September 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 for FYTD - September 2024	
Financial Year to date	4.9%
1 Year	19.2%
3 Years (pa)	2.8%
5 Years (pa)	9.4%
7 Years (pa)	10.2%
10 Years (pa)	11.7%
Since inception (pa)	12.8%

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
HUB24
Macquarie Technology
Netwealth
NEXTDC
Pacific Current Group
REA Group
Seven Group
ZIP Co

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 gained 4.9% for the first quarter of the financial year.

During the quarter global markets traded erratically. There were several factors that caused this such as the timing of expected interest rate changes, US recession fears and an unwind of the USD/YEN carry trade. However, as is often the case, the situation reversed quickly and was primarily driven by solid US corporate earnings.

Economic data continued to be closely analysed for progress in the battle against inflation. In the US, fear of inflation gave way to fear of a recession which led the US Federal Reserve to cut rates by 50bp. In China, persistent economic weakness saw new stimulus measures which are widely expected to be the start of a more significant program. Domestically, Australia remained an outlier with the Reserve Bank of Australia still trying to tame inflation. Late in the quarter, our stock market welcomed economic data widely interpreted as accommodative of a softer stance by the RBA.

The reporting season broadly met our expectations with almost all portfolio holdings reporting in line with our expectations and included several particularly strong results. A common theme for our portfolio, and the broader market, was margin improvement through good cost control and improved efficiency. Also noticeable was the cautious tone of earnings guidance and outlook statements.

Long term portfolio holding **REA Group** delivered a strong earnings result driven by price rises and growth in residential listings, particularly in Sydney and Melbourne. In addition, REA announced a proposal to acquire another of our long term portfolio holdings, the UK listed and leading UK property portal, **Rightmove**. Notwithstanding four proposals by REA to Rightmove, a price could not be agreed upon within the time frame under UK takeover law. As such, REA elected to withdraw its possible offer. While we see value in both businesses coming together, we are happy to hold each of them independently and believe that we will be well rewarded for doing so.

Breville delivered better than expected earnings with the US and EMEA regions stronger than expected. Breville continues to benefit from the growing premiumisation of coffee consumption, new product development and progress into new markets.

Wealth management platform **HUB24** reported well and in line with our expectations. HUB grew earnings by 15% and favourable commentary relating to cost growth bodes well for further margin expansion building on the strong improvement evident in the second half. HUB has had a good start to FY25 continuing its trend of impressive inflows providing a good basis for strong inflows guidance.

Earlier in the year, we reinvested in the consumer finance business **Zip Co** that we last held in 2020 and sold on valuation grounds. A key part of our investment process is continuing to monitor businesses in our universe, and remain prepared for when, as was the case with Zip, the business and price have undergone substantial change and present a new investment opportunity. Since last year we have been engaging with the new management team as they navigated the changing environment, streamlined the product offering and implemented a balance sheet restructure. Our thesis is starting to play out as evidenced by recent results, the highlight of which was the strong US business that tripled earnings for the last comparative period. Zip has less than 4% market share in the US (by customer numbers) but is expected to grow above sector growth rates.

Outlook

Economic growth has been patchy across different regions. Whereas the US and China have started to cut rates, Australia, according to Reserve Bank Governor, Michele Bullock, does not see interest rate cuts "in the near term." We expect that this divergence will continue until there is clearer evidence of moderating inflation in Australia, which will create more volatility for equities.

While the global rate cut cycle has commenced, the timing, size and number of cuts remains unclear. Although we welcome this, we expect that earnings growth will be the main driver of our Fund's performance and is where our focus will remain. We continue to assess new opportunities to invest in businesses, which are trading below their intrinsic value. We also expect increased volatility from the heightened geopolitical environment, which has been the case previously, and can present attractive entry points to invest in great businesses. The Fund is currently holding 10% cash.

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

Contact

James Davis: james@dscapital.com.au **Rodney Brott: rodney@dscapital.com.au**

LEVEL 19, 627 CHAPEL STREET SOUTH YARRA VIC 3141 AUSTRALIA T: +61 3 9222 3300 E: info@dscapital.com.au