Salt Long Short Fund Fact Sheet – April 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 30 April 2025

Benchmark	RBNZ Official Cash Rate +5% p.a.
Fund Assets	$111 million
Inception Date	31 July 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 April 2025

Application	2.919
Redemption	2.9073

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 30 April 2025

Long positions	50
Short positions	30

Exposures at 30 April 2025

Long exposure	92.80%
Short exposure	43.74%
Gross equity exposure	136.54%
Net equity exposure	49.06%

Investment Risk to 30 April 2025

Fund volatility[1]	6.59%
NZ50G / ASX200AI volatility[1]	13.49%
NZ50G / ASX200AI correlation	0.060

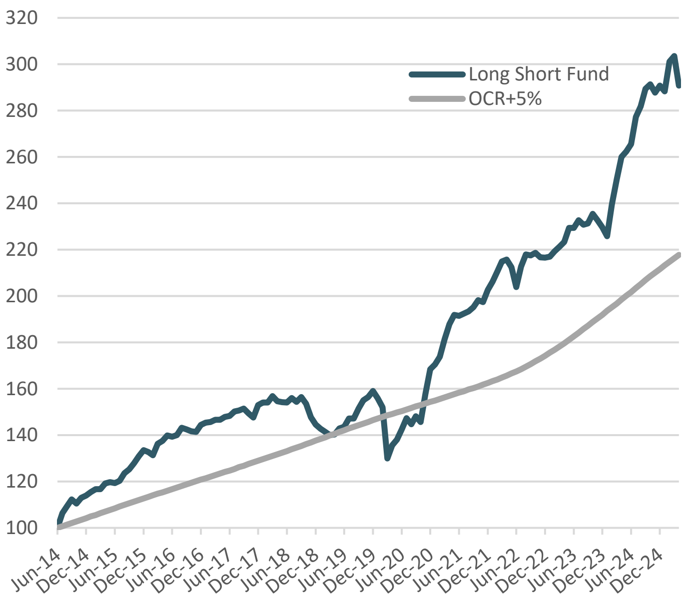
1. Annualised standard deviation since fund inception.

Fund Performance[2] to 30 April 2025

Period	Fund Return	OCR+5% Return	NZ50G/ASX 200AI Return[3]
1 month	-4.22%	0.69%	0.31%
3 months	0.86%	2.08%	-6.03%
6 months	-0.21%	4.41%	-2.26%
1-year p.a.	11.79%	9.69%	4.62%
2 years p.a.	14.09%	10.10%	4.18%
3 years p.a.	10.46%	9.52%	3.43%
5 years p.a.	16.47%	7.85%	7.53%
7 years p.a.	9.44%	7.44%	6.93%
10 years p.a.	9.32%	7.36%	7.72%
Inception p.a.	10.35%	7.44%	8.24%

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 30 April 2025

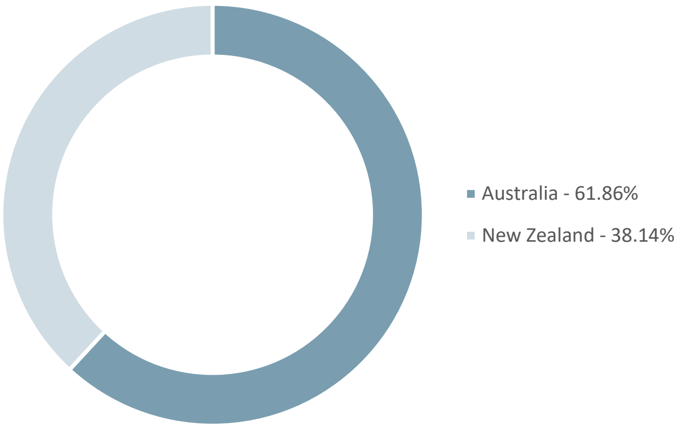


Fund performance has been rebased to 100 from inception.
Past performance is not a reliable indicator of future performance and no representation or warranty, express or implied, is made regarding future performance.

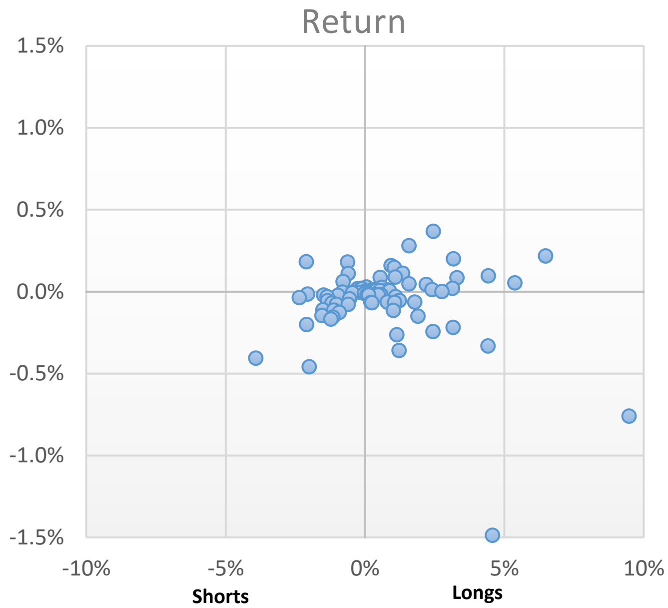
Largest Longs	Largest Shorts
Tower	Commonwealth Bank of Australia
GDI Property Group	Brambles
Turners Automotive Group	Auckland International Airport
Monash IVF Group	Wesfarmers
Genesis Energy	Sims

SALT FUNDS MANAGEMENT
Level 3, The Imperial Buildings, 44 Queen Street | PO Box 106-587, Auckland 1143
Email: info@saltfunds.co.nz | www.saltfunds.co.nz

Country Allocation at 30 April 2025 (Gross Equity Exposure)



April 2025 Individual Stock Contribution



Fund Commentary

Dear Fellow Investor,

After earlier defying market volatility and weakness in the March quarter, returns from the Fund finally succumbed to it in April with a disappointing outcome of -4.22%. This compared to returns of -3.0% for the NZ benchmark and a quite remarkable rebound for Australia of +3.6% in the face of heightened global uncertainty.

Our losses had three main drivers, which were all peculiar to us and which will likely prove temporary. Firstly, our large Tower (TWR, -10.4%) holding came under pressure as Bain sold their 20% stake. We had earlier lowered our holding from a peak of around 10% to around 7% but used the opportunity of the discounted sale to build it back up again. Our conviction levels remain high and the valuation is exceedingly cheap. More on this shortly.

Secondly, we had built up a large position in Monash IVF (MVF, -26.0%), which we viewed as the perfect defensive growth stock on cheap multiples for highly volatile times. In a bolt out of the blue, they transferred the wrong embryo into a patient, which resulted in a birth. This awful mistake was put down to human error. There have been similar events in Australia and overseas and the implications for the errant company have not been material. We view the market move as a massive overreaction and bought more near the lows. We do acknowledge that it may take some time for the impact to wear off but we expect strong returns from here.

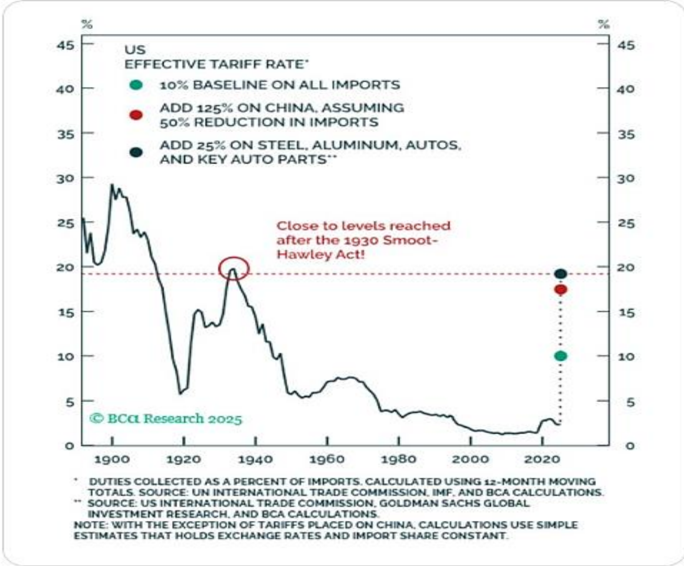
The third headwind was market positioning, where we have become increasingly long NZ and net short the uber-expensive Australian market. This clearly did not work well given the relative moves in the month. Remarkably, as this is written, Australia is 3.3% above its pre "Liberation Day" level and +11.6% above its April low point. We would suggest that the world and Australia are in a worse situation now than prior to the events of April 2. Money has flooded into the likes of the Commonwealth Bank (CBA, +10.4%), which is on a forward PE of 27.5x and has seemingly moved in lock-step with the gold price since the tariff madness began.

April was all about "orange swan" events, with markets gyrating furiously to the latest tweet and tariff thought bubble. The tepid Nasdaq 100 Index advance of +0.9% concealed intra-month swings of 19.8% from high to low, with CNN Fear & Greed shown below recovering from "extreme fear" to neutrality.

The recovery in markets and sentiment from their lows suggests strong confidence that market vigilantes will win and force a backtrack. While not apparent in the "Fear & Greed" measure, it can certainly be seen in the chart below from BAML. The "bro-bid" for stocks as expressed via record inflows into leveraged global equity funds has blown away all the records over the last few days.

Aside from expectations of a backtrack on tariffs, another interesting view gaining some traction is that this is all part of a remarkably cunning 3D chess game by the Trump team. We prefer the comment from a former Trump aide that rather than playing 3D chess, all his sidekicks are running around trying to desperately stop him from eating the pieces.

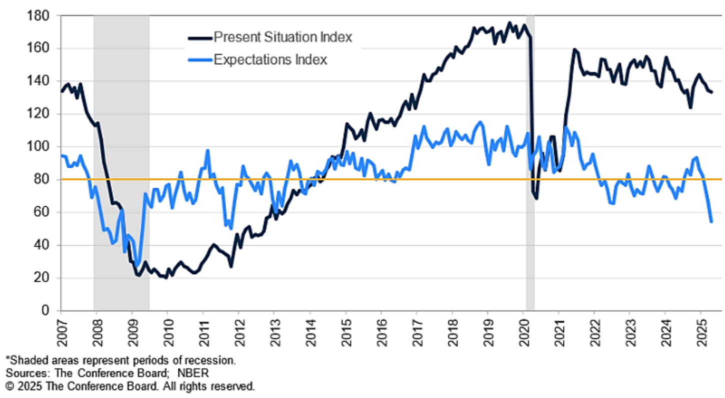
The principle of Occam's Razor is that when confronted with multiple explanations for something, the simplest explanation is often the best. We would suggest that Trump is a true believer in tariffs and reshaping the US economy. They are not oblivious to the transition risks and are making up the tactics as they go to try to contain the market and economic fall-out. Who knows where we end up but it is clear that tariff levels will be far higher than previously, and they will deliver a stagflationary impulse to the US economy and thence the world.



The chart above was sourced from BCA Research and was compiled after the initial tariff walk-back that put the shockingly simplistic marker-board tariff schedule on hold for 90 days. As we stand today, US tariffs are back to the Smoot-Hawley highs that preceded the Great Depression. A good half of this comes from the extreme tariff levels that are effectively a China trade embargo. These will surely be eased but we will still likely end up with a meaningful imposition somewhere between the green and red dots.

While markets might initially heave a sigh of relief when we see signs of a China trade-war pullback, the facts are that tariffs are likely to remain in place at meaningful levels and these will still be a considerable stagflationary shock. Precise impacts depend on both the final tariff outcomes and the degree of retaliation but most forecasts have inflation rising from the mid-2% region to the mid-4% region and the US falling into recession at year's end unless there is a material reversal from current proposals.

Forward-looking US economic indicators are beginning to project these stagflationary outcomes even if equity markets are in fully-fledged denial via their clear hopes for a policy U-turn.



As shown above, US consumer confidence re the Present Situation has fallen to a degree but the Expectations Index has plunged to a 13-year low. Consumers aren't seeing a sharp slowdown in activity and lift in inflation just yet but they're not oblivious to what lies ahead.

Trump is engaging in considerable jawboning to pressure the Fed into cutting rates. The argument seems to be that tariffs are a one-off shift in the price level and won't feed through into ongoing inflation. However, with unemployment being in the 4% region, workers have considerable power to demand that the price inflation they are facing be compensated for in their wages. Further, if Trump's tariffs do gradually succeed in bringing factories back to the US, it's not clear where all the workers will come from given that only 13m out of 160m jobs are in the manufacturing sector and unemployment is so low already.

No wonder Fed Governor Powell effectively removed the Fed put from the market with his statement that, "tariffs could pose a challenge between controlling inflation and boosting growth." Comments like this mark a stark contrast with the four rate cuts that are being priced by markets in the US. Pricing also appears very aggressive in Australia (-130bp) and NZ (-80bp) compared to the reasonable inflation pressures that are still present in our economies.

Investors also need to be cognisant of future potential "orange swans". The US clearly has a massive fiscal deficit and no political will to tackle it. Novel policies such as a withholding tax on foreign holdings of US bonds have been floated as one means to raise revenue.

Perhaps the biggest potential risk is that Trump's jawboning morphs into fully-fledged interference with the Fed's independence. Regardless of whether he makes good on his occasional and probably illegal threats to fire Powell, the facts are that by May 2026, 4/7 of the Fed Governors and the Chair will be appointed by Trump. Worse, there's nothing to prevent the next Governor being appointed well ahead of the due date and then making pronouncements that conflict with Powell's views.

The "bro bid" for equities has taken none of these risks into account. Both Australia and the US have recouped their Liberation Day losses and are trading on fundamentally expensive multiples relative to history. As Goldman Sachs argued mid-month, "bear market rallies are common but a sustained trough typically requires a combination of cheap valuations, extreme negative positioning, policy intervention and a slowing of macro deterioration." To us, none of these conditions look as though they are in place.

At least NZ equites are fair value on a median stock basis and our economy and thence future earnings growth are gradually turning upwards as past rate cuts feed through.

The wider market bounce of the last few days is displaying many signs of being a dangerous bear market trap. We are happy to retain our positioning of being strongly net long NZ, being net short Australia on a risk-adjusted basis and dialling back our overall market exposure as this piece is being written.

Fund Performance in April

Returning to the Fund's performance in the month of April, our overall return of circa -4.2% pre fees and tax marked an end to a run of golden weather that we had enjoyed for an extended period of time. Strong performance so far in May gives hope that this will prove a temporary blip but the month is still young.

We experienced an unusual month where returns from both sides of the ledger were negative, with our long book detracting -2.4% and our short book -1.8%. Our overall "winners to losers" ratio was a very poor 40%. Both this and the failure of our opposing books to provide any hedge to the portfolio reflected the wildly divergent performances of the NZ market at -3.0% and the Australian market at +3.6%. We are risk-adjusted long NZ and short Australia and have even greater conviction in this slant given the moves. On top of this, we had an unusual skew to several large losses.

With cheap stocks becoming cheaper and expensive stocks becoming dearer in the month, we took the opportunity to lift our gross position from an unusually low 116% to 138%. It almost felt like asset allocation type selling in NZ at month's end and we took advantage of this aggressively. This saw our net position only fall slightly from 50% to 49% but it is a further 2-3% lower live time. We remain heavily net long NZ and our mix of names is now notably less cyclical and more defensive than previously.

There were eight negative days for the 50/50 index of Australia and NZ in April. The average return for the market on those days of tariff-induced fear was a sharply negative -1.30%. Unfortunately, the Fund did nowhere near as well as it normally does and we were down on seven of those eight days and our return on them averaged -0.73%. No correlation really does mean no correlation and that means when the market is down, we may be up, down or flat. This month, a confluence of events meant that we were down too.

By far the largest headwind came from the large position we had built up in Monash IVF (MVF, -26.0%). We had been congratulating ourselves on having the prescience to own such a defensive growth name against the backdrop of global turmoil when the news was released that they had transferred the wrong embryo into a patient and that this had resulted in a birth. Investors absolutely revolted and marked the stock down as much as -40% at one point.

MVF stated that it was due to human error, with their process having regularly been subject to and passing compliance audits. We would expect this to be the conclusion of their independent review. They are insured and they stated that this would not be material to FY25 performance. There have been a number of IVF incidents in Australia and around the world and the outcomes for the offending companies have tended to be financially immaterial and short term only. This makes sense given a backdrop of structural demand growth for the services. We would expect a short-term loss in MVF market share but ultimately their performance will reflect their industry leading success rates. We bought more at the lows.

A second key laggard was our extremely large long in Tower (TWR, -10.4%) where Bain sold their 20% stake at $1.30 compared to the end-March price of $1.49. We had earlier taken our holding down from circa 10% to 7% but used this opportunity to lift it back into the mid-9% region. Inevitably, some of the sell-down has gone into loose hands and the share price closed the month at $1.33. However, it is beginning to work through the short-term holders as this is written.

TWR subsequently delivered yet another profit upgrade, this time it was a 15% lift from a range of $60-70m to $70-$80m. This still assumes their full large event allowance of $50m even though there has been only $3m so far. Depending on large events between now and end-September, TWR is on a PE of 4.4x – 6.2x our numbers. This remains absurdly cheap for a solid industry structure that allows for sound returns over the insurance cycle. There seems to be some concern that GWP growth is now slowing but so is claims costs inflation and reinsurance pricing – it's the margin that matters.

Another material headwind came from our short in AP Eagers (APE, +23.2%) which had earlier defied the earnings gloom of its peers but now trades on a forward PE of 18.5x, which is far too high for an ultra-low margin car dealer in a market that is getting choppy. They have experienced strong brand performance, with BYD being a stand-out winner. What the big bull who has been campaign broking them forgot to mention is that the plug-in hybrid rebate ended on April 1. Sales have fallen sharply since then.

Other sources of pain were led by our large short in Commonwealth Bank (CBA, +10.4%), which is now on a staggering PE of 27.5x – it's not like those are trough-cycle earnings either. We observed its most correlated asset on a daily basis during the month was gold, so it was clearly acting as a hiding hole amidst the tariff volatility. Our short in Wesfarmers (WES, +8.8%) ground a little higher and it is now on a forward PE of 34x for a business that is chiefly Bunnings, which is now a low single digit grower. The straight-line forecasts in the outer years from some analysts for WES's lithium business also look a touch unlikely.

Further long book headwinds came from our moderate holding in Australian Vintage (AVG, -23.1%) which fell along with the entire sector even though they have almost no direct exposure to US tariffs. Servcorp (SRV, -7.5%) fell randomly, as did NZME (NZM, -9.3%), despite comments from their CEO to staff reported in the NZ Herald to the effect that the business is performing well.

Tailwinds were somewhat scarcer and were led by a mid-sized long that we re-established a few months ago in Intelligent Monitoring Group (IMB, +12.2%). We made strong returns out of IMB the first time around as it surged from the 20cps region to the mid-70cps region. They are seeking to consolidate and grow the Australian home and business security segment and first piqued our interest when they bought the ADT business on very favourable terms from its multinational owner. IMB has since grown rapidly through organic and acquisitive growth. Currently, their accounts and cashflows reflect the complexity associated with this change but as they reach a steady state over the next year, they will settle down onto a forecast PE path of 8.0x Jun 25 and 6.0x Jun26. We like those sorts of multiples for a growth company operating in a large potential market.

A second key contributor was our holding in Challenger (CGF, +17.6%), where we viewed the market as having reacted far too negatively in February to a result which wasn't too far shy of the mark. They delivered a solid Q3 update during the month and their value appeal was franked when Dai-Ichi Life acquired a 15.1% stake from MS&AD at $8.46, a 53% premium to the then share price. They stated that they have no immediate intentions of making a takeover bid but this now puts a floor under CGF as they use their dominant position to grow in the Australian annuity space.

Other more modest positives came from our large long in GDI Property (GDI, +3.1%) and the takeover target Marsden

Maritime (MMH, +6.2%) moved closer to the cash terms as key milestones lifted the already high likelihood of completion. Shorts in Auckland Airport (AIA, -8.0%), Breville Group (BRG, -8.8%) and Generation Development (GDG, -17.3%) were rare contributors from that side of the ledger.

Thank you for your continued support and interest in the Fund. April brought a rather jarring end to a wonderful run of gains that we had made through weather fair and foul. That said, we do not view the key drivers as being permanent and May has already started strongly although we would caution that it is early days.

We are wary that the recent market bounce has many hallmarks of a bear market trap. Outside of the reasonably valued NZ market, valuations are extended and the “bro trade” is in full swing against a backdrop of the most damaging and mistaken set of stagflationary economic policies since the 1930’s. This is a time for caution 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