DS Capital Growth Fund

March 2021 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 March 2021	3 Months	Financial Year to Date	12 Months	2 Years (pa)	3 Years (pa)	5 Years (pa)	Since Inception (pa)
DS Capital Growth Fund (net of all fees)	**1.9%**	**23.1%**	**54.9%**	**20.2%**	**15.2%**	**13.0%**	**15.8%**
All Ordinaries Accumulation Index	3.6%	19.9%	41.1%	9.5%	10.1%	10.6%	9.4%
Small Ordinaries Accumulation Index	2.1%	22.8%	52.1%	9.6%	8.3%	10.7%	7.1%

Notes: (1) Inception date is 1 January 2013. (2) Returns are after all fees and assuming reinvestment of net distributions. (3) Data does not include franking credits distributed to unitholders.

The March quarter featured the February reporting season with most of our businesses reporting results in line with our expectations. Importantly, the underlying operations of almost all our businesses continued to perform well in an unusual environment. Management's outlook commentary was cautious which is understandable in an environment where several of the Government's Covid-19 support measures are being wound back.

A notable feature of the quarter was rising bond yields driven by an expected economic recovery and higher inflation. Higher bond yields are generally negative to valuations of growing, highly cash generative businesses. These are the types of businesses that appeal to us rather than cyclical and commodities based businesses. This environment has affected the prices of some of our investments although in anticipation of this impact, we had, over the quarter, reduced some of our holdings in these companies on valuation grounds.

Non-bank home lender, **Resimac**, reported a strong result. Significant profit growth was driven by higher margins and a growing mortgage book. Resimac continues to see strong investor demand for its securitisation funding program and settled a $1.5b round of funding at the lowest margin since the GFC.

Our investment in the IPO of retail home fragrance specialist, **Dusk**, has performed well. Although the offer was attractively priced at 10x 2021 earnings, the listing struggled in the prevailing climate of late 2020 of less interest in new floats due to 'IPO fatigue'. Since listing, several trading updates confirmed our expectations that the business was trading strongly which drove the share price to 50% above the initial offer price.

Kogan was one of the clear winners from the Covid-19 environment. Almost every metric pointed to Kogan having built an excellent technology platform that has and will deliver strong growth. However, given the very strong share price performance early in the quarter, we sold our investment on valuation grounds.

Outlook

The short to medium term economic conditions will largely remain dependent on the continuing impact of Covid-19. There is much optimism based on continuing government stimulus, the availability of several vaccines and early signs of an economic recovery in some areas. This has created an expectation amongst some investors that interest rates may rise faster than previously expected. As markets grapple with the implications of this development, any resulting volatility may provide long term opportunities in areas of interest to us.

Our investment process has long been focused on identifying businesses offering earnings growth in a variety of environments over the long term. Should the expectation of rates rising sooner than previously expected materialise, then it is likely that economic conditions are also improving and will be accompanied by stronger earnings growth. In this event, we expect that stronger earnings should provide some insulation against any impact that higher interest rates may have on derating earnings multiples. We continue to monitor inflation and interest rates for evidence of a more significant change.

We hope that all our investors continue to remain safe and well. As always, we remind you that we are available to our investors so feel free to contact us personally if you want to discuss the portfolio, the current conditions, or your investment with us.

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