Salt Long Short Fund Fact Sheet – August 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 August 2025

Benchmark	RBNZ Official Cash Rate +5% p.a.
Fund Assets	$136 million
Inception Date	31 July 2014
Portfolio Manager	Matthew Goodson, CFA

Unit Price at 31 August 2025

Application	3.186
Redemption	3.1732

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 August 2025

Long positions	50
Short positions	28

Exposures at 31 August 2025

Long exposure	77.38%
Short exposure	40.68%
Gross equity exposure	118.06%
Net equity exposure	36.70%

Investment Risk to 31 August 2025

Fund volatility[1]	6.59%
NZ50G / ASX200AI volatility[1]	13.40%
NZ50G / ASX200AI correlation	0.063

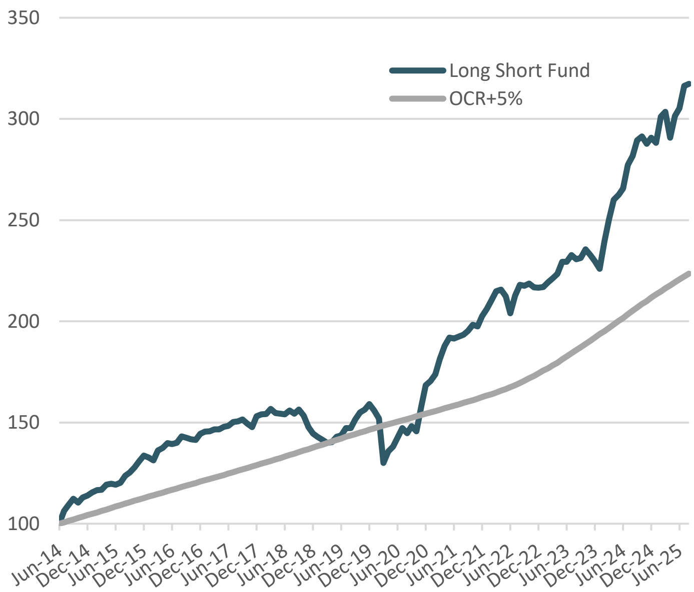
1. Annualised standard deviation since fund inception.

Fund Performance[2] to 31 August 2025

Period	Fund Return	OCR+5% Return	NZ50G/ASX 200AI Return[3]
1 month	0.34%	0.62%	1.97%
3 months	5.28%	1.98%	5.81%
6 months	5.38%	4.10%	7.34%
1-year p.a.	12.62%	8.93%	9.51%
2 years p.a.	17.27%	9.68%	10.40%
3 years p.a.	13.34%	9.62%	8.20%
5 years p.a.	17.02%	8.04%	7.21%
7 years p.a.	10.85%	7.50%	7.49%
10 years p.a.	9.88%	7.35%	9.39%
Inception p.a.	10.89%	7.46%	8.94%

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 August 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	Brambles
Turners Automotive Group	Commonwealth Bank of Australia
GDI Property Group	Wesfarmers
Servcorp	Lovisa Holdings
DUG Technology	Nick Scali

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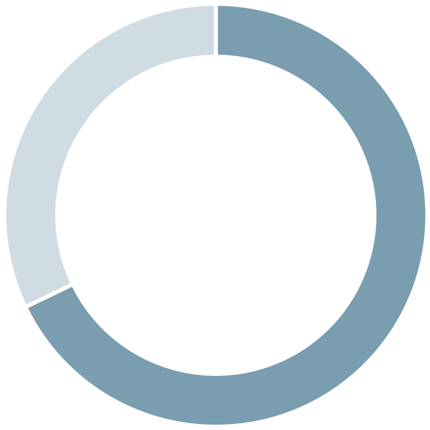
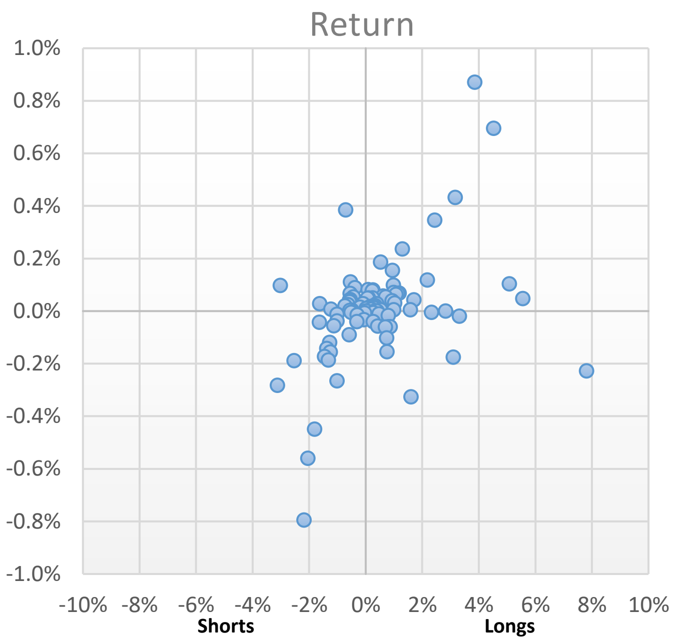
Country Allocation at 31 August 2025 (Gross Equity Exposure)



August 2025 Individual Stock Contribution



Fund Commentary

Dear Fellow Investor,

Many of you may have seen that Salt Funds has executed a sale and merger agreement with Alvarium Wealth NZ. We view this as a great fit which adds our investment capability and track record to their outstanding Pathfinder franchise and their growing distribution presence. The 25% ownership stake by Rata Foundation speaks to the very long-term horizon and ethos of what will be a 100% NZ-owned business. Please be assured that there will be no changes to the management of the Salt Long Short Fund. I personally remain a large investor in the Fund and totally committed to it.

The Fund fought its way through a volatile and unpredictable result season in August and emerged with a modest positive return after fees of +0.34%. Despite remarkably sharp reactions to results, there remained an undertone of risk-on positivity, especially in the extremely expensive Australian market. The Australian benchmark returned +3.1% while NZ lagged at +0.8%.

We unsurprisingly had very strong returns from our long book but this was offset by our short book containing a number of names which dragged down the overall outcome. More on this shortly.

NZ equities experienced a mixed result season but expectations going in were low and it could easily have been worse. There is much angst over whether the NZ economy will ever recover. This is despite booming agricultural prices and a number of rate cuts. Indeed, some cyclically exposed companies did actually report a glimmer of light at the end of the tunnel, especially outside of Wellington and Auckland. Examples included Restaurant Brands, Freightways, Vulcan Steel, Colonial Motors, Turners et al. The biggest moves in August came from company-specific factors; negative in the cases of Sky City and Ebos and positive in the case of a2 Milk.

We continue to expect lower rates to eventually feed through – it just takes time for fixed rate mortgages and firms' term funding lines to reset. The RBNZ made a surprise dovish pivot mid-month and a little bit of pump-priming in the 2026 election year will also no doubt help matters. Our conviction in a future cyclical upswing has only become stronger and NZ market valuations appear relatively fair compared to Salt's bottom-up valuations of discounted cashflows.

Australia has sharply outperformed NZ on a 1 year (+20.8% vs +3.9%) and a 3-year basis (+13.0%pa vs +3.7%). It has also now caught up and gone past us for returns over the last 10 years (+9.9% pa vs +8.6%).

Despite extreme price reactions to perceived earnings misses and beats, the Australian market still rose +3.1% in August. This made little sense given that earnings forecasts were cut post-results in every sector except the REITs. Jun26 forecasts were cut by -0.4% for the ASX200 and by a sharp -3.9% for the Small Ordinaries Index. According to the excellent strategy research from JP Morgan, this combination of rising prices and falling earnings forecasts saw the second largest one-month expansion in PE multiples in the last 15 years.

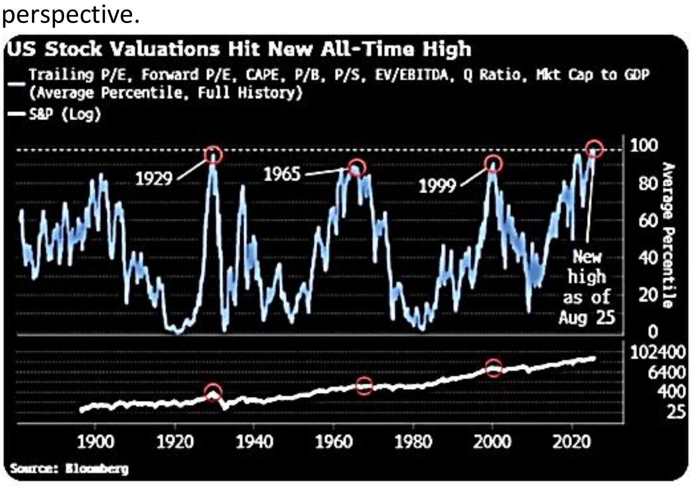
Australian valuation multiples are now very extended relative to history, with the forward PE multiple now being more than 2 standard deviations above normal levels. That means it is now in the extreme upper end of where it has ever traded. The ASX50 Index is even worse and is above the 99th percentile of where it has ever been. Conversely the ASX Small Ords is only on slightly above average valuations. The fell hand of passive inflows combined with abundant "liquidity" is clearly at work.

One frequent "explanation" for Australian strength is an expectation of further rate cuts and hopes of earnings upgrades as their economy may enter an upswing. If true, surely this would have seen the more operationally and financially levered small caps outperform – they haven't.

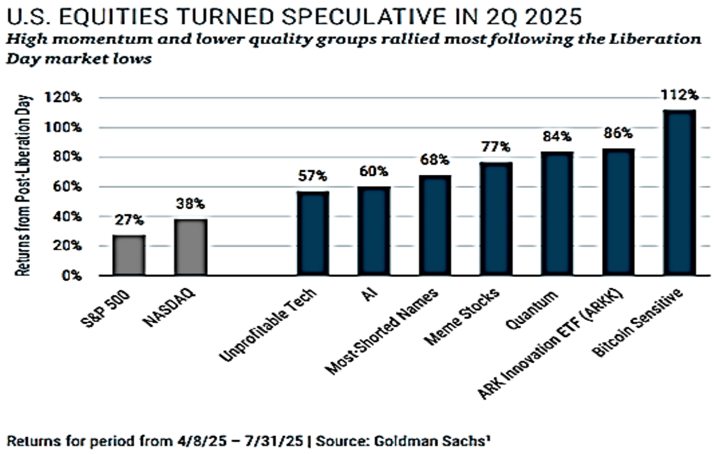
Against this backdrop, the bottom-up driven positioning of the Fund makes a lot of sense. We are heavily net long NZ, we have a 0% net position in Australia (effectively short risk-adjusted), with the longs that we do have generally being in smaller to mid-cap names. As always, we seem to be the only drummer boy that is marching in step. Our natural valuation-sensitive contrarianism has stood us in good stead for 12 years, and while we always seem to be a bit early, we see no reason for it to be different this time.

The ongoing boom in Australian large cap stocks is not happening in a vacuum, with the US market and valuations exhibiting very similar characteristics. However, the one thing that can be guaranteed in investing is something will always change and that record valuations will not persist forever. We don't know what or when this will be but we would suggest this is a very risky time to chase large cap momentum winners.

The chart below from Bloomberg puts US valuations in clear perspective.

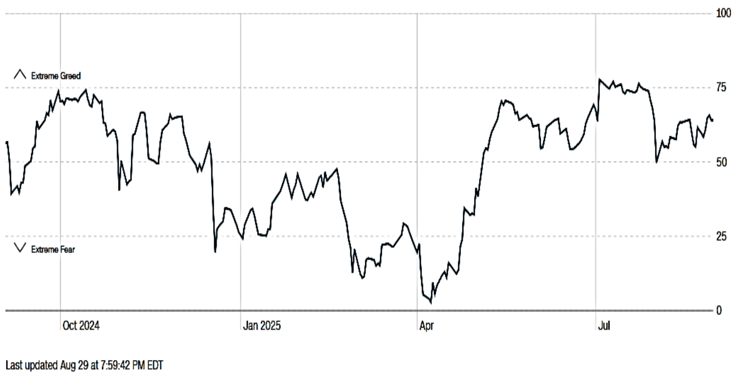


Worse, the chart below shows how the riskiest, most speculative segments have staged the strongest rallies since the "Independence Day" lows. Many "normal" smaller companies haven't really participated and the ratio of the small cap Russell 2000 Index relative to the S&P500 Index is now back to its late 1999 extremes. History may not necessarily repeat in 2025 but we suspect it will at least rhyme.



Source: GMO

This extreme risk-seeking in equity markets wasn't quite backed up by the broader-based CNN Fear & Greed metric below, which merely dwelt in the "greed" rather than "extreme greed" region for all of August.



At the same time as equity markets are hitting all-time valuation records, the US inflation picture is gradually starting to darken. US PCE core inflation for July was in line with expectations at +0.3% m/m. However, the annual pace of increase rose from +2.8% to +2.9% and the three-month annualised number is now +3.0%, up from +2.6% in June.

The interesting thing is that it wasn't just tariff impacts, where views vary as to their degree of longevity. Services inflation accelerated over the month and firmly franked an ISM Services Survey at the start of the month, which had a huge prices-paid reading of 69.9. It may turn out that the impact of immigration actions on services inflation is just as bad as the impact of tariffs on goods inflation.

So, we have markets that are at all-time valuation records driven by apparently rampant liquidity. At the same time, we have inflation that is beginning to stir again. What a time for the intense pressure that President Trump is putting on the Fed to finally yield results with the "Powell Pivot" on 23 August. Markets now have a strong expectation of a rate cut this month. The historical parallels from the huge mistake that the 1970s Fed made under pressure from President Nixon are being increasingly mentioned. The bond market vigilantes are sharpening their knives as this is written.

Fund Performance in August

Returning to the Fund's performance in the month of August, our overall return of circa +0.4% pre fees was made up of a +3.0% contribution from our long book and a -2.6% headwind from our shorts. The outcome from the latter was certainly disappointing and we strongly believe that the market over-reacted on several of our key shorts.

Our overall "winners to losers" ratio was a strong 63%, with 75% of longs working and 45% of shorts. This combination would normally be enough to deliver a very strong month but we had several major losers partially offset our good number of sizeable winners.

Our unusually low gross position only lifted slightly from 117% to 118% over the month but we certainly feel as though there is quite enough exposure to the volatile market moves without adding more simply for the sake of it. We are running large high conviction positions in the names where we feel that is appropriate and are constantly searching for new additions.

Our net position rose from 31% to 36.5%. We remain heavily net long NZ, we are net short historically over-priced large-cap Australian stocks and are moderately net long smaller to mid-cap Australian names.

Despite it being a positive month overall, there were still ten negative days for the 50/50 index of Australia/NZ in August – it was a volatile month. The average return for the market on those days was -0.42%. As it happened, the Fund did unusually poorly on those negative days, being up on only four of them and having an average return on them of -0.15%. This was very much driven by single-name moves in result season rather than any sudden new correlation of the Fund to equity markets.

By far the largest headwind came from our short in AP Eagers (APE, +40.9%), which went ballistic on a result which we thought was decent but not amazing. Their BYD franchise saw them have a massive sales beat but this came at the expense of margins and saw only moderate earnings upgrades – certainly nothing justifying the vertical share price move. Looking forward, their order book is solid but they have lost exclusivity on distributing BYD and that brand itself appears to be losing ground to several other ones in the China market, which may be a portent of things to come. APE is on a forward PE of 26.7x – this seems a tad excessive for a company with NPAT margins of 2.0% and new cars have traditionally been rather cyclical. We did manage our risk by covering half the position on the day but will look to lift it again if the herding behaviour by momentum investors drives it much higher. The reaction of one analyst typifies the Australian market at present. His view was that while its forward PE ratio relative to the (expensive) market was 40% above normal, it could re-rate to 80% above normal.

A second detractor was our short in the costume jewellery company, Lovisa (LOV, +26.4%). Their result was a mixed bag, with the store roll-out, sales growth and gross margins beating expectations but EBIT missing due to higher costs. Sell-side reactions were initially uncertain but the "growth fund club" got right in behind it and drove it up 26%. While the ROIC on a new store is compelling, the potential issues for LOV are that they are growing in increasingly obscure countries and that there is ultimately no competitive moat in the business of flogging cheap jewellery made in China. Their excess returns will get competed away. LOV is now on a forward PE of 42x, so woe betide the reaction if they have a poor half.

Another headwind from an overpriced Australian retailer was our short in Nick Scali (NCK, +26.3%). They did have a good overall result, with Australia doing particularly well but their UK entry is looking like a very tough gig especially with the deeply challenged economy in that country. Again, a forward PE of 26.3x for a furniture retailer is very extended, with the 26% share price advance on 0%-3% earnings upgrades being too aggressive. One typical sell-side reaction was to make EPS forecast changes of +1%, +1% and -1% for the next 3 years but to lift the target price by 10% - just because…

Other headwinds were a little smaller but were led by our large short in Brambles (BXB, +8.5%) where we think the market is genuinely getting it wrong. From what we can see, they are experiencing volume and even price declines out of their existing asset base but this is being masked for now by new business wins. They are on record multiples at a time when their core business is deteriorating.

Another loss came from our short in Lynas (LYC, +32.5%) which flew higher on bullish sentiment in the rare earths sector despite a mediocre result. We covered part of this position in their opportunistic equity raising at month-end. The LYC position has counter-balanced longs in Iluka (since exited) and the small cap Lindian Resources (LIN, +162%), which is developing a project in Malawi on extremely attractive metrics. It is very long life, is heavy in the key rare earth, neodymium and has compelling returns.

A final drag came from our moderate long in Ebos (EBO, -20.3%). We had earlier sold down some of the holding at a good profit but were caught with the balance. EBO's guidance was particularly disappointing as it became clear that the business had been run in a very lean manner in recent years and new management is going to make some necessary investments.

Our largest winner by some distance was large and admittedly somewhat risky long in DUG Technology (DUG, +20.1%). DUG was founded by geophysics PhD's who came out of BHP's former oil division. We are genuine believers that they have a sizeable technical lead in cutting-edge geophysics analysis, primary for the oil industry. They also have interesting but early-stage growth options arising from their super-computing expertise in terms of data centre cooling and modular edge data centre provision. DUG's share price has been very volatile, grossly over-reacting to the news and absence of news on contracts. The reality is it takes time to push into the E&P super-majors around the world and be trusted to do their work but DUG's recent results show they are getting there – hence the bounce. Post month-end, they had a sharp further lift on a major contract from Petronas.

Another large tailwind came from our sizeable long-standing long in Servcorp (SRV, +15.1%). The share price has only risen slightly faster than the earnings over the last three years and we retain a large position as we await a further multiple re-rating. Despite more than doubling since we have owned it, SRV's forward PE path is still only 10.0x for Jun26, 9.4x for Jun27 and 9.0X for Jun28 and around 20% of the market cap is net cash. The closest compco is International Workplace Group (ex-Regus) which is listed in London and trades on a forward PE of 27x. We would happily split the difference.

A third positive was a relatively large long we are building in Heartland Group (HGH, +11.1%). We were genuinely nervous going into their result as there was little visibility on whether the detritus of their chequered history had been truly cleaned up or not. Their problem was that as a sub-scale NZ bank, their funding costs were higher than the majors, so their loans tended to cost more, so businesses would only go to them if the big banks wouldn't lend on the same terms. This natural adverse selection was fine when times were good but its true nature was revealed when the economy turned down. This was why HGH used to be one of our favourite shorts.

What has changed is that HGH has cleaned house. They are now focused on their (average) car lending business, their strong stock finance business and their incredibly attractive reverse mortgage business, where they are the largest provider in NZ/Australia. They are pushing on an open door in a market which has many years of strong growth ahead and which has very strong returns. Analysts are under-estimating just how strong those returns will be.

A fourth large winner was our short position in James Hardie (JHX, -24.6%). We simply couldn't fathom the multiples it was trading at given the significant risks from the deeply depressed US housing market. No one should have been shocked when the June quarter result was awful. We did cover it off as there is a genetic predisposition amongst Australian fund managers to love JHX but its troubles may not be over yet given the state of US housing.

A final stand-out was our good-sized long in Omni Bridgeway (OBL, +13.3%). This leading global litigation funder requires some mind-bending contortions to understand due to the complexity of their various funding arrangements. In short, we think of them as having market-leading ability to accurately price litigation risk. They then fund this via a series of funds that they have raised. The negative thesis on them had been that the fees from the funds were insufficient to cover OBL's operating costs although this was partly due to the funds being quite young and having waterfall structures where investors were largely paid prior to OBL. In addition, OBL had bank debt that they somehow had to service. We viewed the value of their long-dated litigation assets and the fee streams from them as far exceeding these short-term issues. We were surprised they didn't re-rate further following their earlier company-changing deal with Ares Management, where the sale of a majority stake in Fund 9 both franked the valuation and left OBL with cash in the bank. From here, recent success rates leave us very hopeful of a strong update later this year.

Thank you for your continued support and interest in the Fund. August was frustrating as wins and losses followed each other in quick succession. It is early days but September has started extremely well. Our positioning is always determined by the bottom-up opportunities that we see but it remains consistent with the top-down economic and valuation issues that we have outlined. We are cautiously positive on the NZ economic outlook, large cap Australian valuations are absurd but there are always some interesting opportunities at the small to mid-cap end of their market.

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