

# SALT

## Salt Long Short Fund Fact Sheet – July 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 31 July 2025

|                   |                                  |
|-------------------|----------------------------------|
| Benchmark         | RBNZ Official Cash Rate +5% p.a. |
| Fund Assets       | \$131 million                    |
| Inception Date    | 31 July 2014                     |
| Portfolio Manager | Matthew Goodson, CFA             |

### Unit Price at 31 July 2025

|             |        |
|-------------|--------|
| Application | 3.1753 |
| Redemption  | 3.1626 |

### 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 2025

|                 |    |
|-----------------|----|
| Long positions  | 49 |
| Short positions | 33 |

### Exposures at 31 July 2025

|                       |         |
|-----------------------|---------|
| Long exposure         | 74.30%  |
| Short exposure        | 43.09%  |
| Gross equity exposure | 117.39% |
| Net equity exposure   | 31.21%  |

### Investment Risk to 31 July 2025

|  |        |
|--|--------|
| Fund volatility <sup>1</sup>             | 6.60%  |
| NZ50G / ASX200AI volatility <sup>1</sup> | 13.42% |
| NZ50G / ASX200AI correlation             | 0.063  |

1. Annualised standard deviation since fund inception.

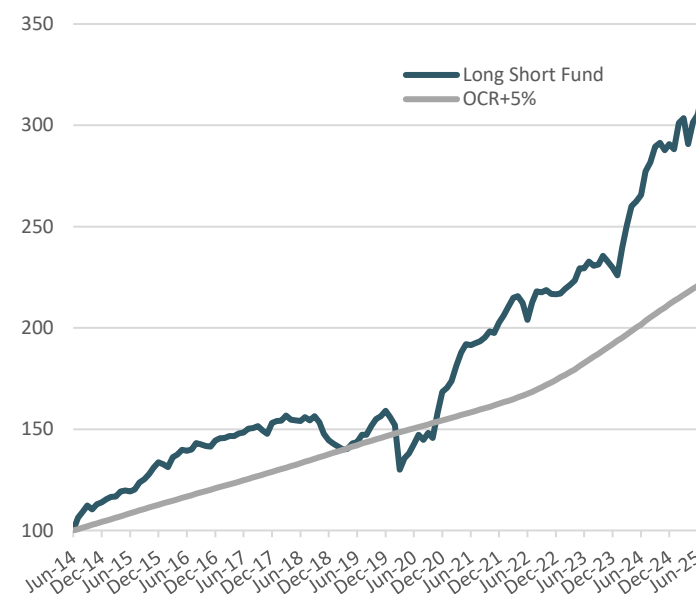
### Fund Performance<sup>2</sup> to 31 July 2025

| Period         | Fund Return | OCR+5% Return | NZ50G/ASX 200AI Return <sup>3</sup> |
|----------------|-------------|---------------|-------------------------------------|
| 1 month        | 3.62%       | 0.67%         | 2.06%                               |
| 3 months       | 8.78%       | 2.03%         | 8.20%                               |
| 6 months       | 9.72%       | 4.14%         | 1.68%                               |
| 1-year p.a.    | 14.07%      | 9.13%         | 7.83%                               |
| 2 years p.a.   | 16.58%      | 9.80%         | 7.99%                               |
| 3 years p.a.   | 14.14%      | 9.64%         | 7.88%                               |
| 5 years p.a.   | 16.51%      | 8.00%         | 7.28%                               |
| 7 years p.a.   | 10.63%      | 7.49%         | 7.63%                               |
| 10 years p.a.  | 10.15%      | 7.35%         | 8.49%                               |
| Inception p.a. | 10.95%      | 7.46%         | 8.81%                               |

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 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.

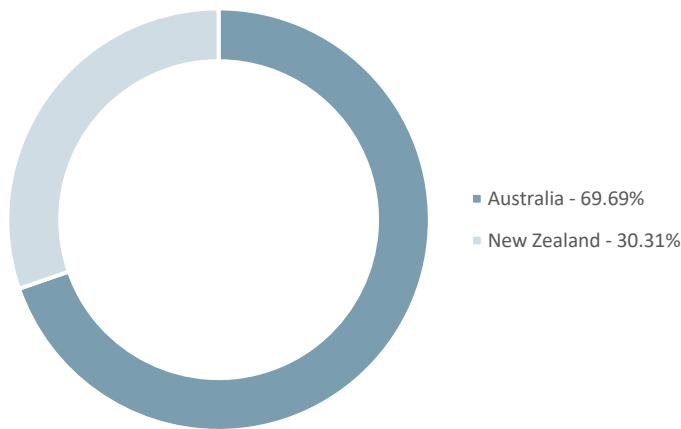
| Largest Longs            | Largest Shorts                 |
|--------------------------|--------------------------------|
| Tower                    | Commonwealth Bank of Australia |
| Turners Automotive Group | Brambles                       |
| GDI Property Group       | Wesfarmers                     |
| Servcorp                 | Eagers Automotive              |
| DUG Technology           | Lovisa Holdings                |

SALT FUNDS MANAGEMENT

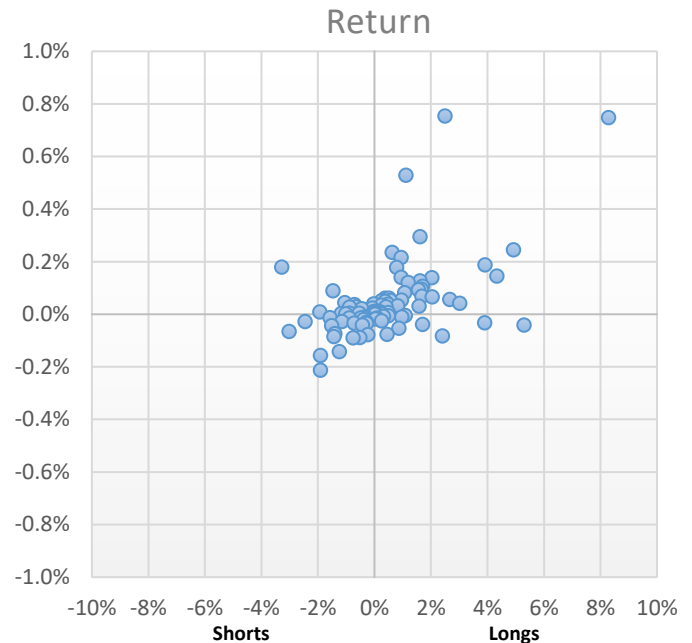
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143

Email: [info@saltfunds.co.nz](mailto:info@saltfunds.co.nz) | [www.saltfunds.co.nz](http://www.saltfunds.co.nz)

## Country Allocation at 31 July 2025 (Gross Equity Exposure)



## July 2025 Individual Stock Contribution



## Fund Commentary

Dear Fellow Investor,

The Fund delivered a strong period of performance in July, with a return after all fees and taxes of +3.62%. The month saw a continuation of risk-on positivity for markets globally and this spilled over “down under”, with the NZ benchmark returning +1.8% and the higher beta Australian market rising +2.4%.

Against this backdrop, we had strong returns from our long book, while our short book pleasingly only created some very gentle headwinds. We had several stand-out stock selection winners and no large detractors. More on that shortly.

July was notable for what we view as a surge in reckless risk-seeking behaviour by investors globally. When markets are behaving in this manner, we typically find it hard to find high conviction bottom-up ideas, especially from the long-side, so our gross and net positions faded to low levels. This is very much the case at present. Signs of “animal spirits” are everywhere and we are finding more short opportunities than longs. This is particularly the case for large cap Australian names, with the relatively moribund NZ economy and market providing the only real source of interesting potential longs. While our net length was 31% at end-July, our style means we are now net negative on a risk-adjusted basis.

Our approach to risk seems different to other players. Standard risk models tend to equate low volatility with low risk. So, when markets are strong and volatility is low, participants are encouraged to lever up, generating a period of positive price momentum and everyone looks like a hero while they ride the wave. Geared-up pod shops and trend-following quant funds look like stars.

Our observation is that low current volatility tells you nothing about future risks. Indeed, we see it as storing up the potential for trouble. By allowing every esoteric investment strategy in Christendom to lever itself up, low volatility periods create the conditions for a future bout of forced selling if the next piece of market news happens to be negative. With valuations currently being extended and macro risks high, we like our toned-down positioning ahead of result season. We expect to see numerous attractive entry points for new long and short ideas.

Our approach has now generated more than eleven years of equity-like double-digit returns, with no correlation to equity markets and at less than half their volatility.

Our low gross and net positioning is occurring at a time when valuation multiples are high and we are seeing highly speculative risk-seeking behaviour across many markets. At the same time, US macro risks are rising, the Australian economic outlook is

mediocre, while the NZ economy is struggling to climb out of a deep torpor – but it at least has sizeable rate cuts and a terms-of-trade boom coming down the pipe.

Market action during July was memorably described by the IAB Chief Strategist as the FTC trade – “Flight to Cr\*p”. This is summed up below by the numerous metrics bundled up in the CNN Fear & Greed Index, which spent most of July firmly perched above 70 in the throes of extreme greed. It fell sharply but briefly in early August on the shock US non-farm payrolls release.

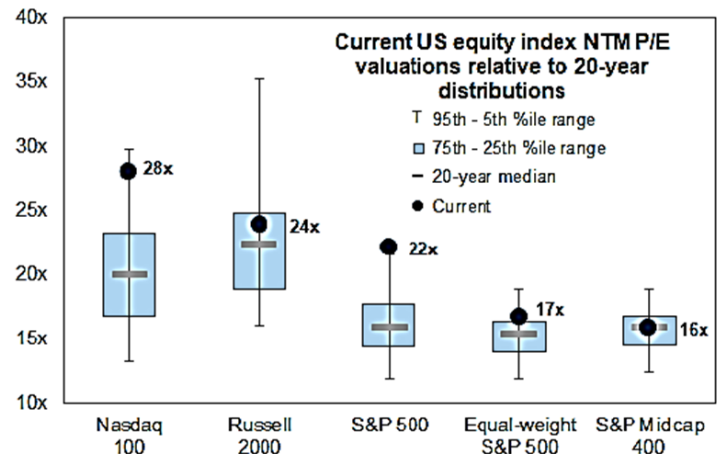


There are so many wonderful examples of speculative excess outside this summary Fear & Greed metric that it would be remiss not to mention some. Rather than ten further pages of charts, a few brief highly correlated examples of risk-seeking include:

1. JP Morgan strategists found that investors’ crowding into a High Beta stock basket is at its 99.9% percentile and exceeds the TMT bubble in early 2000.
2. During July, the Goldman Sachs Non-Profitable Technology Index rose by 66% from its Liberation Day lows back in April.
3. US margin debt at end-June reached a record \$1.01trn, with the +9.4% spike in that month being the biggest monthly move ever. The July numbers will likely be even bigger.
4. US hedge fund short covering in the last week of July was a 99.7% percentile event.
5. Stocks with the highest short interest exposure outperformed sharply in July even though they tend to underperform over time. This coincided with unusually high levels of net retail purchasing of those names. I’m sure Percy the Place Punter knows more than professionals with decades of experience.
6. Insider buying is at unusually low levels.
7. Call option volumes reached nearly 70% of option market activity, mirroring the retail speculative bubble back in the zero-rate days of 2021.
8. A number of companies across Western markets pivoted to a strategy of owning bitcoin. The ASX minnow, Locate Technologies (LOC), briefly quadrupled its share price. Surely a NZ company will do so soon and

confirm the end of the boom. By the time it happens in NZ, you know the last marginal player is in there.

This speculative froth is occurring at the most inopportune of times, with valuation multiples generally being very extended as shown below.



source: Compustat, FactSet, IBES, Goldman Sachs Global Investment Research

This chart shows how various sub-sets of US market valuations sit versus their historical norms. The extremely high valuation of large cap stocks is most noticeable. In our view, this comes down to a mix of optimistic views re long-term growth from AI revolution, relative buying pressure in large names due to a continued move to passive investing, and good old-fashioned over-valuation.

It is always possible that the high multiples might be justified by stronger than normal future earnings growth but this requires a leap of faith that vast investments in highly competitive arenas will show a sharp lift in future returns. There is also a concern that current earnings are overstated because companies are under-depreciating assets which are experiencing rapid technological change. For example, Meta’s asset life of about nine years seems a stretch. Further, this period of extraordinary capex on the AI build-out creates a P&L cost that is amortised over many years but a profit for the likes of Nvidia in the year that it occurs.

The other key takeaway from the chart is that the 17x PE multiple for the equal-weighted S&P500 Index is only at its 75th percentile and the 16x multiple for the S&P Midcap 400 Index is bang on its long-term median.

We see a very similar pattern in Australia and NZ, with many large cap valuations requiring all sorts of amusing analyst contortions but many smaller companies are trading at perfectly reasonable valuations. Unsurprisingly, our Fund tends to be short the former and long the latter. At present, this is even more the case than normal.

While high valuation multiples have little predictive power over the random walk that markets follow in the short term, they have strong long term predictive power. Indeed, work from US BAML strategists suggests that the current S&P500 PE ratio is consistent with low single digit annual returns at best over the next decade.

So, we have a situation where valuation multiples are high and speculative behaviour, (at least in the US and to a degree Australia), is rampant. Will this continue or might we see a sudden stop? While economic policies are relatively sane in Australia and NZ, the same can certainly not be said for the bellwether US market.

The Big Beautiful Bill is running reckless 7.5%-8.0% fiscal deficits at a time when the US economy is still relatively close to full employment. Worse, it has front-loaded the spending and tax cuts, with many of the negative clawbacks not kicking in until after next year's mid-term elections.

The immigration crackdown is beginning to have an impact on labour markets, with comments from the industrial property giant Prologis being one interesting example, "immigration policy is causing a labour shortage which is driving building costs up dramatically."

The non-farm payrolls release just after month-end delivered something of a shock to investors from both it's weaker than expected +73k additions and more particularly its -258k revisions to the prior two months. While Trump fired the head of the BLS for "rigging" the statistics to make him look bad, the reality is that major revisions tend to occur at turning points in the economy. That is the key takeaway here.

The market rushed to price in a Fed rate cut in September. While this is certainly possible, it overlooked that average hourly earnings were +3.9% YoY and the PCE data a couple of days earlier was also a little higher than expected as the first impact of tariffs trickled through. Whoever would have thought that tariffs cause stagflation? Historically, stagflation has been the nemesis of equity market performance.

Back down under, the RBA surprised some by remaining on hold early in the month and then surprised more investors by making a hawkish set of comments later in July. Murphy's third law of macroeconomics then promptly saw a weaker than expected trimmed CPI inflation reading of +0.6% for the June quarter and prompted markets to price in an RBA rate cut in August. Australia's problem isn't stagflation, it is more that extreme market valuations belie a mediocre economic backdrop and consistent earnings downgrades since the start of this year.

As expected, the RBNZ remained on hold at 3.25% but the subsequent June quarter inflation outcome was a touch better than expected. Food and electricity are headwinds but a variety

of underlying inflation drivers are decelerating. The market now expects an August rate cut and one more cut to follow. Add this to 225bp of cuts already made from the 5.5% OCR peak plus a developing rural boom and we have a much more positive outlook for the NZ economy than the current torpor. We just need to get through what may be a tricky August result season before diving boots'n'all into NZ cyclical.

### **Fund Performance in July**

Returning to the Fund's performance in the month of July, our overall return of circa +3.8% pre fees and tax was comprised of a +4.7% contribution from our long book and a -0.8% headwind from our shorts. With NZ and Australia advancing by +1.8% and +2.4% respectively, we were pleased with the outcomes from both sides of the ledger.

Our overall "winners to losers" ratio was a strong 63%, with 78% of longs working and 41% of shorts. There was a sharp skew to almost no major losers versus a good number of sizeable winners.

As discussed earlier, our gross position declined from 120% to an unusually low 117% over the month. Several of our longs have been taken over and we have covered some of our shorts. We look forward to the inevitable over-reactions during result season in August to lift both our longs and our shorts.

Our net position declined from 40% to 31%. 3% of this was the NZ Windfarms takeover closing but the rest reflected our view on over-wrought valuations as we found far more opportunities to sell positions than we did to add to them. We remain heavily net long NZ and are net short large-cap Australian stocks.

Despite it being a positive month overall, there were still eleven negative days for the 50/50 index of Australia/NZ in July, although most of these declines were small. The average return for the market on those days was -0.22%. The Fund was up on eight of the eleven days and had an average return on them of +0.29%. On average, we were up on both positive and negative days in July. This accords with the long-term performance of the Fund, where over our 11 years of existence, we have been +2.3bp on positive days and +6.5bp on down days. There continues to be no correlation between the performance of our Fund and that of the NZ/Australia equity markets.

The only headwind of any great note was our short in AP Eagers (APE, +12.4%). Their trading update at their AGM back in late May was not great and the market seems to have become besotted with their (formerly exclusive) role in distributing BYD vehicles. A forward PE of 19.9x seems grossly excessive for an auto dealer. Other small detractors were mid-sized shorts in Lovisa (LOV, +7.8%) and Monadelphous (MND, +11.0%).



The largest positive was a reversal by one of June's lowlights in the form of the small cap security and alarm-monitoring business, Intelligent Monitoring Group (IMB, +29.3%). The shadow expectation of the market was clearly that they would downgrade expectations but a solid quarterly update banished those fears. IMB are beginning to come through a very messy period of acquisitions, debt refinancing and restructuring. In our view, IMB is an attractive annuity business with solid growth prospects and it is on consensus forward PE multiples of 9.4x in Jun25, going to 7.6x and then 6.1x. They now have a balance sheet that can finance further accretive bolt-ons.

A close second in terms of positives came from our large, long-held position in Tower (TWR, +9.4%). There was no real news aside from a broker price target uplift. We have had a high-quality problem trying to keep our holding at around 8% as the remorseless TWR share price advance keeps increasing our position. Despite the strong performance, TWR is not yet expensive. If we assume no further large events to end-September beyond the circa \$7-10m that we estimate so far, our forecasts have it on a PE of around 5.9x. Looking forward to Sept26, and conservatively assuming the full \$50m of reinsurance deductibles, it is still only on a PE of 8.0x. Yes, the insurance cycle has changed but soft global reinsurance markets mean insurance margins are holding up even though the days of sharp NZ premia inflation are behind us.

A third tailwind was a new position in the minerals sands and rare earths business, Iluka (ILU, +35.5%). This outcome was as much luck as it was skill. We initiated the holding following a massive pullback in the ILU share price despite some tentative signs that the mineral sands outlook was bottoming. We did this despite the risks from ILU being in the midst of building two major new projects, with one of these being the government-subsidised extraction of rare earths from old sand tailings at Eneabba. As luck would have it, the US put a rocket under this sector globally by offering very generous guaranteed minimum prices for an otherwise marginal US rare earths development.

A fourth winner was a large position in the intellectual property business, IPH Limited (IPH, +14.6%). We were not in love with the business which has grown rapidly but patchily via acquisition, with the apparent strategy being to extend existing relationships with large multinational clients into new jurisdictions by having boots on the ground. There was no particular catalyst for the price advance, so we cut most of the holding into the strength.

Other notable contributors were our large GDI Property (GDI, +4.7%) position; a modest position in the bombed-out wine

company, Australian Vintage (AVG, +37.5%) which managed to lower its grape purchasing requirements from one of its leases; and a modest holding in Insignia Financial (IFL, +23.7%), where we liked the balance of risks around private equity returning with a firm bid – which they did.

Thank you for your continued support and interest in the Fund. We are delighted to have delivered another strong month of performance in July. When one runs a long-short fund, there is always the temptation to see the glass as half-empty. At present, we think there really are good reasons for this stance, with valuations being expensive, speculative activity rife and macroeconomic risks considerable (especially in the US). Modest central bank easing is the main offsetting positive.

Our positioning is always determined by the bottom-up opportunities that we see but it is very much consistent with these top-down issues at present. We would love to lift our net length to a more normal 45%-type region but the attraction just isn't there for now. We will continue to do our best 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

**Disclaimer:** The information in this publication has been prepared from sources believed to be reliable and accurate at the time of preparation but Salt Funds Management Limited, its officers, directors, agents, and employees make no representation or warranty as to the accuracy, completeness, or currency of any of the information contained within, and disclaim any liability for loss which August be incurred by any person relying on this publication. All analysis, opinions and views reflect a judgment at the date of publication and are subject to change without notice. This publication is provided for general information purposes only. The information in this publication should not be regarded as personalised advice and does not take into account an individual investor's financial situation or goals. An individual investor should, before making any investment decisions, seek professional advice. Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.