



DS Capital Growth Fund

December 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 31 December 2019	Financial Year to Date	12 Months	3 Years (pa)	5 Years (pa)	Since Inception (pa)	Since Inception
DS Capital Growth Fund	9.9%	30.7%	13.9%	16.1%	18.3%	223.3%
All Ordinaries Accumulation Index	3.6%	24.1%	10.4%	9.3%	10.1%	96.0%
Small Ordinaries Accumulation Index	3.9%	21.4%	10.0%	10.6%	6.8%	58.3%

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 15.5% pa assuming reinvestment of net distributions. (4) Data does not include franking credits distributed to unitholders

The Portfolio had a strong quarter finishing up 5%. Global stock markets continued to improve, buoyed by a favourable interest rate environment and strong US growth data. US and China trade negotiations continued to dominate headlines with stock markets ebbing and flowing depending on how 'close' a deal was.

Our visit to the UK during November allowed us to meet with many UK businesses; some that we are invested in, some that assist with our due diligence and some being potential investment opportunities. Management's consistent message was that business and investment decisions were being deferred due to election and Brexit related uncertainty that would lift once these events were resolved. These meetings supported our belief that our patience would be rewarded, and we are seeing early signs of this since the election result.

Portfolio constituents making positive announcements during the quarter included **Resimac Group**, **Ooh!Media** and **Uniti Group**. Negative announcements came from **McMillan Shakespeare**.

Resimac Group announced a strong first half profit upgrade expecting 75% growth on the previous corresponding period. This implies almost 50% growth in full year profit.

Following a downgrade in August, **Ooh!Media** looked to have regained market share in the December quarter indicating that the out of home sector remains volatile with low visibility to future revenue. We had used the subdued share price to reinvest in Ooh!Media attracted by its strong portfolio of assets and market position.

The quarter also saw a flurry of capital raisings, both primary (IPOs) and secondary issues of which only a small number appealed to us. On the IPO front we realised a profit on a small investment in an infant formula business called **Nuchev**.

We participated in secondary capital raisings for **Uniti Group** and **Zip Co**. Uniti raised funds to acquire a business called '1300 Australia' that is the country's largest marketer of phone words. Uniti is putting together an impressive portfolio of specialist telco services and connectivity network businesses servicing residential, business and wholesaler users. Niche financier, Zip Co, raised capital to fund its move into the UK and accelerate its business product.

In December, **McMillan Shakespeare** downgraded earnings guidance due to the adverse impact of lower new car sales and regulatory changes to credit and insurance products.

We have sold our holdings in **Challenger** as we think that the low interest rate environment will make sales of annuities more challenging and returns on capital lower. We also sold our holding in UK listed cinema group, **Cineworld**, due to concerns about the long term structure of the US cinema market.

Outlook

There is a long list of economic and political events that will make headlines in 2020 and influence stock markets in varying degrees. These include Brexit, US elections, trade talks and mid-east tensions. As always, we expect most of these events to capture the headlines from time to time with the real influences on investment markets coming from economic fundamentals and corporate profits.

A continuing climate of weak economic growth and low inflation should see further central bank stimulus that will keep interest rates low. It appears likely that these conditions will persist in the short to medium term and equities will therefore remain attractive. However, in an environment where interest rates drive valuations more than earnings, a change in expectations to interest rates can have a significant negative impact on valuations. To protect our capital from this impact, we remain focused on owning businesses that can deliver earnings growth through the cycle. This is all the more important after a period where share prices have grown faster than profits.

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

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