DSCAPITAL

March 2023 Quarterly Update

DS Capital Growth Fund

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.

Performance as at 31 March 2023	
Financial YTD	6.3%
3 Years (pa)	14.5%
5 Years (pa)	8.2%
7 Years (pa)	8.6%
10 Years (pa)	11.6%
Since inception (pa)	12.2%
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.	

Top 10 Holdings (alphabetical order)
Breville
Dalrymple Bay
Lifestyle Communities
Macquarie Telecom
Mainfreight (NZ)
PSC Insurance
REA Group
Resimac
Rightmove (UK)
Seven Group

Key Fund Information	
Manager	DS Capital
Strategy	Long only
Liquidity	Monthly
APIR Code	DSC001
Investors	Wholesale
Distribution	Annually
Inception	1 January 2012
Minimum	$250,000
AFSL	427283
Contact	dscapital.com.au

The Fund has gained 6.3% for the financial year to date after gaining 4% in the quarter.

Stock markets continued to be driven by the fight against inflation. Volatility was high late in the quarter as the effect of rapid and sharp interest rate changes revealed cracks in a financial system not designed for such rapid change. The prospect of bank failures in the US and Europe, that investors feared could lead to a wider banking crisis, rattled markets that were steadied by decisive US and European regulator intervention.

The Reserve Bank of Australia held rates unchanged in April after noting the potential lag effect that 10 consecutive previous hikes will have on household spending but left open the prospect of more rate hikes.

The quarter also featured the February reporting season where most Australian companies reported half year results. The reporting season was mixed with varying signs that the more challenging environment was pressuring earnings. An easing of consumer demand and elevated cost pressure (particularly employment costs) impacted margins although there was some evidence that supply chain bottlenecks, freight and energy costs have eased.

Notable amongst the many earnings updates were results from **Seven Group, Macquarie Telecom, Breville** and **Resimac**.

Seven Group delivered a strong result with double digit earnings growth across both of its key businesses, Coates and WesTrac. The usually very conservative management team also upgraded their earnings outlook.

Data centre group **Macquarie Telecom** delivered an impressive first half result with revenue and earnings up 16% and 27% respectively. The government and cloud services division was a highlight and grew strongly with the high quality list of government customers proving to be an important competitive advantage.

Breville's earnings report came in as expected although revenue disappointed due to its European operations. This was due to cautious European retailers winding down stock levels in the face of continuing uncertainty related to the war in Ukraine. We remain optimistic that underlying customer demand remains healthy and that retailers will eventually begin building more normal inventory levels.

Resimac's first half result delivered almost $41m of profit after tax at better than expected margins. Although we understand the near term challenges of a highly competitive environment, we are confident that management will navigate the conditions and our focus remains on the longer term opportunity. We consider Resimac's current price to earnings ratio of around 5 times earnings and a fully franked dividend yield of 10% to be very attractive.

Outlook

We expect markets to remain volatile as investors navigate an environment of higher rates, softer economic conditions and continuing geopolitical risk.

Recent economic data suggests that higher interest rates are biting with cooling economic conditions and moderating inflation that looks to have peaked for now. Although indicating some progress, persistently tight labour markets will make it difficult for inflation to rapidly fall, conditions further exacerbated by wage rises embedded in industry Enterprise Bargaining Agreements. As such, central banks will find it difficult to change course at this stage and materially reduce rates in the near term.

Longer term, we remain very optimistic toward the Australian economy that will benefit from strong immigration over the next few years. The Fund is currently holding 23% cash, which provides a great opportunity to add investments to the portfolio. During the quarter, we added to several of the Fund's positions that we expect will deliver strong returns over the next few years.

As always, we remain available to all our investors for an update, so please feel free to contact us if you have any questions.

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