Salt Long Short Fund Fact Sheet – March 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 March 2025

Benchmark	RBNZ Official Cash Rate +5% p.a.
Fund Assets	$113 million
Inception Date	31 July 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 March 2025

Application	3.0475
Redemption	3.0353

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 March 2025

Long positions	46
Short positions	28

Exposures at 31 March 2025

Long exposure	83.10%
Short exposure	32.67%
Gross equity exposure	115.77%
Net equity exposure	50.43%

Investment Risk to 31 March 2025

Fund volatility[1]	6.54%
NZ50G / ASX200AI volatility[1]	13.37%
NZ50G / ASX200AI correlation	0.046

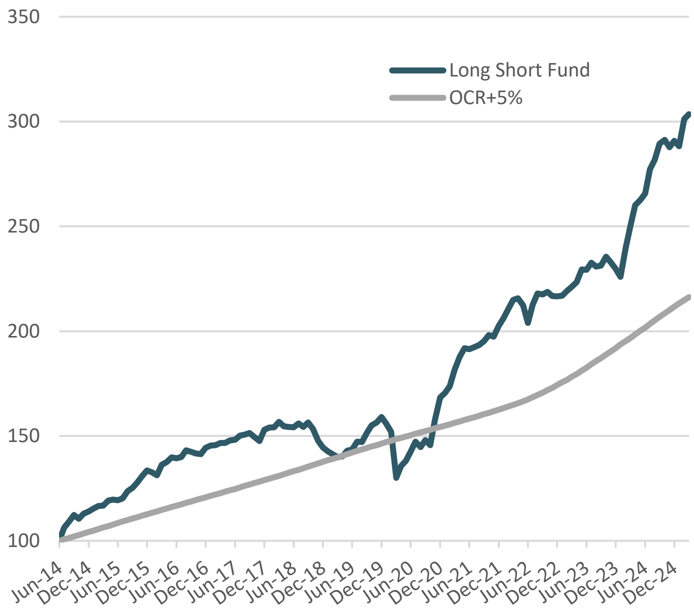
1. Annualised standard deviation since fund inception.

Fund Performance[2] to 31 March 2025

Period	Fund Return	OCR+5% Return	NZ50G/ASX 200AI Return[3]
1 month	0.80%	0.71%	-3.01%
3 months	4.40%	2.15%	-4.59%
6 months	4.88%	4.53%	-2.41%
1-year p.a.	21.30%	9.93%	2.13%
2 years p.a.	17.13%	10.13%	4.79%
3 years p.a.	12.20%	9.45%	2.86%
5 years p.a.	18.48%	7.79%	9.16%
7 years p.a.	9.90%	7.41%	7.30%
10 years p.a.	10.03%	7.35%	7.55%
Inception p.a.	10.88%	7.43%	8.27%

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 March 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
Monash IVF Group	Sims Group
Turners Automotive Group	Auckland International Airport
Servcorp	Wesfarmers

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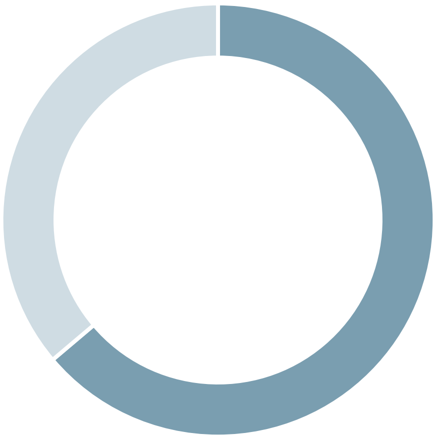
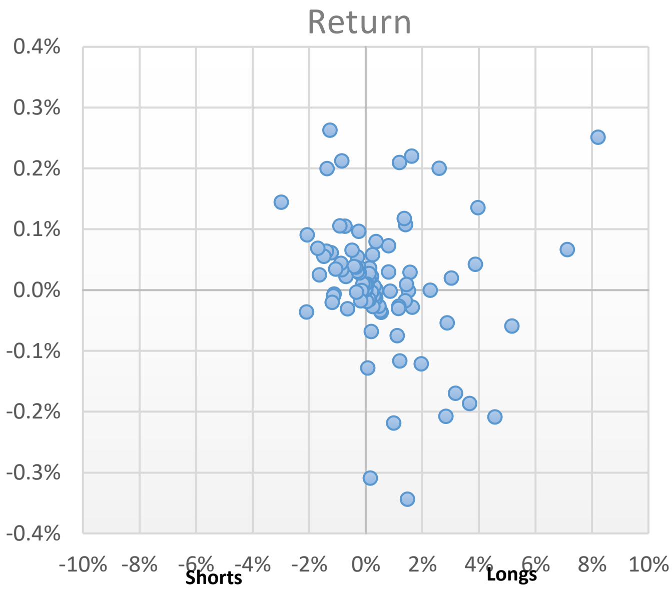
Country Allocation at 31 March 2025 (Gross Equity Exposure)



March 2025 Individual Stock Contribution



Fund Commentary

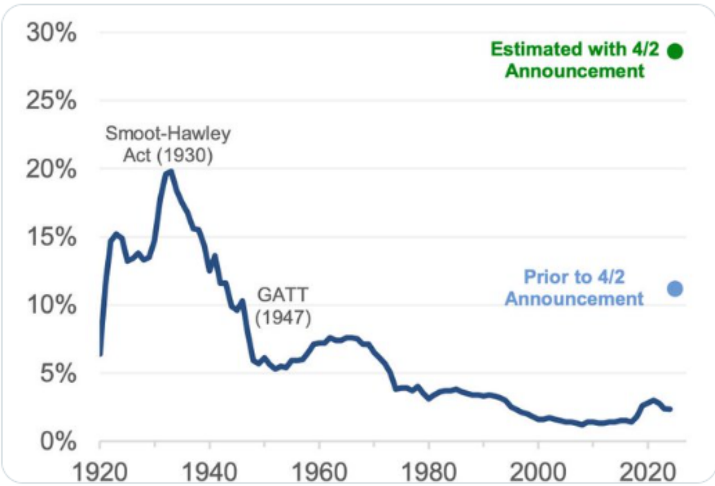
Dear Fellow Investor,

We are pleased to report a solid return in the month of March of +0.80% after all fees and taxes. It was a difficult and unpredictable month to put it mildly, with equity markets gyrating to the latest tariff twists and turns from King Donald amidst increasing signs of US stagflation. Against this backdrop, the NZ equity benchmark fell by -2.6% and Australia was even weaker at -3.4%. These both outperformed the -5.7% turned in by the MSCI World Index and -8.1% dive by the Nasdaq 100.

As was the case in February, our positive performance was delivered despite the Fund being 50%+ net long for most of the month. Unlike February, our individual contributors and detractors were all relatively small and it was more a case of our investment style working well on average in a tough month.

We reiterate the aim of the Fund is to provide equity-like returns with less volatility and no correlation to equity markets. We are delighted to have again delivered in both the March month and quarter. For the quarter, the Fund returned +4.4% versus -6.4% for the NZ equity benchmark and -2.8% for Australia.

As we write this piece, a vast array of noise and content is being released about "Liberation Day" and what the far larger than expected Trumpian tariffs mean. The answer is easy – stagflation. How much stagflation? Well, that depends on the degree to which the initial announcements prove temporary versus permanent and the degree to which other countries retaliate. An initial cut is shown in the chart below which was calculated by Evercore ISI. These tariffs are of unprecedented scale and the lessons of the Great Depression are being unlearned.



There is a lot of partial analysis looking at which country is better off than another country and what the direct impacts will be. However, this may miss the wood for the trees in that these tariffs mean lower growth and higher inflation for everybody, including the US. It is this that really matters. For example, Citigroup estimates a 2.4% negative impact on Chinese GDP growth from the 54% US tariff, even before retaliation. If this plays out, it will be deeply negative for Australia and NZ exports.

Normally, central banks would cut interest rates to offset the negative supply side shock but this time around, their hands are largely tied by the stagflationary impact of tariffs, especially in the US.

No one knows what the degree of tariff permanence will be, so it seems unlikely that any business will incur the huge sunk costs of shifting to the US when that only makes sense if the tariffs remain in place. They could be gone tomorrow, or they could still be in place next decade. The massive rise in uncertainty has lifted the cost of capital for all companies.

Even prior to Liberation Day, there was plenty of emerging evidence that scattershot initial tariff imposts were feeding through into US data and expectations.

The University of Michigan's final 1yr ahead inflation expectations finding surged from 4.3% to 5.0% and marks a sea-change from the 2.8% at end-December. Draft long-run expectations jumped 0.4% to +3.9% mid-month and the final reading at month-end rose even further to +4.1%, which is the largest monthly increase since 1993. Alongside this, consumer sentiment plunged from 64.7 to 57.0 in just one month. Perhaps not surprising when Fitch data showed that 60 day+ used car payment delinquency hit an all-time high of 6.56% going back to data starting in 1994.

Data at month-end showed that core PCE inflation for February came in at +0.4% in the month and +2.8% YoY (versus +2.7% expected). "Supercore" inflation (which strips out housing) was +3.3% YoY. Remember the Fed target is 2.0%.

After month-end, the US manufacturing PMI for March showed clear stagflationary outcomes. A reading of 50 is the breakeven for expansion or contraction. New orders were just 45.2 (48.2 prior), and prices paid surged to 69.4 (64.6). The picture could not be clearer, and it is has only worsened as this is written.

A key question arising from this is whether stagflation will be "transitory" or whether it will feed through to inflation expectations and have rather more permanence. We all remember how the last "transitory" debate ended in rampant inflation in the post-Covid period, and we suspect that it will be similar this time around. Labour markets are relatively tight, so workers should have the ability to demand higher wages in response to the higher prices they encounter, setting off a big, beautiful wage/price spiral.

Fed testimony during the month suggested they are willing to take the punt on "transitory" for now as they kept two rate cuts in their dot-plot for this year and lowered the amount of QT that they are undertaking given emerging economic weakness. They were wrong last time and turning a Nelsonian eye to the downstream impact of tariffs seems likely to be wrong again.

All of this said, one of the most puzzling aspects of recent markets has been that despite all the evidence of burgeoning inflation, US 10-year bond yields have rallied from a high of 4.76% in January to just 4.06% as this is written. That is not how one would normally expect steely-eyed bond investors to react to multi-decade surges in long term inflation expectations.

The explanation is a fear of recession and a flight to safety. The chart below shows that the rally has been entirely driven by real bond yields, with 1-year TIPS declining from 2.32% in January to 1.79% now. Investors are willing to accept a lower yield for risk-free inflation-protected returns, although to put this in context, the TIPS yield went -1.0% negative in the post-Covid period.

This move is bearish for risky assets and credit spreads have indeed begun to widen (from low levels) alongside the sell-off in equities. Obvious segments of the equity market should theoretically outperform in this environment such as "quality" non-cyclical growth and safe yielders. Funnily enough, that is almost exactly how our long book is positioned.

The other point to ponder is an old article from the WSJ that we wrote about in this newsletter a couple of years ago. It looked at the hideous stagflationary period from the mid 1970's through the early 1980's and found that only two groups of stocks did well. One was insurance (where we have been long for years) and the other was the new-fangled technology stocks of their day which were pioneering the personal computer.

The hard part is picking today just what the next era of technology stocks will turn out to be. We strongly suspect it won't be those AI and data centre names that have already been thoroughly discovered and whose share prices have ascended to the stratosphere.

In this context, we highlight the comments by Alibaba's Joe Tsai on Bloomberg that "a lot of data centre investment opportunities in the US are duplicative or overlap with each other." Similarly, there has been some publicity around Microsoft reportedly cancelling 2GW of data-centre projects although it is unclear if this is due to a reallocation elsewhere and a change in their relationship with Open AI.

As generalist investors sitting down in NZ, it is perhaps difficult to provide startling new insights as to what will happen next in this space, so we will defer to the publicly posted thoughts of the storied VC firm Sequoia Capital. We would urge readers to carefully digest this linked article https://www.sequoiacap.com/article/generative-ais-act-o1/.

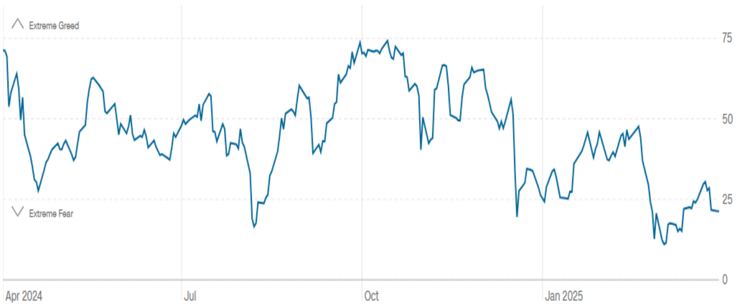
They segment the AI investment universe into Infrastructure, Models, Developer Tools & Infrastructure Software and Apps. They see Infrastructure as "being driven by game theoretic behaviour" and Models as "hyperscalers are investing money that's just going to round-trip back to their cloud business …. financial investors are skewed by the 'wowed by science' bias…. microeconomics be damned." They see the last two of the four segments as being by far the most interesting for venture capital (and thence in our minds for equity investors). It is still an open question as to whether the AI transition will do to SaaS, as what SaaS did to desktop software. As Sequoia says, "what if we are dramatically underestimating what it means to be 'AI native'?" This will be an interesting area to monitor for the SaaS giants in Australia such as REA, Xero, Wisetech and Carsales.

In this context, it is interesting to note the share price movements in recent months of companies linked to the first two segments. In the data centre space, Equinix fell -9.9% in March and is -18% below its December peak. Similarly, Digital Realty fell -8.3% in March and is -26% below its peak. Closer to home, Next DC (NXT) is a staggering -38% off its peak, Goodman Group (GMG) is -26% off and Digico Infrastructure REIT (DGT) closed -40% below the price it IPO'ed at in mid-December.

We covered our shorts in this segment too early but the bigger point is that while share prices may perhaps bounce around from here, the "next big thing" is likely to be in the new segments identified by Sequoia. These infrastructure names have rapidly become mature. We wondered if we had timed the peak with our large highly successful investment in Global Data Centres (GDC) and it looks like maybe we just did.

The poster-child for the entire AI space has of course been Nvidia and they fell -13.2% in March, and they are -25% below their recent high. Goodman Group's share price movements have a higher correlation with Nvidia than they do with the rest of the Australian property index!

We were fascinated to see the struggles of Coreweave to get their IPO across the line in late-March, which they only did via down-pricing it and NVDA taking a cornerstone stake. It wouldn't do for a large customer to not get much needed equity finance. Ironically, Coreweave rose a stunning +42% on April 1 – maybe it will replace Gamestop as the day trader's delight. More importantly though, it is a real warning sign that Nvidia is having to buy its customers, and they are also reportedly in talks to buy Lepton AI, a company that rents out servers…powered by NVDA chips.



March's combination of carnage in the formerly hot AI space combined with the chaos of Trump's tariff plans combined to drive the CNN Fear & Greed Index well into the extreme fear region below 25 for much of the month. Sub-25 readings have historically been a good time to buy equities, so we may perhaps see a bounce. However, the stagflationary damage from tariffs will be real and we are impressed by the arguments of Sequoia Capital and others that the build-out phase of the AI boom is rapidly maturing. Now it's time to try and find the names that will profit from the build-out.

We have barely touched on NZ and Australia so far in this write-up, but global events clearly dominated proceedings in March. It is fair to say that signs for the NZ economy were mixed. December quarter GDP surprised on the upside but that is now ancient history and has little importance for forward-looking equities. The Westpac McDermott-Miller Consumer Confidence Index fell -8 to a weak 89.2. This bodes poorly but does tend to be a coincident indicator and lines up with mixed trading feedback from listed companies.

The forward-looking ANZ Business Confidence survey continued to show firms' own activity expectations are strong, lifting slightly from 45.1 to 48.6. The provinces are clearly leading the cities. The longer this strength remains the case, the more confident we will become. One slight worry is that inflation readings also edged up, so RBNZ rate cut expectations may just need to be tempered.

Australia will be all about the forthcoming Federal election on Sat 3 May. While neither Labour nor the Liberals are offering much that is revolutionary, the risk is that their benign policy blandness gets upset by Labour having to form a coalition with the Teals and/or Greens to retain power. The radical concessions likely necessary to lure the latter could be quite upsetting to equity markets.

Fund Performance in March

Returning to the Fund's performance in the month of March, our overall return of circa +0.9% pre fees and tax was composed of a strong return from our short book of +1.8%, partially offset by our long book detracting -0.9%. These impacts were as one would expect in a negative month for markets, but the small impact of our much larger long book reflects a mix of investment style and stock selection. Our overall "winners to losers" ratio was a mediocre 54% but many of our losers were very small indeed. Overall, we had an unusual absence of large single name contributors or detractors.

Continued market volatility saw us cover some of our shorts and we opportunistically lowered some longs where we could. As a result, our gross position declined further from 119% to an unusually low 116%. As the dust settles from the current tariff madness, we expect our gross to naturally rise again. Our net length fell a little from 52% to 50% and we would highlight that 6-7% of this is subject to takeover bids that are highly likely to close. Their time value is still far too attractive to sell. We remain heavily net long NZ, but our mix of names has become a little less cyclical and rather more defensive than previously.

There were a high number of eleven negative days for the 50/50 index of Australia and NZ in March. The average return for the market on those days was a sharply negative -0.60%. The Fund performed as it typically tends to, being up on seven of the eleven days and had a slightly positive average return across all of them of +0.09%. We repeat our constant message that there is no correlation between the performance of the Fund and that of the market.

The largest headwind came from our long held and moderate sized position in Australian Vintage Group (AVG, -18.8%), which reversed last month's bounce. This has been a rather painful name, but we continue to be attracted to the potential upside, even if it is far further in the distance than we envisaged when we first bought in. The wine industry is obviously in deep distress, but this is a classic cyclical industry where supply reductions can often take years to be acted upon but then they set the scene for the next upswing. We think AVG is well placed with its sizeable UK export position and its industry leading position in low and mid-alcohol wine. AVG has a market cap of just $39m and has realistic free cashflow targets of $0m in Jun25, $10-20m in Jun26, and $20m+ in Jun27. These are before potentially huge cost synergies from any industry consolidation, which they admittedly seem to be struggling to pull off. Finally, their largest shareholder is the Chairman and he has been an aggressive buyer for his fund management firm.

A second key headwind was a tiny lottery-ticket holding in Opthea (OPT, -90%) which we have written down to below its cash backing following the shock failure of phase 3 studies for its macular degeneration drug. Their phase 2b studies had been highly positive and their potential market is huge, but the drug failed due to the control arms of two existing treatments far outperforming any earlier studies, rendering OPT's impact ineffective. This puzzled experts but the numbers are the numbers and this was a high-risk position which we had managed down to an appropriately small size by taking considerable profits a few weeks earlier when excitement was at its peak.

Our large and growing long in Monash IVF (MVF, -7.4%) retreated for reasons that we could not decipher. Their interim result was solid, especially considering their large position in Melbourne and the travails of the Victorian economy. They delivered strong growth in Asia; genetic testing funding will be a useful tailwind and demographic drivers just keep intensifying. Current IVF numbers are solid and their private equity owned competitors appear to be struggling with their classic debt overloads. MVF is an attractive place for specialists to work. A PE of 13.7x for many years of structural growth looks attractive to us and MVF is now our third largest holding.

The largest positive was yet again our large Tower (TWR, +3.0%) holding which carried out a 1/10 capital return during the month. This temporarily lowered our holding at month-end, but we aggressively took part in the long-awaited sell-down by Bain at $1.30 in early April. This has been a headwind so far this month, but it should work through the weak post-deal holders fairly quickly. TWR looks well placed to deliver an exceptionally strong first half result, to the point that it could be at the bottom end of their entire full year guidance.

A second winner was a new mid-sized long in Integral Diagnostics (IDX, +7.5%), which we had bought aggressively near its lows in February when it was sold off extremely hard on a result that was only moderately weak. IDX is the leading listed radiology provider and has a backdrop of strong structural industry growth coupled with synergies from its merger with Capitol Health. Action to deal with a shortage of radiologists appears to be in train.

There were a number of other highlights, being led by our sole remaining gold long, Kingsgate Consolidated (KCN, +16.2%) which operates a deeply undervalued mine in Thailand. Our medium long in NZME (NZM, +6.9%) did well as a battle for control of the boardroom started to heat up. Our short in Lovisa (LOV, -17.5%) declined as they are struggling to meet store rollout expectations and we view the market's long term margin projections as hopelessly optimistic. Finally, shorts in Breville (BRG-11.0%) and James Hardie (JHX, -24.0%) did well for us.

Thank you for your continued support and interest in the Fund. March was hard work, but we are pleased to have delivered a solid return in contrast to weak markets. We repeat last month's comment that tariffs are stagflationary and are a blunder of historic proportions. While our book may appear too long in the circumstances, our key names are highly defensive and should perform well in the event of economic chaos, irrespective of short-term share price volatility. Our shorts are expensive and/or high risk. 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