



DS Capital Growth Fund

September 2019 Quarterly Update

The DS Capital Growth Fund ('the Fund') seeks to deliver superior returns through a process designed to minimise the risk of a permanent loss of capital. The Fund comprises a concentrated portfolio of well researched listed businesses. The focus is on companies where we have a deep understanding of their business model and the industries in which they operate. The investment process combines traditional quantitative financial analysis with qualitative tools.

As at 30 September 2019	Financial Year to Date	12 Months	5 Years (pa)	Since Inception (pa)	Since Inception
DS Capital Growth Fund	4.5%	14.2%	16.2%	18.4%	207.5%
All Ordinaries Accumulation Index	2.8%	12.1%	9.7%	10.5%	94.5%

Notes: (1) Data is after management fees and before performance fees. (2) Inception date is 1 January 2013. (3) Return since inception after all fees averaged 15.2% pa assuming reinvestment of net distributions. (4) Data does not include

The Fund started the financial year well and enjoyed a strong quarter. The main influence on stock markets during the quarter continued to be interest rates, ongoing trade negotiations between the US and China and the slowdown in global economic growth.

The September quarter featured many full year earnings results. In general, profit improvement was modest, outlook guidance disappointed more than usual and growth expectations became more measured. The uncertain geopolitical environment saw investors focus closely on outlook commentary and any negativity saw share prices punished. Fortunately, most of the Fund's holdings delivered good results that were in line with our expectations with the main exception being cinema software provider, **Vista Group**.

The Funds discretionary consumer businesses performed well with both **Zip Money** and **Collins Foods** reporting strong results.

Late in the quarter, **AMA Group** announced the acquisition of 90% of smash repairer Capital SMART from Suncorp. We believe that the acquisition is strategically important for AMA as they are the natural owner of this business. AMA expects to be able to extract meaningful synergies through the integration of SMART's 50 sites into its network of 130 sites.

News that **NEXTDC** had encountered some delays in its latest Sydney project contributed to a weaker share price following its half year results that were otherwise acceptable. We used this opportunity to rebuild our investment after selling a large proportion of our holding at higher levels.

Although **Vista Group** delivered a strong result, short and medium term revenue growth guidance was cut from 20% to 12-15% mainly due to delayed projects. In addition, Vista is accelerating the transition of customers from upfront license fees plus maintenance to a 'Software-as-a-Service' offering which makes strategic sense long term but creates revenue uncertainty in the short term. These developments are material and have caused us to reassess our investment in Vista.

The Fund's cash level finished the quarter at 19%.

Outlook

Following reporting season, we have caught up with many of the businesses in our area of interest. These meetings were helpful in gaining a deeper understanding of the key issues that drove recent results and will drive future results.

The current consensus is that challenging economic growth will cause central banks to keep trying to stimulate growth by cutting rates. With most official interest rates at almost zero - and negative in parts of Europe, rates are seemingly less effective at stimulating growth and other forms of stimulus may be required. Whilst, prima facie, low rates are favourable for equities that offer better returns, this is uncharted territory, and inherently less predictable. With interest rates at very low levels, even small changes are large in percentage terms and can cause bouts of volatility as stock markets remain sensitive to the slightest changes in sentiment.

Volatility caused by the digestion of macroeconomic issues by stock markets may provide attractive entry points for new investments. We are working on several new opportunities that we hope to progress to investments for the Fund and will provide more information on these in forthcoming updates.

As always, feel free to contact us if you have any questions.

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