (+46 bps), **Aon** (+45 bps), and **TSMC** (+40 bps).
- The largest absolute detractors were **L'Oréal** (-34 bps), **IQVIA** (-17 bps), **CDW** (-14 bps), **Thermo Fisher** (-13 bps), and **AIA** (-13 bps.)

Commentary & Outlook for October 2024: Health Care (Morgan Stanley Investment Management)

The **Health Care sector** has significantly underperformed the broader market over the past two years, delivering an 18% sector return compared to 49% for the MSCI World Index.[1] Excluding health care's own glamour names – Eli Lilly and Novo Nordisk – the sector's return drops to just 9%, trailing the MSCI World Index by 40%.[2] With this lagging performance in mind, we believe it is a good time to reiterate what attracts us to the sector as a long-term investment.

Firstly, it's important to reiterate the idiosyncratic demand, supply and funding environment that health care stocks have had to grapple with over the past five years. The onset of COVID-19 was certainly a driving force, particularly for the pharmaceutical companies making the vaccines, the life sciences companies providing testing kits, and the health care equipment companies manufacturing and supplying personal protective equipment (PPE) and other life-sustaining products such as ventilators.

The unwinding of this cyclical distortion, however, has been significantly less wonderful for companies' revenues, particularly in bioprocessing where acute overstocking of raw materials and vaccines occurred amid uncertainty over the pandemic's duration. Across the sector more broadly, companies have since faced rapidly rising costs, increasingly fragmented supply chains and a tighter funding environment. Investors' recent preference for mega-cap growth stocks, coupled with political pressures from the U.S. presidential election, have also been further headwinds.

Despite these recent challenges, in our view, several factors drive a strong long-term outlook for health care:

• Rapidly ageing global population. The World Health Organisation projects that by 2050 the number of people over 60 will double to more than 2 billion, while those over 80 will triple to 436 million.[3] Wisdom isn't the only thing that comes with age; health spending typically increases.

• Untapped market opportunities. By 2050, two thirds of the world's elderly will reside in low- to middle-income countries, a dramatic shift from current trends in wealthier nations like Japan, where 30% of the population is already over 60.[3] This offers promising opportunities for those companies able to effectively pivot to where the growth is.

• Non-discretionary nature of health care demand. The products and services the sector offers are essential, regardless of economic conditions, making it more resilient to downturns than most sectors.

• Innovation and digital transformation offer strong potential. Advances in telemedicine, drug discovery, personalised medicine and genomics unlock new opportunities, while technologies like artificial intelligence (AI), electronic health records and remote monitoring are improving efficiency and patient outcomes.

On our two favoured quality metrics, ROOCE (return on operating capital employed) and gross margin, health care ranks among the top sectors. Additionally, it has delivered the second highest earnings per share growth of any sector in the index over the past 20 years.[4] Importantly, due to the sector's resilience, this growth has been remarkably steady, with consistent relative earnings outperformance in negative years for the index.[4]

The market has recently seemed to place very little value on predictability given the recent benign economic backdrop and the outperformance of cyclical stocks. In our view this is misguided, as predictability often demonstrates its worth just when investors least expect they need it.

In a concentrated broader market with what we view as generally high valuations on lofty earnings expectations, we feel the risks to the market are appreciably higher than many anticipate. Our health care holdings are anchored by a focus on steady compounding, reasonable valuations and high returns on operating capital.

The high-quality attributes we prioritise in our health care holdings have historically contributed to consistent performance in difficult economic times, and we believe they are well positioned to continue to do so.

Sources:
[1] - *FactSet as 31 October 2024*
[2] - *FactSet. Data as of 31 October 2024. Cumulative returns.*
[3] *Source: World Health Organization (WHO) 1 October 2024. Available at www.who.int/news-room/fact-sheets/detail/ageing-and-health*
[4] *Source: FactSet*