DSCAPITAL

December 2023 Half Year 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 for FYTD - as at 22 December 2023	
Financial Year to date	10.0%
1 Year	17.4%
3 Years (pa)	3.7%
5 Years (pa)	11.2%
7 Years (pa)	9.4%
10 Years (pa)	11.1%
Since inception (pa)	12.5%

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. (3) Data is unaudited as at 22 Dec 2023. **(4) Updated audited data will be posted on the website after 31 Dec 2023**

Top 10 Holdings (alphabetical order)
Breville
Dalrymple Bay
HUB24
Lifestyle Communities
Macquarie Technology
Pacific Current Group
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 2013
Minimum	$250,000
AFSL	427283
Contact	dscapital.com.au

Portfolio Commentary

We are pleased to report that for the financial year to date, the Fund has gained an estimated 10% as of 22 December 2023. The final numbers will be posted on our website after the public holiday period.

Remaining invested through more difficult periods has been helpful to performance. **Calendar year to date, our fund has gained 17%. Over the same period, small caps gained 6% and the broader market gained 11%.**

Stock markets rallied in the latter part of the half year on hopes that the central banks' tightening cycle is at or near its conclusion and resilient economies can avoid a hard landing. Lower interest rates were driven by softer economic data and slowing inflation that saw the benchmark US 10 year bond yield pull back from almost 5% to around 4%. Locally, the Australian 10 year bond yield also fell from almost 5% to around 4%. This fall in interest rates drove stock markets higher.

Our portfolio performed strongly against a variety of measures. Earlier in the year we highlighted the opportunity of looking through what was then a pessimistic consensus view and weak stock markets as investors worried about the prospect of a deep recession and/or more rate hikes. Against this backdrop, we remained invested, expecting those conditions to pass and for markets to improve once inflation and interest rates had peaked. While we waited, we took advantage of market turbulence and added to investments at depressed levels, which are now beginning to contribute meaningfully to performance.

During the quarter we visited London, meeting with key portfolio holdings including property portal, **Rightmove.** The trip was timely as just prior to our trip, it was announced that one of Rightmove's smaller peers would be acquired by a large US player. While some investors worried that this may impact Rightmove's strong incumbency, we added to our investment having witnessed, over the years, several previous failed attempts to disrupt its dominant position. Each failure was evidence of the strong value of incumbency where the newcomer offers no major change to the customer offering. Subsequently, Rightmove also announced a robust trading update showing better than expected average revenue per customer and solid progress on new initiatives.

This time last year, **Collins Foods** was suffering as higher input costs (mainly chicken, oil, and energy) impacted margins. At the time, we highlighted that while this would hurt portfolio performance, we felt this was temporary and expected management could navigate the difficult period. This came to pass led by the resilient Australian KFC business. The recent first half result showed significant improvement in operating margin and the share price continued to rally. While we still like this business, we have exited our holding on valuation grounds.

Locally, we did not get any negative surprises from the November AGM season. Good updates were posted by **Breville, Seven Group** and **Resimac**.

Breville's AGM update was encouraging with the company confirming that it was performing to expectations. The new products are being well received and logistics costs have been trending lower. The premium coffee machine segment continues to experience robust demand, conditions that are also being enjoyed by some of Breville's large competitors.

Long term portfolio holding, **Seven Group** upgraded earnings guidance at the AGM saying it expects high single digit to low teens EBIT growth. Usually very conservative, this was a welcome update driven by improving conditions across its industrial services portfolio of construction, infrastructure spend and mining services.

While the share price of **Resimac** remained soft, the company continues to be highly profitable and is executing according to plan. Its AGM update was noticeably positive with several highlights. (1) the company continues to be able to attractively price new bond issuances ensuring cost effective funding, (2) competition has moderated as the major banks have wound back new business incentives, and, (3) new lending activity has improved with momentum continuing to build.

Outlook

Stock markets will primarily be driven by geopolitical tension and sentiment toward where we are in the interest rate cycle. Just a few months ago sentiment was sharply negative. Sentiment is now very positive with markets pricing that we are past peak inflation and interest rates, expectations of rate cuts and a soft economic landing. While there is evidence of easing inflation and a potential soft landing, it is not the first time that investors have expected that the tightening cycle is finished. Markets will be adversely affected if this consensus is wrong.

While economic data and interest rates are expected to remain volatile in the short term, our working case remains that we are closer to the end of the tightening cycle than the start. Until inflation stabilises closer to central banks' target ranges, we expect market volatility to continue and provide further opportunities to upgrade the quality of our portfolio. We have already been deploying part of our cash resources that represent 15% of fund assets as at the time of writing and consider that the current environment represents an attractive time to add to your investment with us. Please let us know if you would like to discuss this further.

We wish all our investors a healthy and successful year ahead. As always, please feel free to contact us if you want to discuss the portfolio, the current conditions, or your investment with us.

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