Salt Long Short Fund Fact Sheet – July 2026

Manager Profile

Salt is an active fund manager. Our investment philosophy centres on the belief that share markets have characteristics that lead to market inefficiencies that can be exploited over time to deliver superior risk-adjusted returns.

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 31 July 2026

Benchmark	RBNZ Official Cash Rate +5% p.a.
Fund Assets	$197 million
Inception Date	31 July 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 July 2026

Application	3.5699
Redemption	3.5556

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 31 July 2026

Long positions	52
Short positions	31

Exposures at 31 July 2026

Long exposure	80.48%
Short exposure	40.57%
Gross equity exposure	121.05%
Net equity exposure	39.91%

Investment Risk to 31 July 2026

Fund volatility[1]	6.53%
NZ50G / ASX200AI volatility[1]	13.28%
NZ50G / ASX200AI correlation	0.080

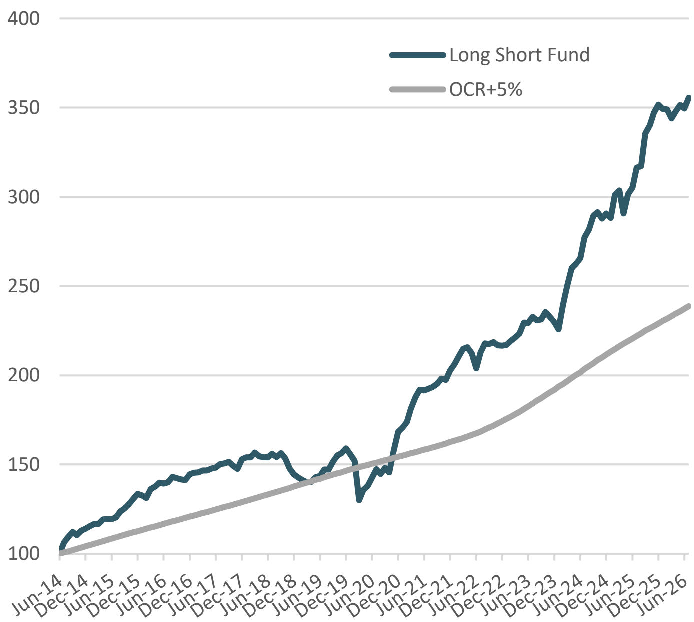
1. Annualised standard deviation since fund inception.

Fund Performance[2] to 31 July 2026

Period	Fund Return	OCR+5% Return	NZ50G/ASX 200AI Return[3]
1 month	1.72%	0.61%	1.42%
3 months	2.22%	1.79%	5.16%
6 months	1.77%	3.56%	2.37%
1-year p.a.	12.43%	7.43%	6.38%
2 years p.a.	13.25%	8.28%	7.10%
3 years p.a.	15.18%	9.00%	7.45%
5 years p.a.	13.07%	8.45%	4.79%
7 years p.a.	13.42%	7.59%	6.20%
10 years p.a.	9.77%	7.34%	7.85%
Inception p.a.	11.07%	7.46%	8.61%

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 31 July 2026



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
GDI Property Group	Commonwealth Bank of Australia
Servcorp	BWP Trust
Turners Automotive Group	Charter Hall Group
DUG Technology	Reece Ltd
Omni Bridgeway	Wesfarmers Limited

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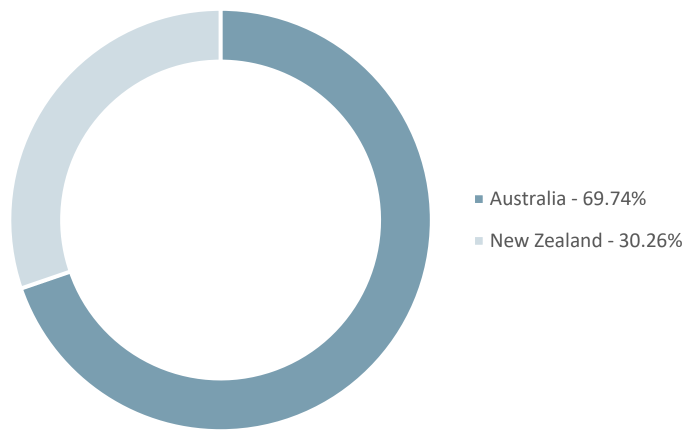
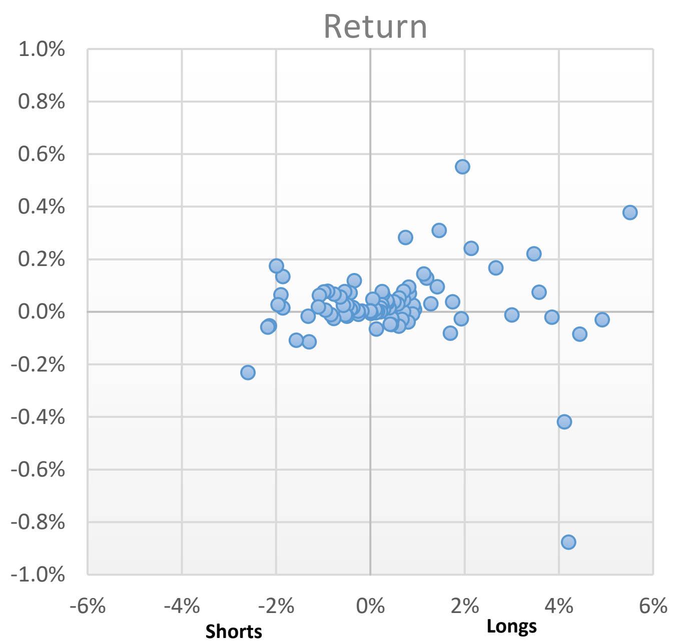
Country Allocation at 31 July 2026 (Gross Equity Exposure)



July 2026 Individual Stock Contribution



Fund Commentary

Dear Fellow Investor,

We are pleased to report a strong month for the Fund in July, with a return of +1.72% after fees. This compared to a +0.6% advance by the NZ equity market and a +2.3% rise by the ASX benchmark.

The Fund aims to deliver equity-like returns over time, with far less volatility than equity markets and no correlation to them. While we frequently emphasise the absence of correlation, the relatively low volatility of the returns is also worth remembering. For example, July saw the Fund's daily returns range between -0.27% and +0.48%. NZ equities ranged from -1.53% to +1.06%, while Australia gyrated between -0.78% and +1.39%. As a formal measure, the annualised daily standard deviation of the Fund is circa 6.5% versus around 13.3% for the Australia/NZ equity markets. We deliver similar returns to equities but are half as volatile.

Last month, we highlighted a number of key themes that were dominating our thinking. These themes all evolved somewhat over the month.

<u>Theme #1 – the nature of the technology sector boom is beginning to change.</u>

July witnessed remarkable volatility in the broad AI and semiconductor space. We saw a major hedge fund blow-up from Situational Awareness, which reportedly reached a peak gross exposure of US$45bn with 4x leverage. Being long AI plays and short software plays worked beautifully until it didn't and they were stopped out by their prime brokers. When you run 400% gross leverage, moderate temporary changes in market conditions can result in being carried out on a stretcher. Incidentally, this hedge fund owned 15% of Sharon AI which was/is a mooted listing in Australia.

We also saw what one player memorably termed a Korean BBQ, with the huge semiconductor stock SK Hynix closing the month down -35% despite rallying 30% on the last day of July. The broader Philadelphia Semiconductor Index fell by -21% in July after having soared by +88% in the June quarter. Some suggested that the US$26.5bn raised in a US ADR listing by SK Hynix may have rung the bell on the top of the market but this was already down 20% on where it had peaked a few days earlier.

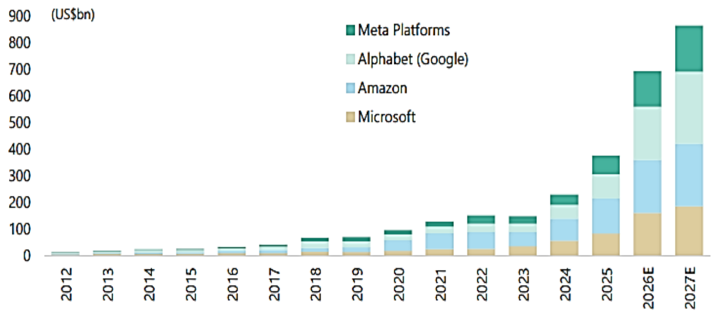
There are a number of possible explanations for the explosion in volatility. The first is that a speculative bubble expanded to its maximum extent and collapsed. According to Goldman Sachs, more than 1.2m leveraged retail accounts in South Korea triggered margin calls as of 13 July and that 320-360k of these accounts were fully liquidated. This means that a stunning 3.4% of the adult population of South Korea received margin calls.

Behind this speculative implosion, a variety of fundamental worries began to leak out beyond the usual perma-bears and into the wider market. A nice way to sum these up comes from the Silicon Data LLM Token Expenditure Index, which is shown below. This is a spending-weighted price index which tracks the effective price that clients are paying for 1m LLM tokens. It is the price of AI.

While difficult to read the scale, the picture is clear enough and shows the price of 1m tokens surged from $1.25 in late-Feb to peak at $2.06 in late-May and has since dived to $1.34. Farewell token-maxxing and hello cheap, efficient Chinese AI models such as Kimi K3 which perform almost as well as the so-called frontier models. According to the global aggregator platform, OpenRouter, the top Chinese models processed 36tn tokens in late July, up from just 4.4tn in late April.

These price declines open a can of worms given the vast capex that has occurred and even greater capex plans in the future. Will this earn a return as prices fall? Concerns peaked in late July following a WSJ article which stated that Nvidia is in talks to provide a $250bn backstop to Open AI to help fund a 10GW/$500bn data centre being developed for them by Softbank in Ohio. Softbank owns 10.3% of Open AI, which will obviously buy all its chips from Nvidia.

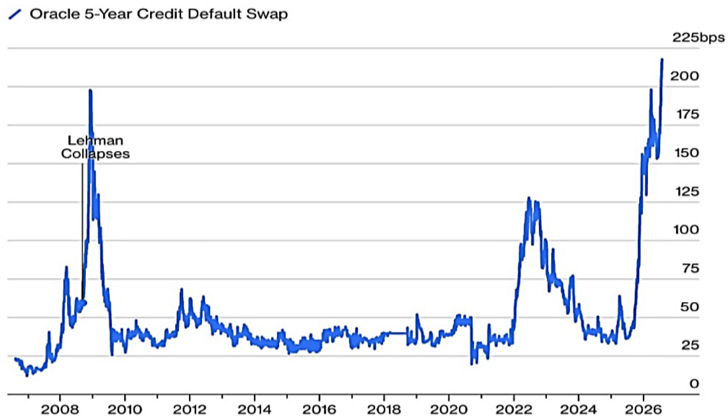
Exhibit 1: Four major hyperscalers' capex



Note: Capex forecasts for 2026 are based on the midpoint of the latest company guidance for Amazon, Alphabet, Meta and Microsoft, excluding finance leases. 2027 capex based on consensus estimates. Source: Bloomberg, Companies, Jefferies

The hyper-scalers are engaging in a capex arms race but bond and equity investors are starting to question the returns that capex will deliver and whether it can service the sizeable debts incurred.

The canary in the coalmine that we are watching is Oracle. They have a $300bn five-year contract to build data centre capacity for OpenAI. The pressure of funding this has seen S&P cut Oracle's credit rating to one notch above junk and the postponement of any IPO by OpenAI has raised market doubts re their financial capacity to meet their future contractual obligations. The price of Oracle's credit default swaps has soared.



Source: Bloomberg

Oracle is stretched to fund the data centres it is building, and when they are completed, their key tenant may struggle to pay the rent. An Open AI IPO is the desperately needed circuit-breaker. No wonder the Oracle share price has gone from $125 in Apr25, to $325 in Oct25, to $140 in Apr26, to $250 in Jun26 and back to $120 in July. Mr Market is in a rather uncertain mind-set.

Last month, we outlined the argument by the Bank of International Settlements (BIS) that there is an arms race where the rate of AI investment is far outpacing the free cashflow generation from this investment, raising significant risks re financial instability. Could the 1800's railways boom repeat itself? The initial capital providers lost their shirts but the wider economy benefitted from a massive productivity boom.

There has been a kneejerk move to sell all software companies but some of them may be able to harness powerful AI models to both lower costs and drive superior services to their clients. We may be at the point of the cycle when that is where some interesting opportunities lie.

After its major gains several years ago in the former Global Data Centres (GDC), the Fund has steered clear of material positions in the AI sector, although we currently have small holdings in Infratil and Goodman Group as the sector looks set for one more hurrah post the major margin-call event.

<u>Theme #2 – Fed expectations are moving from rate cuts to rate hikes.</u>

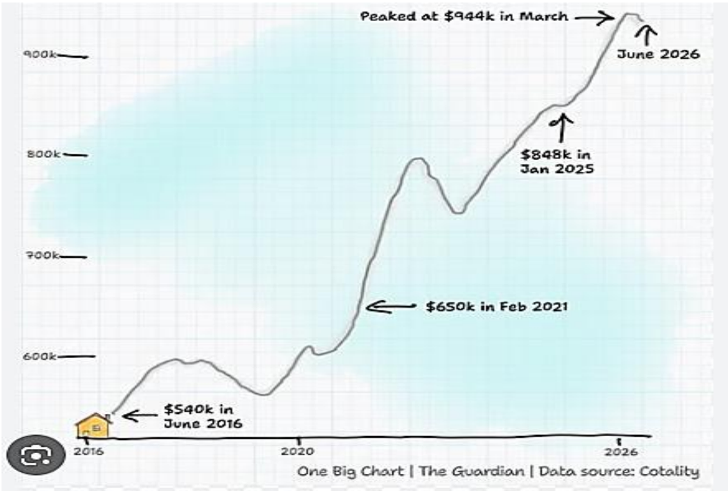
US inflation outcomes during the month were not actually too bad relative to expectations, with the CPI being a touch better and the core PCE largely in line. Despite that, bond market vigilantes are beginning to stir themselves and revolt at the size of US fiscal deficits and a Fed that is not tightening despite inflation being well above its 2% target for over five years.

When the FOMC voted 9-3 in late July to hold the Fed Funds Rate unchanged at 3.50%-3.75%, the response of the bond market was a sharp curve steepening. 2-year yields declined -3bp, 10-years rose by +9bp and 30-years rose +13bp. This was a clear vote of no confidence in the Fed's inflation fighting bona fides.

The chart above of the US 30-year bond yield shows the extent to which the market is concerned about the related issues of huge fiscal deficits and persistently high inflation. The 5.2% yield can be decomposed to a real yield of 3.0% and long-term inflation expectations of 2.2%. Real yields of this magnitude are the highest since 2002 and will clearly crowd out private sector activity. US housing exposed stocks such as James Hardie are bouncing around like yo-yo's but they are clearly running into major headwinds given soaring 30-year mortgage rates.

<u>Theme #3 – the Australian economic cycle is beginning to roll over.</u>

A moderately contractionary Budget and three rate hikes are finally starting to impact the Australian economy via their previously impervious housing market. Sydney and Melbourne clearance rates have fallen sharply to below 50% and there are increasing anecdotes of properties being offered, no bid. However, as the Australian median house price chart below shows, it's only just begun.



As is often the case with economic activity, expectations about the future can be as powerful as the eventual future outcomes themselves. Rate hikes and a realisation that housing is exceedingly unaffordable have seen the Australian consumer tai ho ever so slightly and this has rippled through the discretionary retail stocks.

Expectations re future RBA rate hikes are beginning to change, with a speech by Governor Bullock late in the month seeing a slight dovish pivot. While a tightening bias is being maintained because underlying inflation is still too high, a modest slowdown in economic momentum and greater than expected softening in the housing market have been new developments. Inflation data the next day was a touch better than feared but trimmed mean inflation of +3.6% y/y is still well outside the 2-3% target range. Rightly or wrongly, this stirred hopes that the hiking cycle is over. All we would observe is that inflation is still far too high, so equity bulls are dreaming if they think cyclical stocks will see rate cuts in the next few quarters.

Theme #4 – NZ is seeing some tentative green shoots but it's a battle

Early July saw the RBNZ make a partially expected 25bp hike in the OCR to 2.5%. Although the messaging was slightly dovish in terms of future hikes, it was followed by a hawkish speech by their Chief Economist, who is wary of a temporary cost shock becoming embedded in inflation expectations. We disagree as we see most inflation coming from administrative drivers (council rates and electricity lines charges) but the tighter RBNZ stance saw a sharp lift in the 3-year swap rate from 3.45% to 3.82% in the month. This is the key funding rate for fixed rate mortgages and businesses and it put a lid on rate-sensitive equities such as property and the gentailers during the month.

Despite this unhelpful move in swap rates, a number of surveys pointed to an economy that is poised to bounce if only the Iran monkey could be lifted from its back. The BNZ Manufacturing PMI rose to 59.7 in June from 51.3 in May and new orders were strong at 64.1. The ANZ Business Outlook survey for July showed firms' own activity outlook rose from 36.9 to 49.3 and inflation expectations fell from 3.36% to 3.14%. The slightly backward-looking ANZ-Roy Morgan Consumer Confidence reading rose +8 to 99.3 in July. This is far from the halcyon days pre-Covid of 120-130 but at least we are almost back to neutral. We retain our bias of being long non-housing cyclicals such as Turners (TRA), Heartland (HGH), NZME (NZM) et al. It was working beautifully pre-Iran and their day will come again.

Result season awaits. We suspect there may be a degree of forgiveness if companies had a tough June quarter but are now starting to experience better times. Our focus will very much be on current trading comments. There may well be a new definition of EBITDA – Earnings before Iran, Tariffs and Donald Announcements.

Fund Performance in July

Returning to the Fund's performance in the month of July, our overall return of circa +1.9% pre-fees saw positive contributions from both sides of the ledger. Our long book return of +1.5% was what one would hope for against a backdrop of rising markets, while our short book did particularly well into that headwind to deliver +0.5%. Our overall "winners to losers" ratio was a very strong 67%.

Our gross position (longs + shorts) remained largely unchanged at 121% and our net position was similarly quite stable at 40%. Given our style, we regard this as firmly market neutral.

July saw the 50/50 index of Australia/NZ have eleven negative days although the average decline on them was only a moderate -0.35%. The month continued the recent trend of NZ and Australia frequently moving in opposite directions, suggesting market-specific factors continued to dominate. The Fund was up on five of the negative days and had an average return on them of +0.05%. July was a month when we made money on average irrespective of the market direction.

Our largest headwind was the frequently mentioned position in DUG Technology (DUG, -15.4%). After a very strong Q3 update back in May, it has fallen away gradually on no new market news. The only thing we have found is that they have been awarded what is presumably a large contract to reprocess 18,000 km2 of seismic data in Venezuela. We retain our long-held view that DUG has an edge over their competitors in their technical processing capability and this gives them a long growth runway as they are a minnow in a very large market.

A second key detractor was another one of our largest long positions in the form of the globally leading litigation funder, Omni Bridgeway (OBL, -8.2%). They delivered a strong quarterly update on 31 July, but for now, it is just not a name that the market cares about. OBL's reported numbers are extremely complex but below is how we cut through the noise and have strong conviction in them.

OBL funds their cases chiefly via managed funds that in turn are invested in by outside investors. OBL has some balance sheet money co-invested in these funds but it has various waterfall structures which only see OBL get returns once outside investors get paid first. On top of this, OBL earns fees on the entire fund. OBL carries its funded cases at an assessment of fair value. This FV applies OBL's historic case experience of loss rates, settlement haircuts and settlement delays to the headline case value. OBL then discounts this at 12%/year. In practice, these fair-values are proving conservative as cases in the June quarter settled at 105% of fair value and in the March quarter it was 108%.

The basic maths is that OBL settles around $550m of cases per year, which in a steady-state, (once the waterfall structures are worked through), will deliver investment proceeds to them of 30%-40%. Taking a 35% mid-point, this is $192m of income. From this, you need to subtract OBL's operational costs of -$70m, partially offset by management fee income to OBL of +$35m. So, in very round terms, OBL will make EBIT of

$192m-$70m+$35m = $157m. This is on a market cap of just $430m. On top of this, their funded case book is gradually growing and conditions are improving as competition is ebbing. If our analysis is correct, this is the cheapest security we have seen for a very long time. Their business model has now settled down (in the major move away from volatile balance sheet funded outcomes), and it will now just take patience for this to become apparent.

The only other headwind of any note was our short in the widow-maker Commonwealth Bank (CBA, +7.8%) which we gradually lifted as the share price rose over the month. Rate hikes and the changes to capital gains taxes are currently seeing a sharp slowdown in mortgage applications and a lift in price competition between banks. We suspect this will impact Jun27 forecasts which have CBA on an outrageous PE multiple of 27x.

There was a long list of positive contributions, with the highlight being our mid-sized long in AFT Pharmaceuticals (AFT, +31.4%). We have always admired AFT as a profitable, entrepreneurial business led by the MD, Hartley Atkinson who has serious skin in the game. They are best known for Maxigesic and Crystaderm but they have a deep pipeline of interesting formulations under development, which until now, have largely flown under the market's gaze. That changed with a well-received Investor Day and a paid-for research report which slapped a rather optimistic price target on them of NZ$12.70 versus a price of $4.00 at the time.

A second winner was our large long in GDI Property (GDI, +5.8%). Nothing has really changed here. It trades at $0.64, the NTA is $1.20 on a defensible cap rate of 6.9%, and replacement-cost type "valuations" are a step higher again. Importantly, with replacement costs being far above market valuations, no new office properties will be built in Perth until at least 2030 and this is starting to see the market gradually tighten, with net effective rents slowly lifting.

A third tailwind was our long in the oft-mentioned Intelligent Monitoring Group (IMB, 15.7%). At the beginning of the month, they made a major debt-funded acquisition in the UK of ADT's residential security business. This is highly EPS accretive but obviously raises the risk levels until they de-gear and provide comfort they can execute. That said, the business had not received a lot of love from its previous owner and success is not dependent on hopeful synergy projections. IMB is now on a Jun27 PE of 7.3x, Jun28 of 6.1x and there is plenty of growth thereafter.

Another highlight was our small long in the forex processing business, OFX Group (OFX, +43.2%) which had been under enormous competitive pressure while it gradually implemented a new client platform. They had put themselves under strategic review and we viewed it as a sitter for a bid given the ability for a suitor to take all the revenue and collapse the costs. A bid duly emerged. OFX is still trading well below terms as there are some moderate doubts re the bidder's wherewithal.

Other good wins came from our longs in IPH Limited (IPH, +7.8%) and Integral Diagnostics (IDX, +5.0%), while our short in Reece Limited (REH, -6.6%) fell a little after strong gains the prior month.

Thank you for your continued support and interest in the Fund. July was a strong month despite a couple of our key positions not working. August result season is ever more volatile in a day-to-day sense, but even though it ages us, we have usually managed to add value on average over the period. As always, we will endeavour to extend our long-term track record of delivering equity-like returns, with far less volatility and no correlation to long-only equity markets.

Matthew Goodson, CFA