March 2024 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 2024	
Financial YTD	17.6%
3 Years (pa)	5.4%
5 Years (pa)	11.1%
7 Years (pa)	10.3%
10 Years (pa)	11.6%
Since inception (pa)	12.9%
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
HUB24
Lifestyle Communities
Macquarie Technology
NEXTDC
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

The Fund has gained 17.6 % for the financial year to date.

Global stock markets performed well during the quarter driven by a combination of economic growth, strong jobs markets and easing inflation. Although investors debated the timing and number of rate cuts and expectations tapered toward quarter end, the consensus is that the point of peak rates has now passed. The investor confidence in a soft economic landing is in contrast with this time last year. Regular readers of our updates will recall that while the difficult conditions of last year may have felt unpleasant, this environment is often the most fertile for investors with a longer-term view.

The quarter also featured the February reporting season where most Australian companies reported half year results. This reporting season demonstrated that Australian corporates are mostly in good health. Cooling inflation, an easing interest rate outlook, cost cutting, and resilient customers provided the backdrop for better than expected earnings results. In most cases our key portfolio holdings reported well.

M&A also returned to the Australian stock market driven by cashed up buyers including private equity and industry players. This included portfolio holding, **MMA Offshore**, that received a cash bid from a division of an infrastructure fund.

Notable amongst the many earnings updates were results from **Netwealth, HUB24, Seven Group, NEXTDC, Macquarie Technology** and **Lifestyle Communities**.

Financial services platforms, **Netwealth** and **HUB24** both delivered strong operating results. With recovering markets and good inflows, we continue to see a supportive environment and trends for both businesses to gain further market share and grow profits.

Seven Group delivered a strong result driven by its industrial services businesses. WesTrac and Coates increased the first half earnings by 30% and 10% respectively. Boral also performed strongly and Seven Group has announced a takeover bid for the circa 28% of Boral that it doesn't currently own. The usually very conservative management team also upgraded their earnings outlook to 'mid to high teens' EBIT growth.

Both of the Fund's data centre investments, **NEXTDC** and **Macquarie Technology,** delivered strong operational performance. NEXTDC highlighted strong demand that is expected to convert to a record year for contract wins. While Macquarie Technology give more conservative outlook commentary, it is also enjoying the same favourable operating conditions. We remain confident that data centres will continue to experience strong demand from its traditional solution of off premises data storage. The sector will also play a significant role in scaling the huge opportunity offered by developments in Artificial Intelligence that leave us excited about the future for this sector.

Lifestyle Communities delivered a softer than expected earnings result on slower new home settlements. Lifestyle explained that this was due to an extending sales cycle because of (a) the higher interest rate environment and (b) customers fearful of builder completion risk wanting to see a substantially completed home are waiting longer to put their house on the market. In addition, Lifestyle announced a capital raising to take advantage of opportunities to add sites that would not normally be available in a more robust environment. Whilst these developments were unpleasant, we remain confident that management can traverse through this period.

Outlook

The outlook for stock markets remains dependent on interest rates and geopolitical events. The level of interest rates will be dependent on the pace that inflation eases and the impact of any economic conditions. The backdrop of elevated geopolitical risk is notable but, thus far, this has not materially impacted equities markets. Historically the Fund has benefitted from market dislocations that are driven by geopolitical events.

Our working case has not changed. This is that inflation is likely to be stickier and elevated for longer, rate cuts are expected (timing is uncertain), we have likely passed peak rates and that cuts will benefit equities markets. The Fund is currently holding 14% cash. Although stock markets have broadly performed strongly, we are still seeing well priced opportunities.

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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