Salt Long Short Fund Fact Sheet – February 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.

Investment Strategy

The Fund aims to deliver positive absolute returns in all market environments. In addition to holding "long-only" NZ and Australian securities, the Fund may, at our discretion, short sell shares, hold cash, lever its assets and utilise active currency management to generate returns (although generally the Fund's assets will be fully hedged).

Fund Facts at 28 February 2025

Benchmark	RBNZ Official Cash Rate +5% p.a.
Fund Assets	$110 million
Inception Date	31 July 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 28 February 2025

Application	3.0235
Redemption	3.0113

Investment Limits

Gross equity exposure	0% - 400%
Net equity exposure	-30% - 60%
Unlisted securities	0% - 5%
Cash or cash equivalents	0% - 100%
Maximum position size	15%

Number of Positions at 28 February 2025

Long positions	50
Short positions	30

Exposures at 28 February 2025

Long exposure	85.79%
Short exposure	33.52%
Gross equity exposure	119.30%
Net equity exposure	52.27%

Investment Risk to 28 February 2025

Fund volatility[1]	6.55%
NZ50G / ASX200AI volatility[1]	13.38%
NZ50G / ASX200AI correlation	0.046

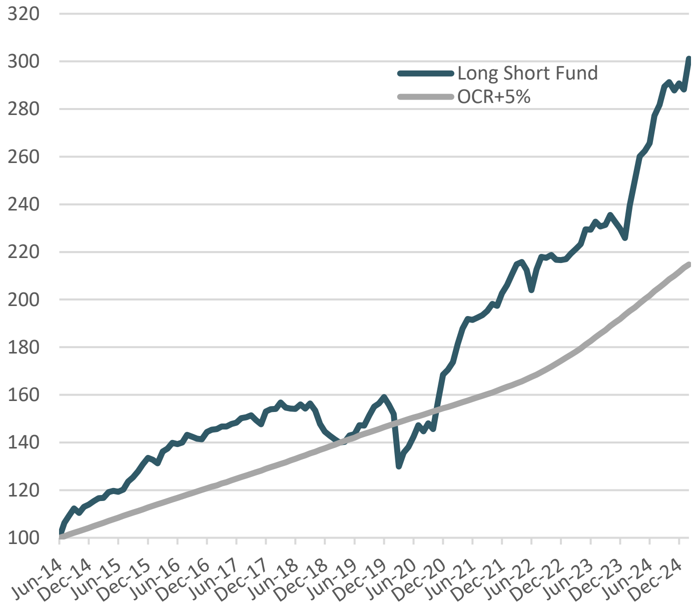
1. Annualised standard deviation since fund inception.

Fund Performance[2] to 28 February 2025

Period	Fund Return	OCR+5% Return	NZ50G/ASX 200AI Return[3]
1 month	4.47%	0.67%	-3.41%
3 months	4.65%	2.21%	-3.01%
6 months	6.87%	4.65%	2.01%
1-year p.a.	25.70%	9.98%	8.65%
2 years p.a.	17.19%	10.17%	6.34%
3 years p.a.	12.66%	9.37%	5.28%
5 years p.a.	14.66%	7.74%	5.86%
7 years p.a.	10.04%	7.39%	7.42%
10 years p.a.	9.95%	7.35%	7.84%
Inception p.a.	10.89%	7.42%	8.65%

2. Fund performance is after all fees and before PIE tax.
3. NZ50G/ASX200AI is a 50/50 blend of the S&P/NZ50 Gross Index and the S&P/ASX 200 Accumulation Index and is for comparison purposes only.

Cumulative Fund Performance to 28 February 2025



Fund performance has been rebased to 100 from inception.
Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.

Largest Longs	Largest Shorts
Tower	Commonwealth Bank of Australia
GDI Property Group	Wesfarmers
Turners Automotive Group	Sims Group
IPH	Stockland
Monash IVF Group	Auckland International Airport

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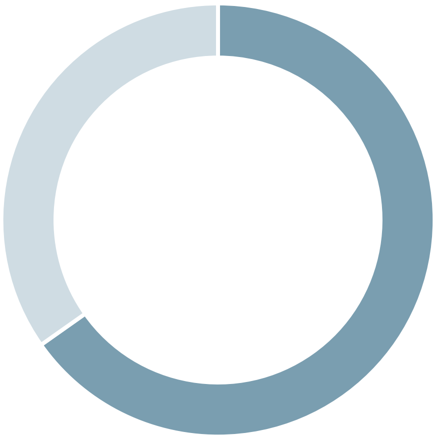
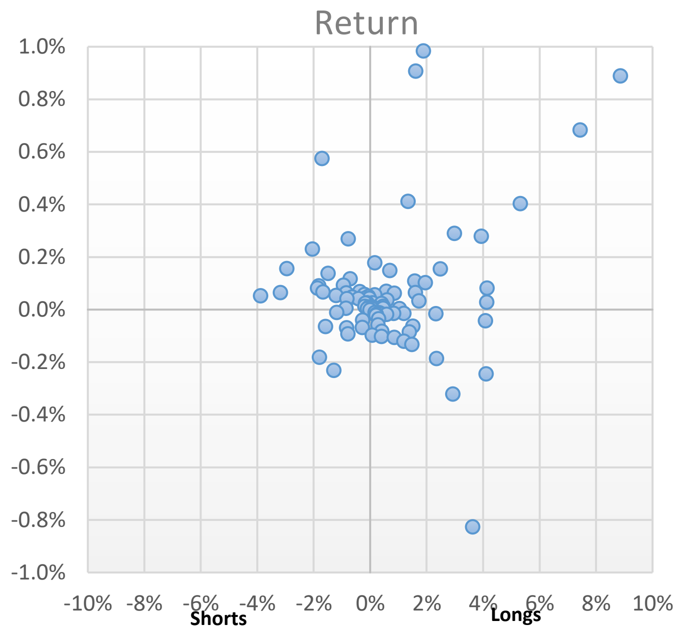
Country Allocation at 28 February 2025 (Gross Equity Exposure)



February 2025 Individual Stock Contribution



Fund Commentary

Dear Fellow Investor,

After several months of treading water, the Fund delivered an extremely strong performance in the volatile month of February, which featured a tidal wave of result releases across NZ and Australia. We returned +4.47% after all fees and taxes, which was a stark and pleasing contrast to the -3.0% decline by the NZ equity benchmark and the -3.8% fall in Australia.

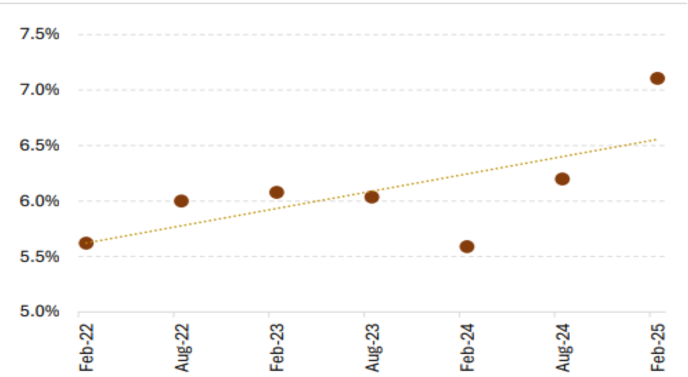
We are delighted to report we have now broken through the $3.00 unit price level, having started the Fund at $1.00 back in July 2014 – this feels both like yesterday and forever ago.

Our performance occurred despite the Fund being 50%+ net long for most of the month and provides a clear indication of its uncorrelated nature and value as part of a diversified portfolio. We are in our eleventh year of providing equity-like returns, with no correlation to equity markets and half their volatility (although we'll happily take this month's "good" volatility!)

There were two key drivers of the Fund being able to deliver these numbers despite superficially appearing to be far too long going into a negative month. Firstly, while we inevitably made a number of errors in results season, we did manage to get many more right than wrong and this was particularly the case in most of our highest conviction names. Secondly, a couple of our slow-burning, long-held deeply underpriced longs finally came in spinner, thanks to takeover bids for our moderate positions in NZ Windfarms (NWF, +74.2%) and Marsden Maritime (MMH, +61.0%). These were the cream on top and more on them shortly.

A key feature of the month was the extreme volatility, with 10-15% share price ranges after a result being quite normal and then they'd whipsaw back again the next day. Indeed, we discussed getting T-shirts printed saying that, "I survived results season".

Figure 5: Share price trading range on result day*



Source: UBS, FactSet. *High price on result day relative to low price for the average stock.

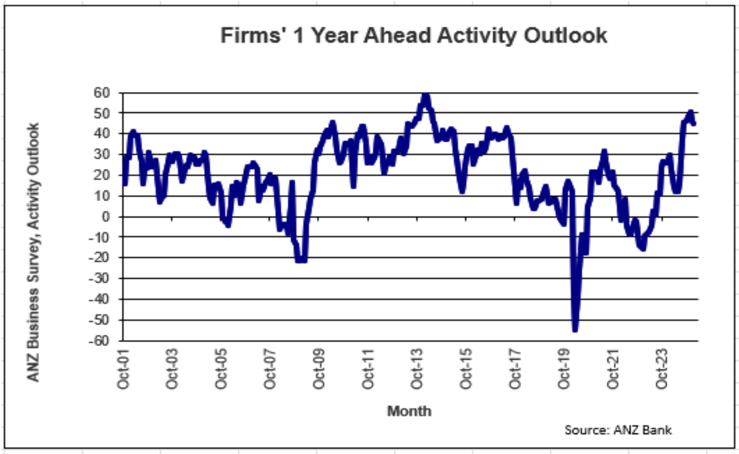
The chart above from UBS shows that we weren't imagining things, with the average price range on result day being over 7% and well above previous years. They put it down to passive and liquidity. Our thinking is that it reflects a toxic combination of passive and quasi-passive super funds, dwindling and dated sell-side coverage outside of large caps and an increasing prevalence of lemming-like momentum investors, via both the pod shops and so-called systematic strategies.

As always, the wash-up of results season was that it managed to "beat" broker estimates by 1-2% but mysteriously saw moderate downgrades on the go-forward. No doubt there will be enough downgrades over the next several months for the next results season to "beat" as well. Market declines in the month tell the real story of how companies did.

NZ was a little different. The positive vibe from a less-bad economy, a further 50bp rate cut and a slightly more dovish forward rate path was well and truly swamped by dreadful results from Spark (SPK, -22%) and Ryman (RYM, -23.9%) – with the latter adding a $1bn equity raising for good measure. We did buy a tiny amount of RYM in their raising but are standing well clear of the falling knife that is SPK.

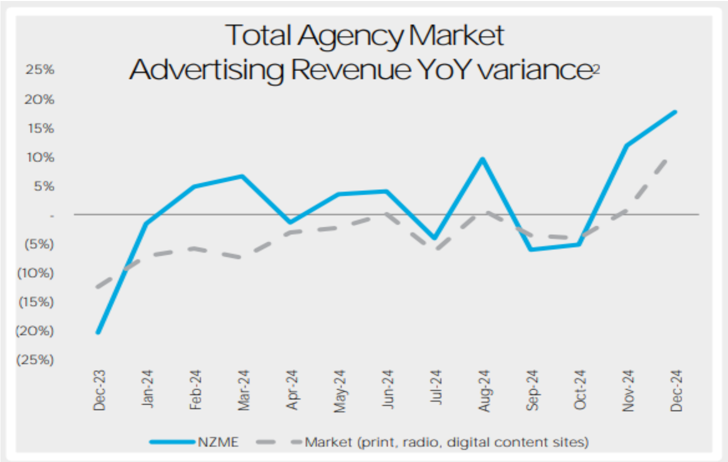
Long time followers of this Fund will recall that RYM was one of our largest and loneliest shorts for some years. We eventually made great money from this position and should be feeling schadenfreude but instead have more of a sense of sadness that one of the NZ bourse's pin-up names turned out to be a hall of mirrors. The rest of the sector has a similar economic "model" and one suspects that the private equity purchasers of Metlifecare and Arvida may be wondering what on earth they have done. Underlying profits in this sector are like Alice in "Through The Looking Glass" – they are whatever you want them to be…. until you run out of cash.

While NZ equities did not do what investors would have hoped in February, we do not believe all is lost and we are rather more hopeful looking forward. The chart below shows firms' one year activity outlook from the monthly ANZ Business Outlook survey. It has long been a strong leading indicator that looks through all the noise and messiness of where the economy is at live-time.



Forward activity answers in the mid-40's have been registered for six months now. While the answers perhaps initially indicated that expectations had merely improved from catastrophic to abysmal, a continuation of such answers would be a positive signal. As this 24-year chart shows, readings in the mid-40's are a very solid level. While other economic information is still somewhat mixed, it always is at a bottom.

Another forward indicator that we found interesting was in the NZME result pack and it speaks for itself below.



We strongly suspect we are on the right track with our tilt to being long NZ cyclicals.

We have far less conviction in the Australian situation and outlook. The RBA did cut their cash rate target from 4.35% to 4.10% during the month but framed it in about as hawkish a manner as they possibly could, with their key concern being ongoing labour market tightness.

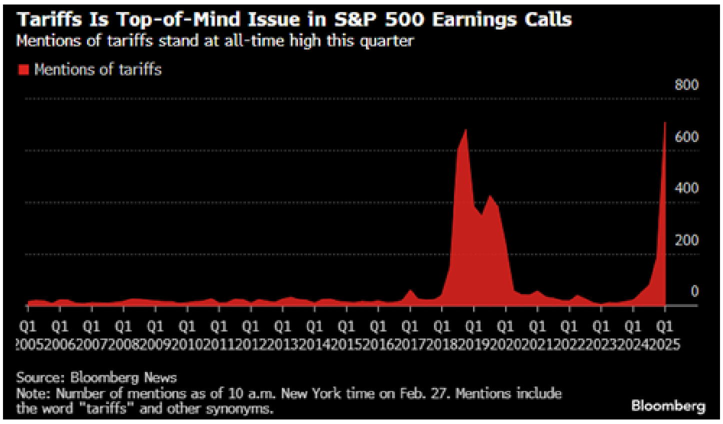
They would have wished for a mulligan just two days later when a set of strong employment numbers was released. Employment in the Jan-25 month surged by 44k, which was +3.5% y/y, almost double the long run average of +1.9%. The unemployment rate ticked up to 4.1% but only due to a rising participation rate. Average weekly earnings for the six months to November rose by +5.5% y/y. No wonder the Australian retail stocks reported surprisingly solid results. This does not feel like an environment where the RBA can ease further. On top of this, Australia has a genuinely coin-toss election that lies in wait, with dire policy outcomes being possible.

In contrast to the gathering NZ economic rebound and Australia over-heating, the US economy showed numerous signs of dreaded stagflation during the month – the very antithesis of their brief pre-Xmas flirtation with Goldilocks.

The US ISM Manufacturing Index that reported just after month-end saw employment (47.6) and new orders (48.6) both move into contraction, while prices paid for materials soared to 62.4, its fifth rise in a row. The composite PMI reported a week earlier stated, “cost pressures meanwhile intensified to the highest since last September…. service sector input cost inflation edged up to a four month high…. but it was manufacturing which saw the steepest increase in costs.” Consumers are now getting the message, with the February Conference Board falling from 105.3 to 98.3 but this being a mix of present situation at 136.5 versus expectations at 72.9 – a record gap.

We could bore you with further data but it all points one way and that is towards stagflation. This is obviously due to Trump’s big, beautiful tariffs. Another way of characterising them would be economic sabotage or a declaration of economic warfare. The simplest way to think about the impact is analogous to Covid, they will cause a classic Econ101 shift to the left in the global aggregate supply curve, resulting in higher prices and lower economic output.

As this piece is being written he has announced 25% tariffs on Canada and Mexico and upped his China tariff to 20%. Responses will no doubt follow in short order and one of our ways of playing that has been to be short Sims Group (SGM, +9.3%). Exporting US scrap to China is about to get a whole lot harder. Breville (BRG, -8.2%) is another play here. In case anyone thinks that tariffs are good news for US or global companies, the chart below tells a fairly clear story.



There has seemingly being a view that Trump will back down given the obvious nihilism of the tariff policy but he isn’t and that unfortunately is not good news for anyone unless you have a high cost factory in Nowheresville, USA. Every consumer will now get to subsidise you by paying higher prices for inferior products. As Warren Buffett said, “tariffs are a tax on goods…. the tooth fairy doesn’t pay them.”

Just how much higher inflation will rise is a moving feast but the Atlanta Fed estimates that a 25% tariff on Canada and Mexico, coupled with a 10% tariff on all other imports, would cause prices on a quarter of all consumer spending to rise by 1.6% if they were fully passed through.

Earlier estimates from November saw Goldman Sachs estimate that every 1% increase in the overall effective tariff rate would lift core PCE prices by 0.1%. Citigroup estimated a slightly lesser 0.06% impact. The negative GDP growth impulse would be -0.7% on Citigroup’s numbers for a 10% tariff, while Goldmans saw a slightly lesser -0.5% hit, with this also incorporating the effect of tighter immigration. The impacts will be worse if there is retaliation from affected countries. This inflation will inevitably lead through into wage expectations, so say hello to a re-run of the 1970’s.

Where does one hide? Gold and insurance companies were about the only things that worked then in what was a dismal decade for equities. Gold is perhaps a good starting point but does require a view that we will see a weaker US$. In the short term, no further Fed rate cuts make this unlikely, but in the longer term, the increasing unsustainability of US debt and the lack of willingness to enact serious policies to deal with it, will surely see the US$ weaken and the bond market vigilantes assert control.

US bond yields have initially rallied on a safe-haven bid despite the clear inflationary implications of everything that is happening. We suspect this will prove short-lived.

Another hiding place to consider is that the benighted NZ equity market has risen by +2.3%/year for the last five years versus +9.2% for Australia and +12.6% for the S&P500. Reflecting this, our Fund was 33% net long NZ at month-end, with that being spread across of array of companies that either have strong domestic cyclical exposure or have their own unique outlooks. This is not a time to be long big, dumb growth names at big multiples which blindly follow broader market movements.

Unsurprisingly, we are now finally starting to see some good old-fashioned fear reappear in markets, summarised by the CNN Fear & Greed Indicator below.

History suggests one should buy such extreme fear episodes but the signal is stronger when it has been there for longer and we would be inclined to wait. There are a number of signs that the worst of the rampant speculative excesses are abating, with Melania Coin falling from a peak of $7.40 to $0.78, Trumpcoin from a peak of $67 to $12 and Fartcoin deflating from $2 to $0.27. How long before the new US bitcoin strategic reserve gets extended to the former two coins? Maybe they are not actually such bad ideas in a kleptocracy?

The Tesla share price has given back all its post-election gains and the nature of their register is shown by a story we saw about a Leverage Shares 3x Tesla product listed in London and a 2x fund in the US. By 28 Feb it has lost 70% of its value from its 17 Dec peak and Korean investors still held $1.5bn in it. Korean brokerage, Mirae Securities warned against potential losses and suspended orders for some of the riskiest leveraged overseas listed products. That sums up some of the rubbish that has been going on in US markets and a reckoning is now unfolding.

Fund Performance in February

Returning to the Fund's performance in the month of February, our overall return of circa +5.1% pre fees and tax was composed of extremely pleasing returns from both sides of the ledger. Our long book delivered +3.4%. While 1.9% of this came from two takeover bids, 29 of our 53 longs rose, which we view as an extremely strong outcome given that markets were down sharply in the month. Our short book did as one would hope in a negative month for markets, returning +1.78%, with 31 out of 40 positions working. Overall, our "winners to losers" ratio was a pleasing 65%.

Contrary to our prior expectation that result season volatility would see our gross exposure increase, we found that we were constantly taking profits in longs and covering off shorts that had worked. It was a high-quality problem but we did manage to initiate a number of new positions and keep the Fund's holdings moving so that we are not resting on our laurels. As a result, our gross actually fell from 138% to just 119% and our net actually lifted from 46% to a relatively high 52%. However, before investors worry about undue net length, 5.2% is from takeovers that are highly likely to close and another 0.9% is from MCK.nz which is more doubtful to close. Our net length remains heavily concentrated in NZ.

There were nine negative days for the 50/50 index of Australia and NZ in February. The average return for the market on those days was a deeply negative -0.77%. The Fund was up on six of the nine days and had had a solidly positive average return across all of them of +0.27%. We repeat our constant message that there is no correlation between the performance of the Fund and that of the market.

While our higher conviction positions largely did well in result season, we did make one short term clanger in the form of our mid-sized position in Heartland Bank (HGH, -21.3%). As luck would have it, we wrote extensively about it last month, focusing on their three good businesses of reverse mortgages, rural lending and car lending. We highlighted the risk that they had more skeletons in the closet from their chequered history of lowish quality lending but the extent of their bad debt confessions surprised both us and the market.

While at face, HGH's new provisions should have a PE of 1x, and may have an element of deck-clearing, the extent of ongoing cost increases from the core business also surprised. Our numbers are now similar to those of the market and are appropriately conservative until they can prove themselves. The forward PE path of 9.9x for Jun26 and 7.6x for Jun27 is perhaps somewhat cheap but not compelling until they put runs on the board.

Other headwinds were far smaller in nature and featured a common name in these pages, our formerly successful mid-sized long in DUG Technology (DUG, -12.3%). They are at the "show me" stage of their evolution, with their industry leading geotechnical super-computing analysis, their data-centre cooling technology and their small-scale mobile data centre solution. Management continue to talk extremely positively about their forward order book and client feedback but the market is becoming impatient for hard numbers. Their Q2 result was weak as expected but they did report very strong orders in January which bode well for the rest of the year. DUG seems to have fallen into the hands of schizophrenic day-traders for now but we see multi-bagger potential if they can deliver.

The third headwind was from our relatively large holding in Challenger (CGF, -7.9%). We found this something of a head-scratcher as we thought their result was perfectly acceptable and the stock is cheap on a forward PE path of 9.5x, 9.1x and 8.5x over the next three years, in a sector with structural growth and which they totally dominate. The one quibble was perhaps that the market doesn't believe their normalised versus actual return assumptions for their asset book but the under/overs from actual and normalised largely balance out in recent years.

Late month, we saw CGF's price bounce moderately off the lows as APRA announced a review of capital settings for annuity products. Currently, CGF's assets get revalued every day as credit spreads and unit prices move around on held-to-maturity investments. However, their liabilities don't, so they have a lot of balance sheet volatility which requires more capital to be held. Any reforms could allow a higher ROIC via having to hold less capital against this volatility. The somewhat muted reaction to this very positive news shows that they are very much in the dog-box for now.

Other losers were quite muted and came from a moderate long we have re-established in Graincorp (GNC, -7.8%) whose initial guidance appeared very conservative. We also suspect US farmers will struggle to grow much wheat without Canadian potash. Others were a short in AP Eagers (APE, +16.1%) whose surprising resilience defied wider industry weakness; and a short in Sims Group (SGM, +9.3%) whose result was solid and where the market sees upside from Trump tariffs but appears to be overlooking the highly negative impact from inevitable Chinese retaliation.

Moving to the Fund's tailwinds, we had an unusual number of large winners. These were led by the takeover bid for our modest long-held position in Marsden Maritime (MMH, +61.0%). Our attraction was that MMH has enormous long term growth opportunities from their deep-water port that is half a day closer to China than Auckland. At some stage, the Devonport dry-dock should move there and Northport will benefit from improved connections to the road and rail network. They own significant land which will become far more valuable as the whole port develops. The issue was funding this growth but the joint takeover by Port Of Tauranga, the local council and local iwi solves this. We think it is highly likely to close and it is still at a 7.1% discount to the takeover price.

The second major winner was a similar theme in NZ Windfarms (NWF, +74.2%). They operate an old-technology, end-of-life wind farm in an exceptional location above Palmerston North. They are re-powering to modern turbines and after a competitive process, selected Meridian Energy as their joint venture partner. This implied a price far above where NWF was trading but after a brief bounce it was largely unmoved. We took the view that Meridian would move to take NWF over at some point and so it has proved.

NWF and MMH are classic examples of slow-burning situations that we love to own in the Fund. They have major potential upside but the realisation and timing of this is uncertain. Hopefully, we will get to unveil further examples of these in the future.

Our old friend Tower (TWR, +10.6%) was yet again a positive contributor in February. They continued with their long run of profit upgrades, moving the Sep25 year NPAT up from $50-60m to $60-70m. Knowing how conservative their Board is, we wouldn't be at all surprised if they were running well above the top end of that upgraded guidance but they are rightly being cautious in the event of a run of house fires or other events. This still assumes the full $50m pre-tax hit from large event retention, of which there has only been $3m year-to-date. We still argue that the sell-side fundamentally undervalues TWR by using both a high cost of capital and assuming the full $50m of large event retention every year – it should be one or the other, not both.

Another good win came from our large position in GDI Property (GDI, +8.5%). Their result was solid, with the most pleasing aspect being that leasing success saw their NTA hold up at $1.19 versus the $0.64 closing share price. They sold several car yards above NTA in one of their partially owned syndicates and we get paid a highly tax efficient dividend yield on their 5cps dividend while we wait for various catalysts to play out.

Our previously painful moderate-sized long in the micro-cap Australian Vintage Group (AVG, +28.0%) staged a small recovery. An understanding of the potential upside comes from them being the largest Australian wine brand in the UK market but their market cap is still a mere $49m. The wine industry is in a simply ghastly place but it has a long storied history of fortunes being made by buying at the bottom. We think AVG's leading position in the UK and low-alcohol wine, coupled with their nascent growth in China, will see them be a survivor. There are huge cost synergies if they can pull off a merger with any of several distressed competitors. Their result was solid and they reiterated guidance for free cashflow breakeven this year, $10-20m in Jun26 and $20m+ in Jun27. There remain huge challenges and uncertainties but they will assuredly not be on a $49m market cap if they can achieve their goals.

We also had a number of satisfying tailwinds from the short book. The largest of these was the former "darling stock" Reece Limited (REH, -27.8%). It does turn out that a plumbing retailer shouldn't be on a 40x PE into a declining US housing market and a slightly weaker Australian market. We covered it off and might revisit at same stage in the future if and when the love returns. Other wins came from Wisetech (WTC, -27.7%) which is going through well publicised governance tribulations against a back-drop of gradually growing cost capitalisation and Breville Group (BRG, -8.2%), whose high multiples look incongruous versus the risks they face from tariffs and a potentially slowing consumer.

Thank you for your continued support and interest in the Fund. We are delighted to have made it through the most volatile result season in years and deliver strong returns. As we write this, we feel an ominous sense of impending volatility and pain from the US needlessly igniting an absurd economic war with its erstwhile allies. Australia and NZ will be somewhat immune and our freely floating currencies will bear some of the adjustment. Tariffs are stagflationary and are a blunder of historic proportions. At least NZ has the lagged benefits of sizeable monetary policy easing to feed through although we do think that the over-heated Australian economy has less room to move. We repeat last month's comment that considerable volatility lies ahead and we will continue to do our level best to deliver equity-like returns, with far less volatility and no correlation to long-only equity markets.

Matthew Goodson, CFA