SALT

Salt Long Short Fund Fact Sheet – November 2024

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 November 2024

Benchmark	RBNZ Official Cash Rate +5% p.a.
Fund Assets	$97 million
Inception Date	31 July 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 30 November 2024

Application	2.8891
Redemption	2.8775

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 November 2024

Long positions	51
Short positions	33

Exposures at 30 November 2024

Long exposure	91.51%
Short exposure	49.64%
Gross equity exposure	141.15%
Net equity exposure	41.87%

Investment Risk to 30 November 2024

Fund volatility[1]	6.54%
NZ50G / ASX200AI volatility[1]	13.43%
NZ50G / ASX200AI correlation	0.049

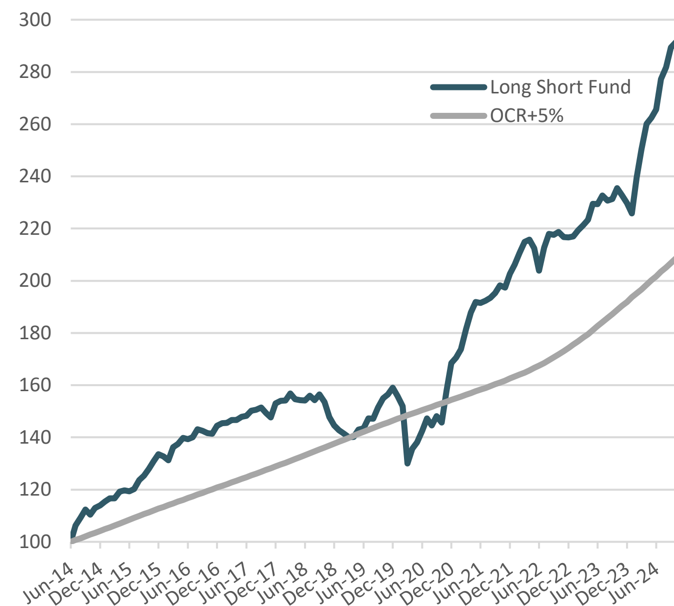
1. Annualised standard deviation since fund inception.

Fund Performance[2] to 30 November 2024

Period	Fund Return	OCR+5% Return	NZ50G/ASX 200AI Return[3]
1 month	-1.23%	0.74%	3.59%
3 months	2.12%	2.38%	5.18%
6 months	9.66%	4.94%	10.79%
1-year p.a.	23.62%	10.30%	19.30%
2 years p.a.	15.21%	10.17%	8.87%
3 years p.a.	13.38%	9.08%	5.00%
5 years p.a.	12.97%	7.58%	6.31%
7 years p.a.	10.00%	7.30%	8.20%
10 years p.a.	9.80%	7.33%	9.26%
Inception p.a.	10.68%	7.38%	9.19%

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 November 2024



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	Scentre Group
Turners Automotive Group	Wesfarmers
Challenger Financial Service	Auckland International Airport
Servcorp	Reece

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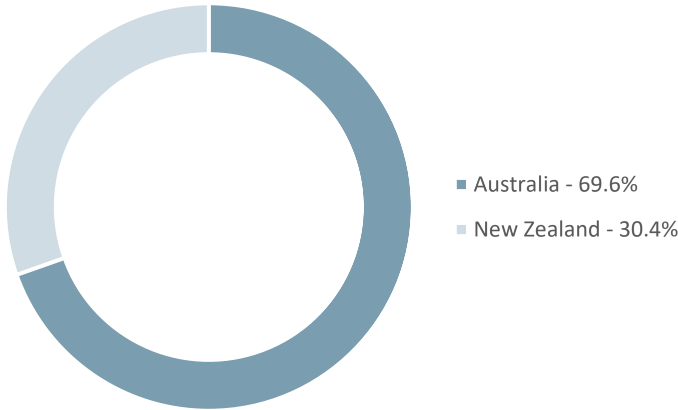
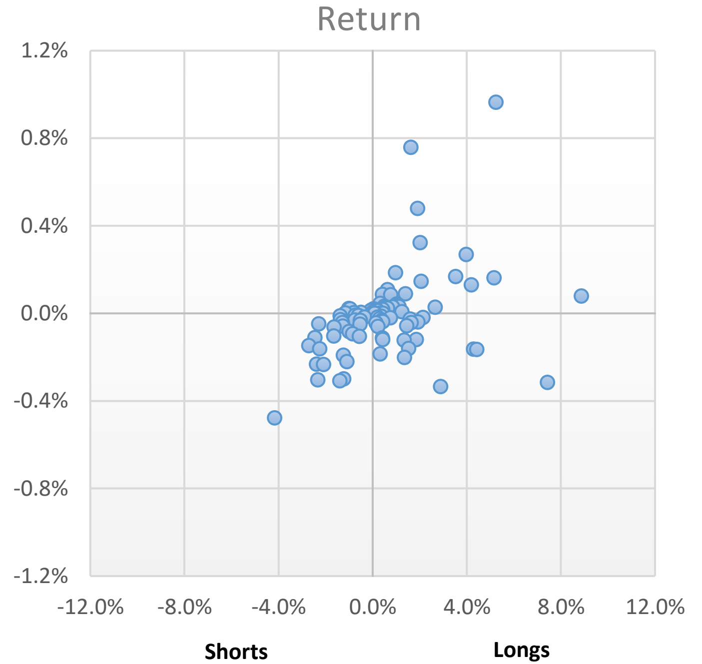
Country Allocation at 30 November 2024 (Gross Equity Exposure)



November 2024 Individual Stock Contribution



Fund Commentary

Dear Fellow Investor,

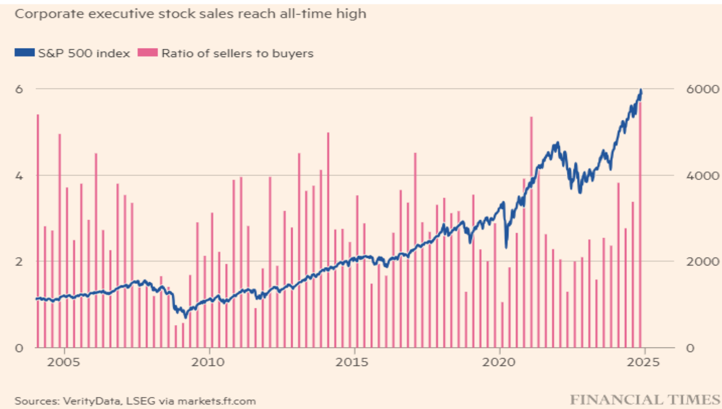
November saw the first negative outcome for the Fund since January, with a return after all fees and tax of -1.23%. There were no single major stand-out detractors but rather a collection of moderate headwinds from almost our entire short book, which was impacted by Australia's broad-based +3.8% advance. NZ rose by +3.4% but we currently have very limited shorts in this market.

Overall, our long book added circa +2.0% but was swamped by our short book's negative impact of -3.4%. Unsurprisingly, we view large swathes of the Australian (and US) equity market as being well over-cooked and ripe for a sharp reversal at some future point.

Many movements in global markets in November felt like a speculative blow-off. Tesla rose +38% as coincidentally did Bitcoin. The Nasdaq 100 rose +6.3% and the "Magnificent 7" ran by +9.0% (equal weighted). Closer to home, the S&P/ASX All Technology Index ran +12.6%, far outperforming the rest of the market. As shown below, the CNN Fear & Greed Index was a touch more guarded given its broader composition but has spent most of the last two months in Greed (>55) or Extreme Greed (>75) territory. There has certainly been no semblance of Fear.

While markets have been running, Warren Buffett has moved to a record proportion of cash.

At the same time, insiders have been selling hand over fist (with four sell-downs in Australia occurring as this is being written).



Valuations are hugely extended, whichever way you cut it. The metrics below from Goldman Sachs are from mid-month and worsened further by month-end.

Exhibit 4: The stretched valuation in the US equity market is reflected across most standard valuation metrics
Data since 1976, unless noted otherwise

	Aggregate index		Median stock	
Metrics	**Current**	**Historical %ile**	**Current**	**Historical %ile**
EV / sales	3.4	100 %	3.5	97 %
Cash flow yield (CFO)*	5.1 %	100 %	5.8 %	95 %
Price / book*	5.3	99 %	3.7	98 %
EV / EBITDA*	16.5	97 %	13.8	94 %
Forward P/E	22.3	95 %	19.2	95 %
Cyclically adjusted P/E (CAPE)	34.3	96 %	NA	NA
Free cash flow yield*	2.9 %	77 %	3.6 %	63 %
Median absolute metric		**97 %**		**95 %**
Yield gap vs. real 10-year UST	240 bp	91 %	310 bp	90 %
Yield gap vs. 10-year UST	6 bp	89 %	76 bp	71 %
Yield gap vs. IG**	-76 bp	88 %	-5 bp	84 %
Median relative metric		**89 %**		**84 %**

*data since 1987
**data since 1999

Source: Compustat, Goldman Sachs Global Investment Research

Exhibit 4

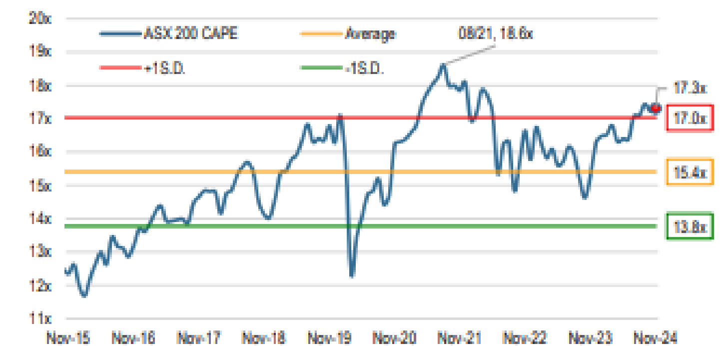
Is it a case of Donald Trump fairy-dust and that these metrics will all prove irrelevant as we see a replay of the market surge post his election in 2016? No. In 2016, the forward PE for the S&P500 Index was 16.6x, corporate tax rates were 35% (with the cut to 21% not priced in), the 10-year bond yield was 2.0%, CPI inflation was 2.0%, the US deficit was $600bn and the US debt/GDP ratio was 98%. In 2024, the forward PE for the S&P500 Index is 23x, corporate tax rates are 21% (maybe on their way to 15%), 10-year yields are 4.4%, CPI inflation is 2.5%, the US deficit is close to US$2.0tn and the debt/GDP ratio is 124%.

The next argument is that we're in an era of structurally higher EPS growth as unprecedented productivity improvements will flow from vast investments in artificial intelligence. This is certainly possible but the first major AI use-case of large-language models appears to be encountering rapidly diminishing returns and a key quandary across many Western economies is slow/zero productivity growth. If we are seeing higher EPS growth, it's in very narrow segments and the overall market has departed from its normal relationship with earnings.

Source: Bloomberg, FactSet, Morgan Stanley Research

Where the US market goes, the momentum-fixated Australian market tends to follow.

Figure 17: CAPE | ASX 200



Source: J.P. Morgan, Bloomberg Finance L.P.

Using JP Morgan data, this shows that the cyclically adjusted 1-year forward PE ratio is well above normal levels and is actually at its third highest point since 1924! The all-time high in 2021 was when 10-year bond yields were at 1.0% versus the 4.3% they are at today. As just one example of what has happened in Australia, the bank sector is up circa 40% this year, yet EPS forecasts are largely unchanged.

The NZ story is very similar, with the forward underlying PE multiple for the overall market having ascended to a nosebleed 34x - close to the 37x peak in the zero-rate era post Covid. We do have some sympathy with the argument that a changed composition now sees our small index being dominated by growth names such as Fisher & Paykel Healthcare. This perhaps explains some of this but there are definite spillovers from high offshore multiples. Interestingly, the median PE of 17x is around fair value. We are seeing many

long opportunities in small/mid cap land but very few amongst large caps.

The easy part of the analysis is showing that equity markets are heroically over-priced. When that might change and why is far more difficult to say. Central bank actions are unlikely to be the driver, with most rate cycles being in easing mode, albeit at a lesser pace and quantum than earlier expected. All we can say is that there is major vulnerability to potential surprises – be they inflation remaining high, vast fiscal deficits becoming a major driver of long duration bonds, the AI revolution hitting some road-bumps or current global political unrest and war becoming more widespread.

This Fund will continue to play the hand of cards which the market deals, carefully building up our diversified shorts in the most egregiously over-bought names, while aggressively running high conviction long positions where we can see attractive valuations and growth.

We previously highlighted just how different from 2016 the current market set-up is for Trump round two. What are the key potential policies and their implications for markets?

The main negative revolves around what happens with tariffs. Goldman Sachs estimates that every 1% increase in the overall effective tariff rate would lift core PCE prices by 0.1%. Citigroup estimates 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 sees 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. Tariffs and a sharp fall in immigration are negative supply-side shocks – the very antithesis of Goldilocks.

A partial market offset would come from cutting the corporate tax rate from 21% to 16%. This would lift S&P500 earnings by around 4%. However, given that the US deficit is already out of control, this may cause bond yields to rise, lowering the discounted value of those higher future earnings.

In the short term, tariffs could cause a pull-forward of activity as companies rush to warehouse goods in the US prior to tariffs being imposed. This should not be mistaken for a sudden boom if it happens.

The key positive offset to these clear negatives is the likelihood of widespread deregulation. This is difficult to measure but will clearly be helpful in a number of specific situations.

Other key things to watch include crypto deregulation to make it even more of a wild west, with this bubble spilling over to equity markets; carbon policy back-sliding that imposes greater costs on the rest of the world; threats to Fed independence; and fewer rate cuts as fiscal policy is eased. The key risk we are wary of is higher bond yields as the Fed has less room to cut, inflation rises due to tariffs and an unsustainable fiscal path is aggravated rather than solved.

A risk for 2025 is that James Carville's famous quote comes to bear: "I used to think that if there was reincarnation, I wanted to come back as the President or the Pope or as a 400 baseball hitter. But now I would like to come back as the bond market. You can intimidate everybody." If this plays out then you want to own winners from higher yields such as insurers and companies with large floats, while avoiding long duration growth and pure yield plays. We shall see.

Fund Performance in November

Returning to the Fund's performance in the month of November, our overall return of circa -1.2% pre fees and tax was driven by a solid contribution from our long book (+2.0%) being swamped by a disappointing -3.4% headwind from our shorts. Our overall "winners to losers" ratio was just 45%, the worst it has been in years. There was a skew to our largest winners doing a lot better than our largest losers – we just didn't have enough of them.

Our gross exposure was unchanged at 141% but our net exposure fell sharply from 52% to 42%. Around half of this came from exiting the hugely successful investment in Global Data Centres (GDC), which had become a time-value-of-money play and actually de-listed prior to month-end. As previously, we are solidly net long NZ and are more neutral in the expensive Australian market. The rise in the NZ market did see us add a couple of shorts at attractively extended price levels during the month. Our set-up and performance have perhaps begun to tilt a touch away from "market neutral" as we are doing slighter better on negative days than positive ones in recent times but this can change very quickly. At current extended valuations, we are comfortable with this.

The market strength in November meant there were only seven negative days for the 50/50 index of Australia and NZ. The average return for the market on those days was -0.45%. By contrast, the Fund was up on three of those days and had an average return on all of them of +0.07%. Yet again, there was no measurable correlation between the performance of the Fund and that of the market.

The strongest tailwind came from our large long in Turners (TRA, +19.0%). TRA is an old friend that we have owned at various weights since the earliest days of the Fund in its former incarnation of Turners Auctions. When we find a company that can grow by continually re-investing and earning returns above WACC, then we tend to hold on.

TRA defied the gloom in the NZ economy and a downturn in used car sales by posting a slightly better than expected result, with strength in their finance and insurance divisions offsetting a crimping in car sales margins. Importantly, car sales and margins picked up solidly in October and the outlook for the finance division is strong as rate cuts assist the portion that they fund floating. I detest the overuse of the term “eco-system”, but TRA has genuinely developed this in the NZ used car market. They continue to roll out new sites at strong returns, the cycle is now in their favour and their latest move into mobile repairs could grow into something quite meaningful over the next few years as they capture a small share of what is a huge auto-repair market. Their own fleet gives it a critical mass to start with. They are still only on a forward PE of 13x and a net dividend yield of 5%.

The second stand-out winner was a moderate long in the small Australian transport and logistics company, Silk Logistics (SLH, +59.4%), which received a takeover bid from DP World. We have been in and out of SLH since it listed, trying to catch an up-cycle in an operationally leveraged business off what was a PE ratio in the 7-8x region. They lacked critical mass but were gradually building this through internal capex and acquisitions and had well-aligned management. The takeover bid was clearly a case of luck rather than skill but the more that we play in the right places, the luckier we seem to get.

The third stand-out was a final hurrah from one of our best-ever investments in the form of Global Data Centres (GDC, +17.8%). They have sold the last of their data centres and were de-listed by the ASX as they no longer have an operating business. We exited what was still a reasonable rump of our original holding on the last day of trading. We didn’t want to wait an unspecified period for the final pay-out. We suspect that data centre euphoria is nearing a peak and view the impending listing of Homeco’s DigiCo Infrastructure as possibly ringing the bell. They have purchased assets at peak multiples of well over 20x EBITDA, gearing is relatively high and the modest dividend is far from being cash-backed.

Other more moderate wins came from a good bounce in the very cheap mining equipment rental business Emeco Holdings (EHL, +14.3%) following a solid AGM update and from a good-sized holding that we have built up in Genesis Energy (GNE, +5.9%) which is deeply oversold relative to its gentailer peers. Superloop (SLC, +17.7%) is now a small position but continues to be the gift that keeps on giving.

Our headwinds were smaller but highly correlated from the short-side as every “darling” stock seemed to go for a run in November. The dearer the better.

The way was led by our good-sized short in the ultra-expensive Commonwealth Bank (CBA, +11.1%) whose remarkable multiple expansion continued apace. A modest position in HMC Capital (HMC, +21.2%) did not work at all well as our fears about their ability to get the DigiCo Infrastructure IPO away were negated by just about every retail broker in Australia signing up to the deal. Reece (REH, +12.9%) rebounded post their warning in the previous month and is now on a forward PE of 43.1x with earnings momentum going the wrong way. Technology One (TNE, +23.7%) surged post an in-line to slightly better than expected result on a surge of euphoria. It is now on a forward PE of 74x and capitalises a good portion of its costs. It wasn’t so long ago that it was on 25x and expensing everything. The sell-side’s terminal growth rates are growing rapidly in their DCF’s to keep up with the share price. JB Hi-Fi (JBH, +10.8%) is now on a forward PE of 22.1x – remarkable for an electronics retailer. While they haven’t noted any economic weakness yet, they haven’t been entirely immune to cycles in the past and a rather large beast called Amazon awaits.

Headwinds from the long-side were unsurprisingly fewer in number given the strong month for equities. The largest was DUG Technology (DUG, -10.2%) which has given up nearly half of its remarkable gains since its peak. We sold a fair bit of the position near the highs and busied ourselves buying this back and more in November as the weakness appears a huge over-reaction to a seasonally weak first quarter and a capital raising whose entire reason was to fund the strong growth they are seeing. The only other name of note was our large holding in GDI Property (GDI, -4.0%), which drifted off randomly despite a very encouraging AGM update.

Thank you for your continued support and interest in the Fund. November was our first negative month since January. That is always disappointing but we view it as the impact of short-term market movements rather than more permanent fundamental errors. We will continue to do our level best to extend the Fund’s long-term track record of delivering equity-like returns, with far less volatility and no correlation to long-

only equity markets. Compliments of the season and we look forward to writing next in 2025!

Matthew Goodson, CFA

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