DS Capital Growth Fund

December 2024 Half Year 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.

Performance for FYTD - December 2024	
Financial Year to date	13.2%
1 Year	20.6%
3 Years (pa)	4.6%
5 Years (pa)	10.2%
7 Years (pa)	10.3%
10 Years (pa)	12.0%
Since inception (pa)	13.3%

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

Top 10 Holdings (alphabetical order)
Aristocrat Leisure
Breville
Dalrymple Bay
HUB24
Macquarie Technology
Netwealth
Pacific Current Group
Rightmove (UK)
SGH (formerly Seven Group)
REA 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 13.2% net of all fees.

For the calendar year of 2024, the Fund gained 20.6%. Over the same period, the broader market gained 11.4% and small caps gained 8.4%.

The convincing win by the Republican Party in the US Federal election was the dominant event of the December quarter. Investors reacted favourably to a seemingly ‘pro-business’ agenda, with continuing economic growth and the prospect of US rate cuts proving a potent combination for equity markets and overshadowed continuing geopolitical volatility.

The inflationary impact of the President elect’s policy agenda was analysed. The prospect of stricter immigration tightening labour markets, tariffs leading to supply chain onshoring (adding cost to US products), and tax cuts stimulating demand were all considered potentially inflationary. Improving government efficiency, increasing energy supply (reducing prices) and deregulation were seen as a counterbalance.

Markets weakened toward the end of the quarter driven by US Federal Reserve commentary regarding inflation that caused a reassessment of the pace of official rate cuts.

Domestically, Australian economic growth has been weaker than expected. With no contribution to economic growth from Australian households or business investment, it was only surging government spending and immigration that kept the Australian economy from being in recession. Although economic weakness and benign inflation data supported the case for rate cuts, the RBA indicated in December that it would continue to monitor conditions and remained resolute in returning inflation to target levels.

The November AGM season was encouraging with no negative surprises from key portfolio holdings.

During the quarter we made our annual trip to London, to meet with key portfolio holdings, companies of interest, and industry experts that we meet for due diligence purposes. At a high level, the UK stock market remains out of favour, having not fully recovered from Brexit and the subsequent political upheaval that has affected the economy. The exit of investment capital from the UK has left many listed businesses trading at discounts to historical multiples. Although we left with no clarity as to the catalyst for a turnaround, we did come away with several opportunities to assess.

Our meeting with property portal, **Rightmove,** confirmed our view that the management team received a wakeup call from the surprise merger approach from REA Group (that our Fund also owns). We continue to expect that Rightmove's incumbency will be a huge advantage, but to deliver longer term growth and maintain its market position, Rightmove will need to provide more products and services to its customers to justify annual price increases.

Following our successful re-entry into ZIP, we invested in **Block Inc**, the US company that acquired Afterpay in 2021 and is dual listed on NASDAQ and ASX. While the Fund exited its position in Afterpay some time ago we continued to watch this exciting business evolve and integrate into the much larger Block Inc. Since the merger, Block's share price had fallen considerably yet at the same time, the business had improved significantly, a combination that was incredibly attractive to us. Block is growing strongly and has successfully integrated Afterpay with its Cash App product, yet it was trading at half the price of its pers. Against a backdrop of a healthier US economy, we expect Block can continue to grow strongly, streamline its cost base, deliver on conservative guidance and be included in the S&P500 Index.

During the quarter top 10 portfolio holding **Pacific Current Group**, proposed a buyback at $12 per share to return surplus capital to shareholders. This follows several disposals of investments in PAC's portfolio in line with its strategy to realise shareholder value.

Long term portfolio holding, **Resimac** appointed Pete Lirantzis as its new Chief Executive Officer who we had met in a previous role. He is well known to Resimac's main shareholder (Somers Group) and has a good track record. Resimac remains attractive on fundamentals and is well placed to benefit from a more stable interest rate environment. This view is clearly recognised by the company that has initiated a share buyback.

Another of the Fund's long-term holdings, **SG Fleet,** entered a Scheme of Arrangement to be acquired by Pacific Equity Partners at $3.50 per share. Given the support of the major shareholders, we are expecting this bid to be successful.

During the quarter we initiated an investment in an international data centre group that is focused on the HPC/AI opportunity. This company's centres have significant power capacity making them ideal for use as HPC/AI data centres and has already contracted almost all its capacity to a large customer. We will have more to say about this investment in the coming months.

Outlook

The major influences on our market for the year ahead include persistent sticky inflation, continuing geopolitical risks, the Australian election, and the new Trump administration.

Whilst the US Federal Reserve cut official rates in November 2024, more recent data indicates that the US economy remains strong (which is positive) but inflation remains a risk (which is negative). Accordingly, the expected pace of US rate cuts has been reassessed and may weigh on markets until the outlook is clearer.

Domestically, economic data has pointed to sluggish conditions with only government spending and immigration keeping Australia from recession. More recent government policy aimed at reducing immigration may slow economic growth further. The Reserve Bank has noted that parts of the economy are weaker than expected. On the face of it, this would suggest an increasing likelihood of rate cuts in the near term.

After a period of strong equity market performance, the coming February reporting season will be critical to show that stronger share prices are justified by earnings growth. With the year ahead featuring an Australian Federal election campaign, we are hopeful of meaningful reforms and policy addressing Australia's flagging productivity. In addition, investors will get a better picture of the new Trump administration's policy priorities.

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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