

SALT

Salt Long Short Fund Fact Sheet – October 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 October 2026

Benchmark	RBNZ Official Cash Rate +5% p.a.
Fund Assets	$203 million
Inception Date	30 June 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 October 2026

Application	3.5217
Redemption	3.5075

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 October 2026

Long positions	51
Short positions	35

Exposures at 31 October 2026

Long exposure	87.32%
Short exposure	40.69%
Gross equity exposure	128.01%
Net equity exposure	46.63%

Investment Risk to 31 October 2026

Fund volatility[1]	6.77%
NZ50G / ASX200AI volatility[1]	13.22%
NZ50G / ASX200AI correlation	0.082

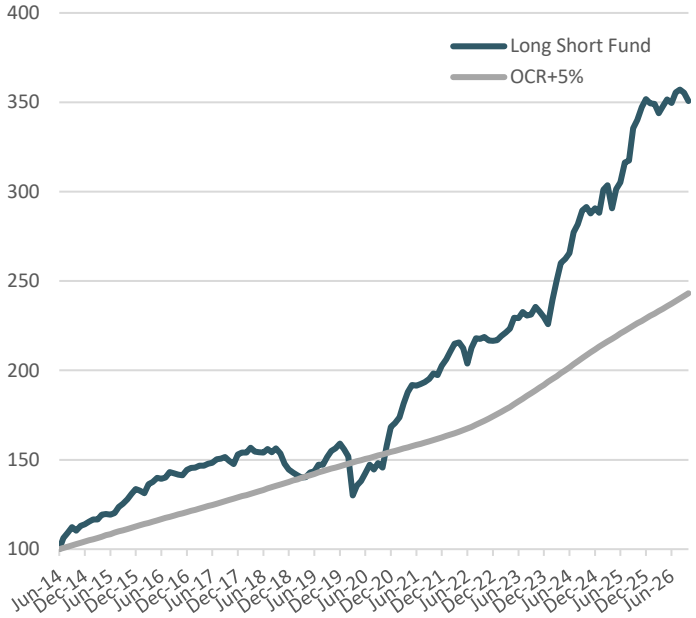
1. Annualised standard deviation since fund inception.

Fund Performance[2] to 31 October 2026

Period	Fund Return	OCR+5% Return	NZ50G/ASX 200AI Return[3]
1 month	-1.30%	0.61%	0.55%
3 months	-1.35%	1.85%	0.59%
6 months	0.84%	3.68%	5.78%
1-year p.a.	3.14%	7.34%	2.69%
2 years p.a.	9.73%	7.96%	6.39%
3 years p.a.	14.20%	8.76%	11.09%
5 years p.a.	12.09%	8.57%	4.45%
7 years p.a.	12.37%	7.65%	6.41%
10 years p.a.	9.49%	7.36%	8.38%
Inception p.a.	10.71%	7.46%	8.48%

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 October 2026

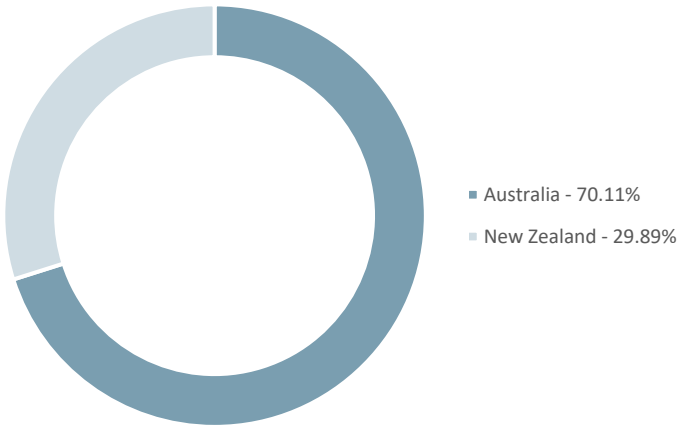


Fund performance has been rebased to 100 from inception.
Past performance is not a reliable indicator of future performance, and no representation or warranty, express or implied, is made regarding future performance.

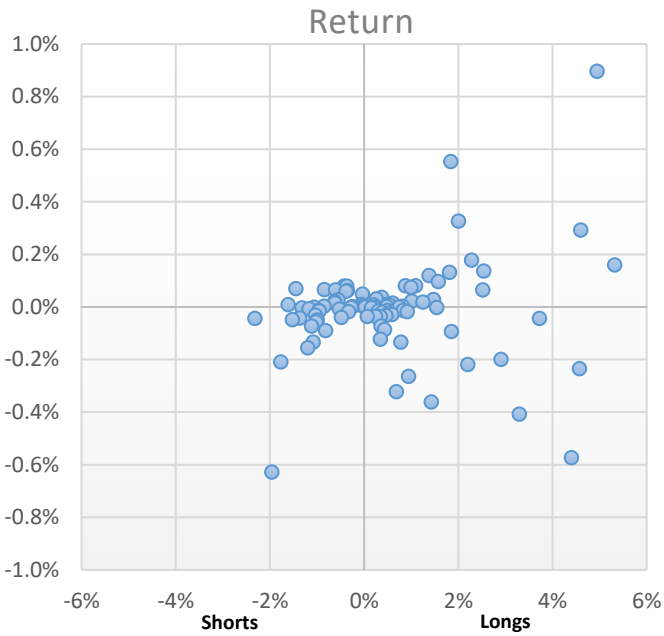
Largest Longs	Largest Shorts
GDI Property Group	Reece
Omni Bridgeway	Data#3
Tower	Brambles
Turners Automotive Group	Auckland International Airport
Servcorp	Macquarie Group

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Country Allocation at 31 October 2026 (Gross Equity Exposure)



October 2026 Individual Stock Contribution



Fund Commentary

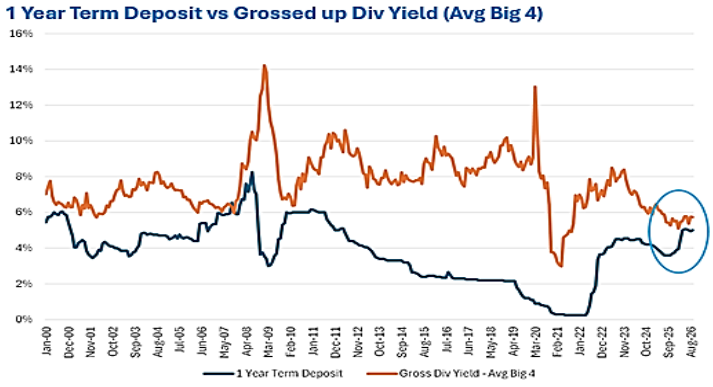
Dear Fellow Investor,

October was a tricky month for the Fund, with a disappointing return after fees of -1.30%. This compared to a -0.3% decline by the NZ equity market and a +1.4% advance by Australia. We made several good calls, several poor calls and encountered strong headwinds from a number of positions which we think will ultimately reverse and deliver good returns. As Benjamin Graham put it, in the short term, the market is a voting machine but in the long term it is a weighing machine. Sometimes the Fund has struggled a little in the short term as it diverges from the comfortable momentum-driven consensus but our focus on valuation, return on invested capital and growth outlook has tended to work out well on average over time.

A classic example of the voting machine versus weighing machine analogy came from the Australian bank sector, which roared off its lows in the month to deliver a sector return of +7.7%. We had covered some of our shorts near the lows but still had reasonable net short exposure.

The sector is indubitably expensive. Commonwealth Bank is on a forward PE of 24.6x with current forecast EPS growth thereafter of just 3%. To look at the sector another way, the Betashares Bank Subordinated Debt ETF (BSUB) has a running yield of 6.32%, with an average credit rating of A-. The equivalent gross dividend yield for the banks is in the 5% region. So, you get a far higher yield from BSUB but have a superior position in the capital stack. One of these things is not priced correctly.

Another way of looking at the banks is to compare the bank gross dividend yield to one year term deposit rates. This is shown below in the chart sourced from JP Morgan. This makes some intuitive sense given that the banks have a huge swathe of yield-focused retail investors. You have to go back to the GFC period to see the gap be as tight as it is today.



Now, this might all be acceptable if the banks were having strong earnings and dividend growth but they are not. Forecasts are for low single-digit EPS growth and these have increasing downgrade risk around them. Housing credit growth is slowing sharply as the Australian cycle rolls over but this is being offset for now by strong business credit growth. This is both far more capital hungry than housing and is occurring in the potentially bubble segments of AI infrastructure and resources – what could possibly go wrong? The banks have had a halcyon period of low bad debts but this tends to be a lagging indicator and could worsen dramatically in 2027 as unemployment increases. The higher RBA policy rate is a positive for the banks due to the spread on their free deposits. However, the yield curve is flattening and will continue to do so as the economy slows, which is a headwind when you fund short and lend long.

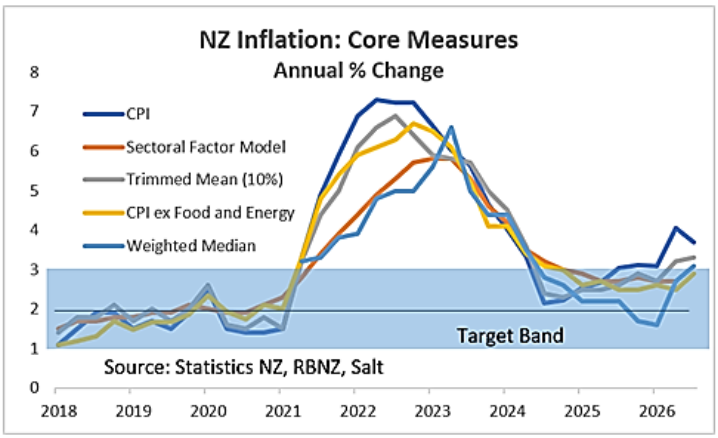
Aside from the usual culprit of passive flows, why have we seen the banks rebound? One anecdotal explanation is that many Asia-Pacific hedge funds and pod shops, who are momentum-driven junkies par excellence, tend to use them as a funding source or cash-park as the inverse of high beta trades in the AI and chip segments. SK Hynix was down -20% in the month. The pods can day-trade on their voting machine but we are on the weighing machine side of the bank trade.

Another background factor for the performance of the Fund has been the performance of smaller cap names relative to large cap. We do not have a conscious bias to the former over the latter, but we have found that in the era of passive investment driving up large cap valuation multiples, we tend to have more longs in small-mid cap names and shorts in large cap names. We do not actively seek this but it is just where the opportunities lie.

This bias to having larger cap shorts and smaller cap longs worked really well in 2025, when the ASX50 large cap index rose just +7.6%, while the ASX Small Ordinaries rose by +25.0%. Our stock selection was generally very good but it was a receptive environment for it. Last year was a bit like feeling great when you go for a run but don't realise there's a 50kmh wind behind you. Well, this year is like running into a northerly around Oriental Parade. So far in 2026, ASX Large Caps are +8.2% while the Small Ordinaries is -14.3% (despite a big assist from mining stocks). It has been a very similar story in NZ. This has made it a bit of a grind but our track record does strongly suggest we can continue making positive returns that are uncorrelated with markets.

Another headwind that the Fund has been battling against has been the weak performance of NZ cyclical stocks as our economy just cannot seem to catch a break. Large longs in names such as Turners (TRA) and NZME (NZM) looked extremely clever earlier in the year but have been a source of pain ever since. It has been deeply frustrating as our basic positive macro view was largely correct. We had expected the terms of trade boom to spread from the provinces to town and that RBNZ rate hikes would be relatively modest given the degree of spare capacity in the economy. This was literally blown up by the negative supply-side shock from the Iran debacle but we have decided to sit tight and take the pain that is being meted out in the short term by the voting machine. In the long term, our NZ cyclical names are on high free cashflow yields, have high marginal returns on new investment and will surf a massive wave when peace inevitably breaks out – the question is whether that is in two weeks or two years. The US election outcome this week makes it rather more likely.

Meanwhile, the RBNZ surprised many in the market by sitting pat at a 2.75% OCR in the month following a 4-3 vote. This helped the critical 3-year swap rate rally from 4.22% to 3.80%. They are still widely expected to hike in December but the doves seemed to focus on inflation expectations being well anchored (albeit at the top end of the range) and wage growth being subdued.



The unexpected RBNZ hold came despite the September quarter CPI seeing core outcomes all on the high side as shown in the chart above. It was however franked by unemployment data in early November which showed a slight lift from 5.6% to 5.7% and employment growth of -0.1% y/y versus +0.4% y/y expected. The challenge for the RBNZ is that while there is plenty of spare capacity in the economy, overall price pressures are still at the high end of the target band. The monthly ANZ Business Outlook survey showed firms' net

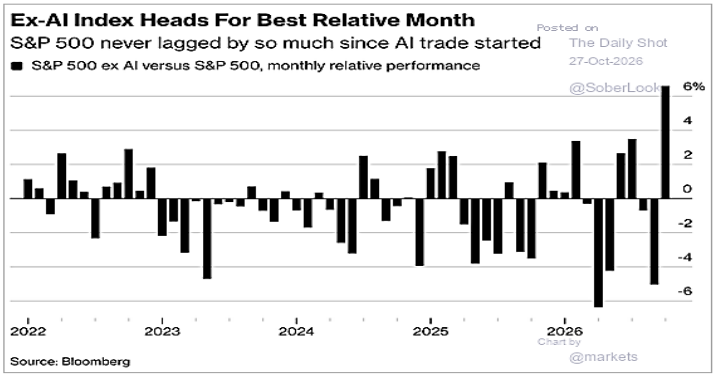
pricing intentions at +52.2, the highest since May. Our economy desperately needs the fuel price shock to reverse (and local body rates to stop soaring).

Over in the West Island, Australian monetary policy has well and truly decoupled from NZ, hence a weak NZDAUD exchange rate which had a couple of attempts at breaking down through the pivotal 0.80 mark during the month. Just after month-end, the RBA hiked to 4.85% in a split 6-3 vote. While this hadn't been wholly expected by the market, the bulls seized on relatively dovish messaging, with the RBA Statement dropping key wording re, "increasing the cash rate further if needed."

The market immediately interpreted this as being the last rate hike and that may well be the case. Australian business and consumer confidence is falling and housing markets are starting to crack (from very elevated levels). However, price pressures are still elevated, with September trimmed mean CPI of +1.0% q/q being slightly above expectations and well above the 2.0%-3.0% target range. After month-end, we saw household spending data still come in at a strong +6.8% y/y albeit discretionary categories were a touch weaker.

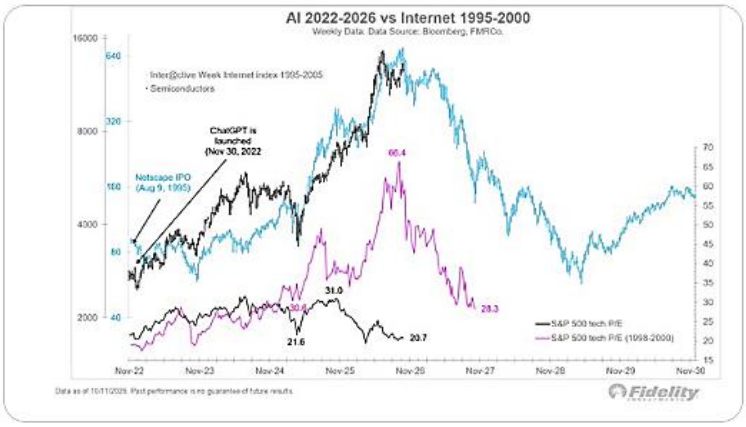
Monetary policy has long and variable lags. Australia has tightened aggressively this year and they may well tip their economy into recession in seeking to overcome embedded price pressures and the negative supply-side shock from Iran. Optimists who dived into (expensive) cyclicals due to this being the last hike may be right but that will require a rapid easing in inflation pressure which is yet to be apparent. The key question for Australia is whether the 4.85% is a temporary peak or a long-drawn out plateau. We hope for the former but fear the latter a lot more than the market does.

The Fund now has next to no direct long or short exposure to the AI thematic but October was a case of "ask not for whom the bell tolls, it tolls for thee." It is hard to know where to start with the negative data-points but the chart below shows that after a long period of pain, it was a record month of relative outperformance for the S&P500 ex-AI stocks.



Coreweave was down -37%, Softbank declined by a rather careless -30.3% and is down -10.3% more as this is written in November, the Philly Semiconductor Index declined by a tepid -15.3%, Alphabet fell by -18.4% on fears that search would be disintermediated by AI and even the granddaddy of them all, Nvidia, fell by -10.4%. Next DC staged a spectacular -45.8% flame-out in Australia as a planned Melbourne datacentre ran into significant pushback from residences objecting to high voltage powerlines. A prime example of the S in ESG having some meaning. It has staged a 45% rebound as this is written on potential corporate interest.

These declines generated an alarming symmetry between AI stocks and the Nasdaq meltdown in early 2000. This is shown in the chart below sourced from Fidelity. The similarities between the AI boom (black line) and internet boom (blue line) are uncanny in terms of both the percentage price movement and the duration of the move. A clear case of history rhyming when it comes to investor psychology. It may now be about to repeat.

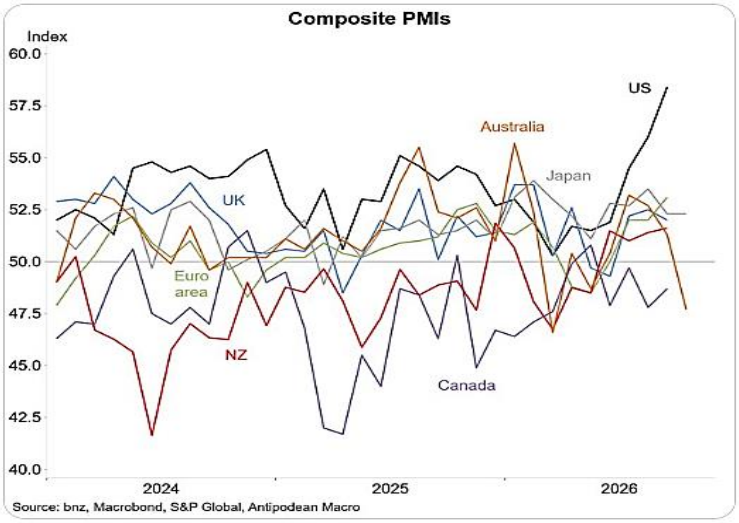


If the AI bubble does go the same way as the Internet bubble, the key economic outcome was that while investors were carried out in body-bags, the infrastructure that was left behind paved the way for an incredible era of innovation. One wonders if this will be repeated and there could be a host of existing and new companies that could garner major productivity improvements as they utilise plunging token prices with ever better AI models. Any incoming suggestions in this sphere gratefully received!

The other impact as the most capital-intensive piece of the AI build-out fades is that the intense competition for scarce capital will ease and perhaps take a degree of pressure off US bond yields. Alongside this, we may also perhaps see a peak in the almighty US dollar although this will also require US rate hikes to end and that is by no means certain. The K-shaped economy may begin to change and it is worth remembering

here that more than 100% of US GDP growth this year has come from the broad AI sector, according to UBS analysis.

Similarly, spot the outlier in the PMI chart below and guess which sector has been driving it. As the AI sector fades, the pressure on yields will fade with it.



Finally, as this piece is being written we have the small matter of a Republican massacre in the US mid-term elections. The most obvious near-term positive is that this will lift the US desire to end the war in Iran, hence a sharp move lower in the Brent oil price and initial rise in markets. The Iranians get to have a say about the end of the conflict too and it is likely that the US will need to swallow a rather large dead-rat to exit what has been a debacle. The new Democratic Congress cannot force Trump out of Iran and it does not even get seated until January. However, they do hold the power of the purse over the Pentagon.

We suspect that the size of the Democratic win, coupled with the relatively centrist nature of their leadership, may see reasonably sensible policies emerge as they will not be held hostage by their fringes. Trump will do deals around his veto power. However, there are two obvious points of contention. Tariffs are the one consistent political belief that Trump has ever held and he has largely pushed them through using his executive powers – at best, they may be softened. Secondly, the US debt ceiling will need to be renewed in 2027 and this could be hugely contentious and risky for bond markets.

Fund Performance in October

Returning to the Fund's performance in the month of October, our overall return of circa -1.2% pre-fees was driven by a thankfully rare combination of losses from both sides of the ledger. Our longs returned -0.1%, while our short book detracted -1.1%. There were some quite large winners and losers. Our "winners to losers" ratio was a very weak 43%.

Our gross position (longs + shorts) continued its steady rise in recent months and moved up from 122% to 128% as we saw opportunities on both sides of the ledger. Our net exposure was almost unchanged at 46.6%. We remain heavily net long NZ and this has been rather unhelpful as discussed earlier. This could turn quickly if we do see a solution to the Iran debacle following the US mid-term elections.

October saw the 50/50 index of Australia/NZ have ten negative days and the average decline on them was a tepid -0.28%. The Fund was up on half of those days and had an average return on them of +0.07%. We remain uncorrelated. The issue in the month was that our stock selection didn't work out.

Our strongest headwind came from what has proven a clear mistake in the form of the IT distribution business, Data #3 (DTL, +32.9%). They delivered a sizeable upgrade early in the month and then added to it slightly at their AGM. A fair degree of this upgrade was a one-off but some wasn't as they benefit from a confluence of post-Covid IT equipment/software being replaced and some benefits from the general AI boom. The valuation is now extremely stretched, being on a PE of 32.4x in Jun27 and 30.3x Jun28 for a business that has a volatile earnings track record. Their key supplier, Microsoft trades on 27.8x and 23.0x and DTL normally trades at a discount to them. Which would you rather own? We will manage the position carefully over the period ahead.

A second key laggard was our oft-mentioned long in DUG Technology (DUG, -9.7%) which drifted lower on no new news. Oil exploration budgets are surging around the world so it would be most disappointing if DUG was not participating in this. We will find out more at the AGM this month.

A third headwind was another error (at least in the short term) in our mid-sized long in Integral Diagnostics (IDX, -18.7%). Their new CEO delivered a downgrade at their AGM chiefly on radiologist costs, which was somewhat bemusing as they had been starting to slow previously. We suspect they may have moved too aggressively in trying to lift productivity and lost people, which then had to filled in with expensive locums. Time will reveal whether it was that a classic rebasing or a bit of both. The attraction of IDX is the growth tailwind from an ageing population requiring ever more scans. Even on the downgraded earnings, it is now on a Jun27 PE of 16.0x going to 13.2x Jun28 and 11.9x Jun29. We suspect we will make money here the long way around.

A fourth problem came from our small long in the foreign currency transaction business, OFX Group (OFX, -31.7%), whose suitor at $1.00 could not pull the financing together and OFX also delivered a weak business update. We do think this business will find a buyer given the ability of a suitor to retain most of the sizeable revenues and drop most of the costs.

Our moderate long in Kingsgate Gold (KCN, -21.9%) hurt during the month as they encountered some temporary operational difficulties due to heavy rainfall which will persist through the next quarter. We have owned KCN since the low $1 region and have sold it as high as the high $6 region. In the $4 region, it is an extremely cheap stock with potential catalysts from reserve life extension and a promising silver resource in South America. It just didn't work this month.

Other headwinds came from longs in Turners (TRA, -6.0%), NZME (NZM, -6.7%) and Intelligent Monitoring Group (IMB, -9.7%). Shorts that hurt included Brambles (BXB, +9.6%) and Commonwealth Bank (CBA, +10.4%).

We did have some sizeable winners in the month. These were led by our high conviction holding in the litigation funder, Omni Bridgeway (OBL, +15.0%), which delivered a strong quarterly update and had a bullish broker initiation. OBL's numbers are complex to put it mildly, so we repeat our analysis from several months ago on why we like it so much.

The basic maths is that OBL settles around $550m of cases per year, which in a steady-state, (once the waterfall structures in their funds 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 EBITDA of $192m-$70m+$35m = $157m. This is on a market cap that is now $530m, which with net cash of c$120m is an EV of $410m. Their net asset value is $2.96 per share. On top of this, their funded case book is gradually growing and conditions are improving as competition is ebbing.

A second strong tailwind came from our new mid-sized long in Arena REIT (ARF, +25.0%) which we purchased on the blind panic that followed one of their key childcare tenants going into receivership. We took the view that the assets were decent and would be re-leased in due course. This has happened far more quickly than we could have hoped and there are bank guarantees governing the remainder. We do not think ARF is a $4.00 stock like it was in the good old days because the childcare industry is doing it tough. However, ARF has low gearing, is selling assets above carrying values and it was pure theft in the low $2.00 region.

A third notable winner was our long in the patent attorney business, IPH Holdings (IPH, +14.1%). The earlier panic about them being supplanted by AI models has now faded but the normal GDP-growth rate of patent filings has not occurred in the last several years. However, they are a strong free cashflow generator and their forward PE path of 8.7x Jun27 and 8.4x Jun28 earnings is still too cheap. It is the last remaining listed patent attorney business, and given the cashflows, we do wonder if it may be better in private hands.

Thank you for your continued support and interest in the Fund. The last couple of months have been something of a battle. Our ratio of good calls to bad calls has been lower than normal but could change quickly. Last month, we stated that, "markets are becoming increasingly concerned with soaring bond yields…. but this could change on a dime if an Iran resolution is reached and oil prices fall." Markets are super-volatile as this is written although the worst of this is confined to high beta sectors. Normal companies are outperforming as bond yields fall and any solution to the Iran crisis will accelerate this. We just need President Trump to swallow a rather large dead rat and exit the conflict. However the future plays out, 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

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