

Greencape High Conviction Fund

Quarterly report - June 2024

Performance #	Quarter %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	15 years % p.a.	Inception % p.a.
Fund return	-0.19	13.19	6.66	9.40	9.36	10.44	9.55
Growth return	-4.22	7.50	-1.56	2.30	1.42	3.59	2.61
Distribution return	4.03	5.70	8.23	7.10	7.95	6.85	6.94
S&P/ASX 200 Accumulation Index	-1.05	12.10	6.38	7.26	8.06	9.10	6.90
Active return [^]	0.86	1.09	0.29	2.14	1.30	1.34	2.65

Past performance is not a reliable indicator of future performance.

Performance figures are calculated after fees have been deducted and assume distributions have been reinvested. No allowance is made for tax when calculating these figures.

[^] Numbers may not add due to rounding

Investment objective

The Fund aims to outperform its benchmark over rolling three-year periods.

Responsible entity

Fidante Partners Limited

Investment manager

Greencape Capital Pty Ltd

Investment strategy

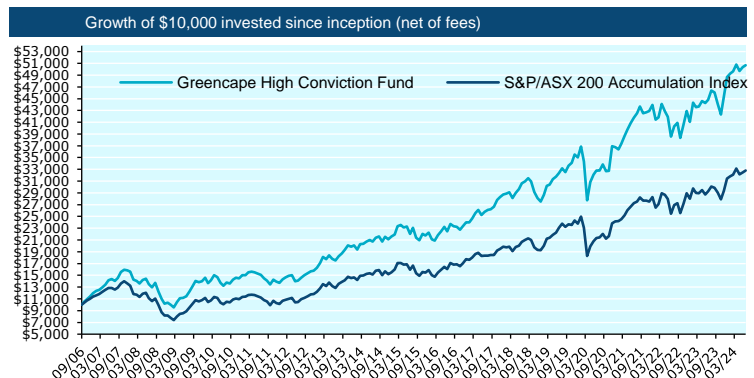
Greencape is an active, 'bottom-up' stock picker. Whilst Greencape does not target any specific investment style and will invest in stocks displaying 'value' and 'growth' characteristics, its focus on a company's qualitative attributes will generally lead to 'growth' oriented portfolios. This is an outcome of its bottom-up process. As such, Greencape's investment style may be classified as 'growth at a reasonable price'.

Distribution frequency

Quarterly

Suggested minimum investment timeframe

At least five years



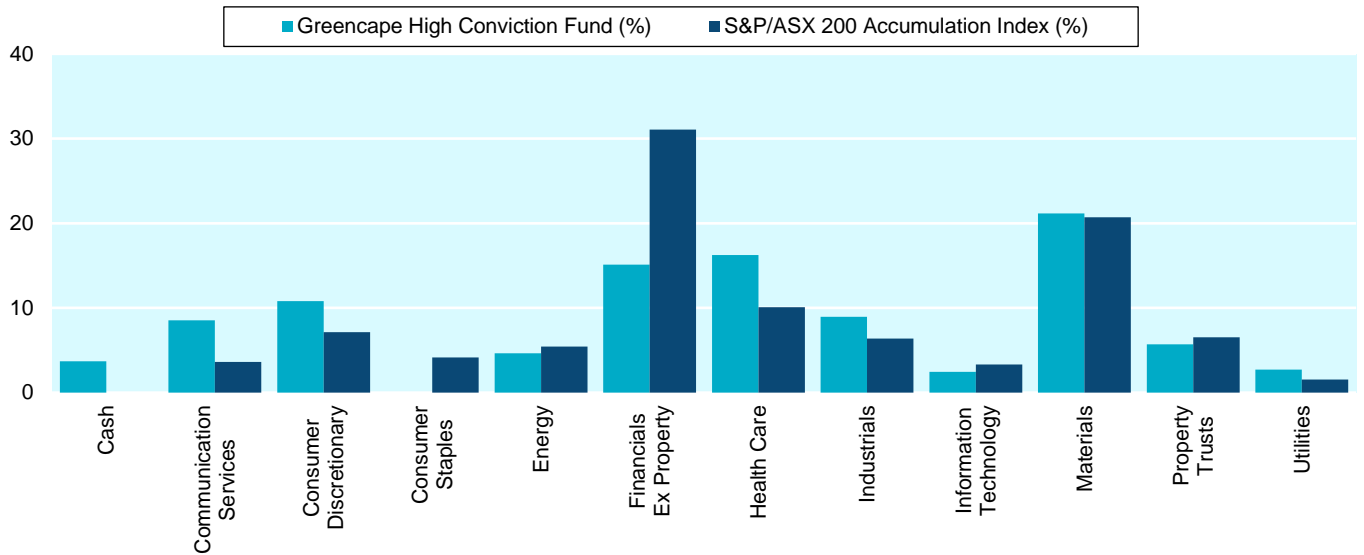
Asset allocation	Actual %	Range %
Security	96.31	85-100
Cash	3.69	0-15

Fund facts	
Inception date	11 September 2006
APIR code	HOW0035AU

Fees	
Entry fee	Nil
2022-2023 ICR	0.90%
Management fee	0.90% p.a.
Performance fee	15% of the Fund's daily return (after fees and expenses and after adding back any distributions paid) above the Fund's Performance Benchmark (the daily return of S&P/ASX 200 Accumulation Index).
Buy/sell spread	+0.20% / -0.20%

Data Source: Fidante Partners Limited, 30 June 2024.

Sector exposure as at 30 June 2024



Data Source: Fidante Partners Limited, 30 June 2024.

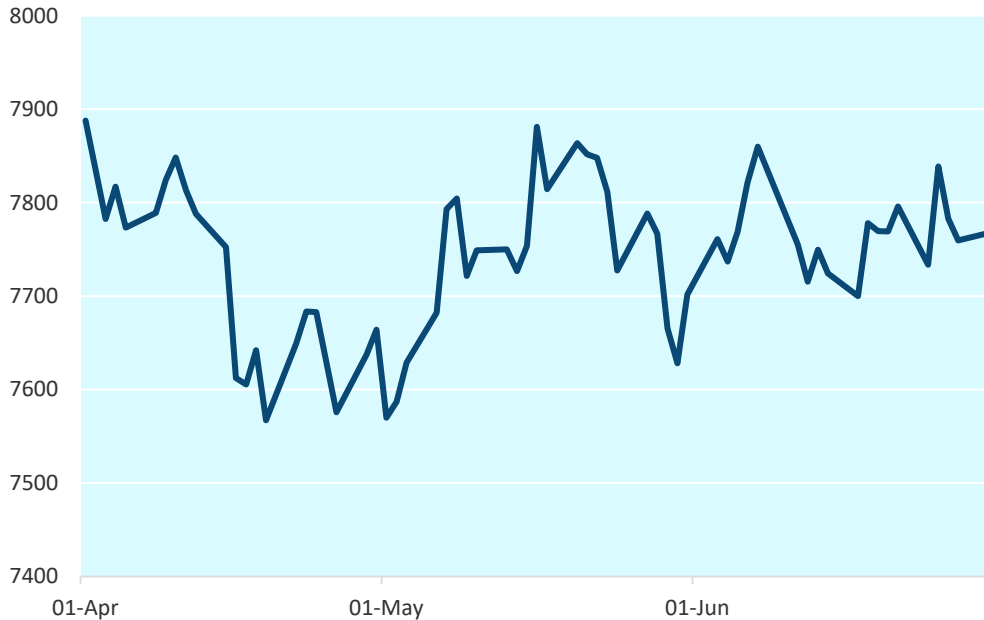
Fund performance summary

The S&P/ASX 200 Accumulation Index returned -1.05% for the quarter. The fund outperformed the market and delivered a -0.19% return over the quarter.

Market overview

The local market managed to surpass the previous all-time high during the quarter, however concerns around the stickiness of inflation and implications for interest rates saw the index retrace and post a loss for the period. Meanwhile, signs of life emerged in the dormant IPO market, with a strong debut from Guzman Y Gomez providing some hope that the IPO window may soon again open.

S&P/ASX 200 Index

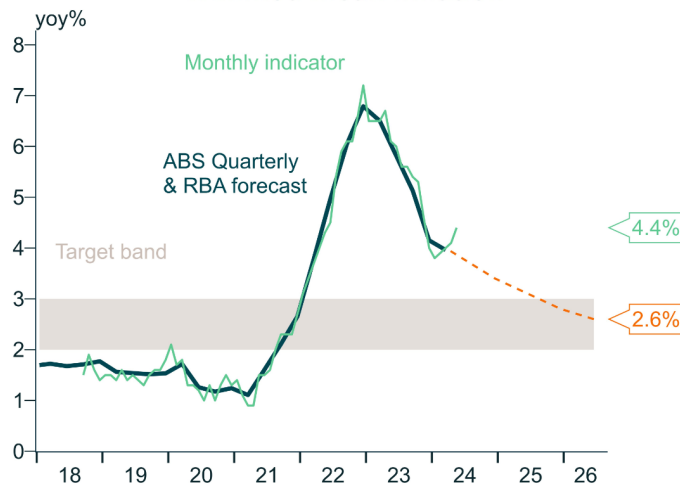


Source: IRESS

The RBA kept rates on hold at both meetings held during the quarter. For most of the period the general market consensus was that the next move in interest rates would be lower, the question was only a matter of timing. This changed in the last week of June when the May (monthly) CPI data came in at 4% year on year, ahead of market expectations of a 3.8% rise. In her post decision press conference in June, Governor Bullock spoke about the path for inflation continuing to narrow. Given the deviation in the May reading as illustrated below, the path may have closed off completely.

*"We need a lot to go our way if we're going to bring inflation back down to the 2-3 per cent target range."
Michelle Bullock,
RBA Governor,
18/06/2024*

Trimmed mean inflation



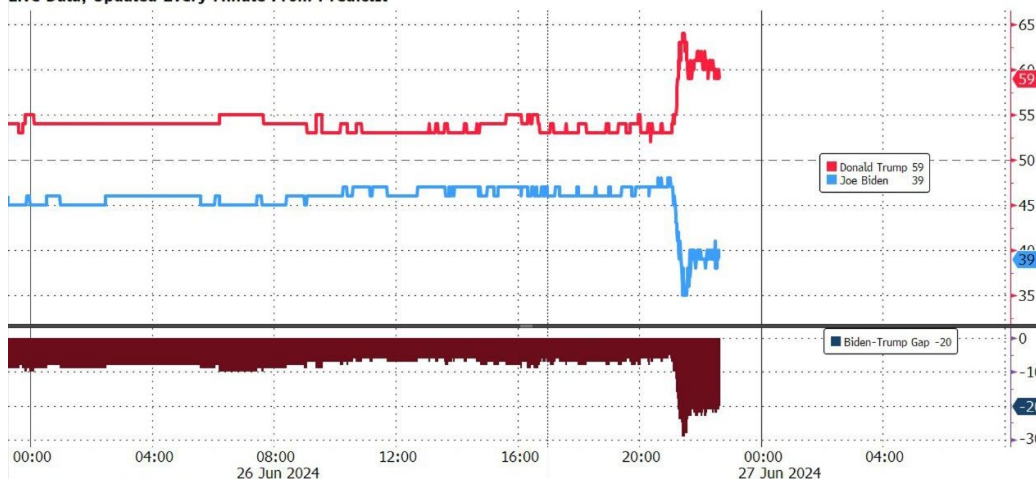
Source: IFM

Elsewhere, domestic politics continued to prove unpredictable, with both the UK and France announcing early elections. Meanwhile, the US Presidential race continue to throw up surprises, with former President Trump convicted on 34 felony counts in May. Later in the period, a poor debate performance from President Biden swung betting odds overwhelmingly in favour of Trump, sparking speculation the Democrats may look to switch in another candidate to improve their chances of winning in November.

“I just won two club championships, not even senior, two regular club championships. To do that, you have to be quite smart and you have to be able to hit the ball a long way. And I do it. He doesn’t do it. He can’t hit a ball 50 yards.”
Donald Trump, Former President of the United States, 24/06/2024

Who Will Win the 2024 US Presidential Election?

Live Data, Updated Every Minute From PredictIt



Source: PredictIt & WSL ELECTION<GO>

The ECB became the first of the major central bank to cut rates this cycle, delivering a ‘hawkish’ rate cut in June. In comments accompanying the decision, the central bank noted that price pressures still remain, the dynamics of which are likely to keep inflation above the target range well into 2025. In the US, the Fed kept rates on hold during the period, with the updated dot plot released from the central bank implying members expect one rate cut by the end of the year. Futures imply the market is expecting just under two rate cuts by year’s end, which compares to the five expected at the start of the year.

	QUARTER	YEAR
ASX200 Accumulation Index	-1.1%	12.1%
Best Performing Sectors		
Utilities	13.3%	12.5%
Financials Ex-Property Trusts	4.0%	29.2%
Information Technology	2.9%	28.4%
Worst Performing Sectors		
Energy	-6.8%	-1.8%
Materials	-5.9%	-2.3%
Property Trusts	-5.6%	24.6%

Source: IRESS

Utilities fared well over the period, largely driven by the performance of Origin Energy. The company announced it had reached an agreement with the NSW government to delay the closure of the Eraring Power Station by two years, in which the government will make compensation available to the company in the event of challenging economic conditions for the plant. Origin also held an Investor Day in June where it highlighted the strong growth from Octopus Energy, the UK technology and energy company in which it holds a 23% stake. Financials also performed well, with the continuing rally in CBA shares seeing it overtake the likes of Citigroup and Mitsubishi UFG in market capitalisation to become the 13th largest bank in the world.

Energy was the largest laggard for the quarter. Within the sector, Beach Energy announced a delay to first gas from its Waitsia Gas Plant, alongside an increase in the expected capital expenditure range for the project. Refiners Ampol and Viva Energy also fell, as lower regional refining margins saw analysts downgrade earnings expectations. Materials also weakened, with continued softness in Lithium prices weighing on share prices in the space.

Trip Snippets

This quarter we travelled to the US on five occasions, as well as trips to China, Japan, Hong Kong and the UK.

North America observations :

- We attended the James Hardie Investor Days in June which included a day in the field. The penetration runway for Fibre Cement remains significant, with the observation being that once one or two houses in a street are converted from vinyl siding, a ripple effect is created as the rest of the houses in a street look to convert. Whilst there is competitive tension in the category for share of incremental market growth, James Hardie are effectively utilising their scale to maintain and grow their competitive position.
- Whilst debate continues to rage on the topic, the early observations suggest that GLP-1's (weight loss drugs) are in fact a net positive for Obstructive Sleep Apnoea (OSA) manufacturers, with data pointing to a higher likelihood of patients to start Continuous Positive Airway Pressure (CPAP) therapy for patients who are both OSA diagnosed and have a GLP-1 prescription.
- Recent weakness in the spot uranium price appear to be driven by speculation as well as seasonal weakness. The long term outlook for the Uranium price remains constructive, with demand from Utilities firming, coinciding with the depletion of major supply sources by the end of the decade.

China observations:

- Officials we met were incrementally more positive relative to previous visits, primarily due to better visibility of increased government funding. The quantum of stimulus is still expected to be large relative to recent rounds, despite economic growth for Q1 coming in ahead of expectations.
- There is confidence that there is cost support level for Lithium in the range of 80,000-100,000 RMB per tonne of Hydroxide, which equates to roughly USD\$800-\$1,100 for Spodumene. There is a range of views in the market as to the cost of African and Lepidolite supply, with both sources expected to ramp up over coming years.
- EV demand continues to be robust, primarily driven by the uptake of new models. Inventory levels of EVs in the market also appears to be healthy.

“Our ambition remains the same, which is to lead the energy transition through cleaner energy and customer solutions. Our strategy is across those 3 pillars: unrivalled customer solutions, accelerate renewables and cleaner energy but also to deliver reliable energy through the transition.” Frank Calabria, CEO of Origin Energy, 12/06/2024

“We’ve looked at about 600,000 patients who are on GLP-1s and on PAP therapy for OSA. And what we have found is patients who are on GLP-1s are a little more than 10% more likely to start PAP therapy. So if patients show up on GLP-1s, they’re more likely to start PAP therapy.” Carlos Nunez, Chief Medical Officer at Resmed, 14/05/2024

“I think we can take some confidence around what we’re seeing with the supply aspect, with the March quarter indicators of supply curtailment. A number of the Australian operators talk about moderating levels and some of the Chinese suppliers came out of the market based on what we think is pricing, but also some with environmental challenges.” Dale Henderson, CEO of Pilbara Minerals, 19/04/2024

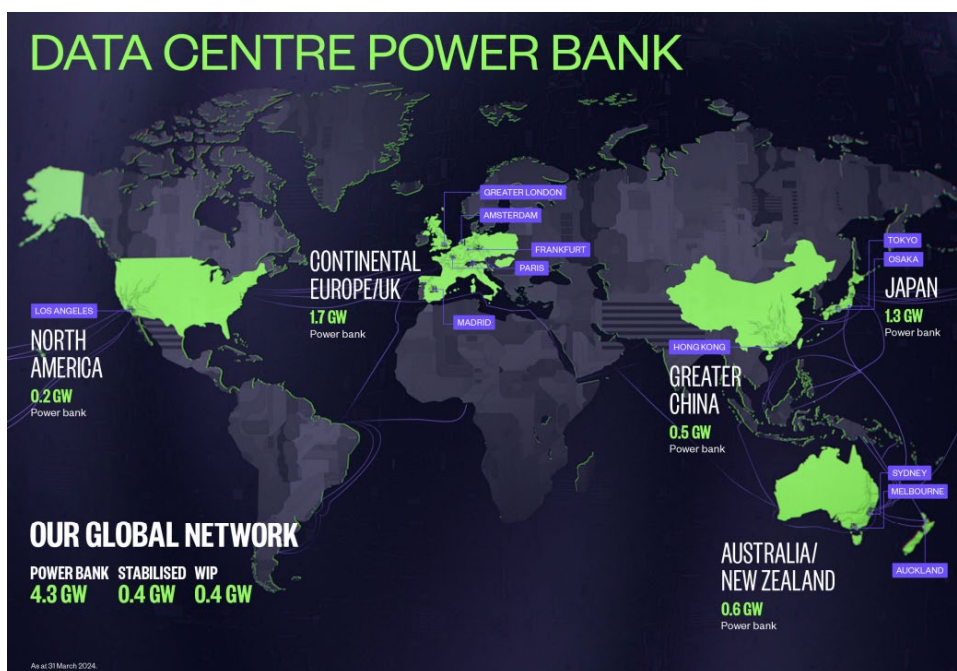
Goodman Group (GMG)

We added Goodman Group to the portfolio nearly two years ago having followed management closely over an extended period. We had long admired the multi-year shift to lower gearing and a consistent focus around recycling assets into higher quality locations. The sell off in the stock towards the end of 2022 due to rising interest rates provided a unique opportunity to own a founder lead business with several key competitive advantages that would play out over time.

Lower gearing would provide balance sheet flexibility in a time of increasing stress and rising debt costs for the broader property market, which would allow GMG to effectively do more on their own balance sheet and be less reliant on partners. Furthermore, this balance sheet flexibility combined with strong knowledge of local markets in key locations including relationship with power authorities has provided the foundation for shifting key sites into a more valuable use, being data centers.

We've followed Nvidia closely since around 2018 and in doing so have been keen observers of data demand. With the launch of Generative AI in early 2023 launching a new wave of data demand as the breadth and depth of models, training data and ultimately use cases exploded, GMG's ability and foresight to secure power in high demand regions provided a catalyst for unlocking material latent value.

This 'powerbank' seen below, highlights a strong tilt towards Asia and Europe, both regions which relative to North America have yet to build out as much data centre capacity.



Source: Company reports

Over the last six months in particular, the market has begun to realise the value of GMG combining their unique land holding locations with secured power, alongside the ability to execute and build out data centres, which has seen some material outperformance in the share price as earnings have been upgraded in conjunction with an expansion in the multiple.

Our view is that GMG can continue to deliver at least mid-teens earnings growth into the foreseeable future (above consensus), justifying a higher earnings multiple and perhaps as the next number of years unfold, this powerbank and their ability to deliver may in fact be worth more than the market is currently factoring in.

We recently undertook a deeper dive into GMG's key locations across Japan and Europe in order to understand execution risk, demand and supply dynamics and levels of conservatism.

We came away materially more comfortable that GMG are across the nuances of each location, such as working with local mayors in Japan to amalgamate land holdings through to providing holistic and attractive business park (including data centre) developments for regions such as Chiba which we visited. We expect Chiba to be used as a prime example for other regions to replicate including Tsukuba, where GMG currently have 1GW of power.

Chiba Business Park



Source: Google Maps

Leveraging local knowledge, we assessed the contractors used by GMG and gained a better understanding of the key risks to manage during the different phases of construction. We came away comfortable that these risks are well managed.

Chiba Business Park



Source: Greencape

Signage board	
Name of medium and high-rise buildings, etc.	(tentative name) Goodman Business Park Stage 7 New Construction
place	2-2-5, 8, 9, Kakunan 2-chome, Inzai City
purpose	Purpose: Office size: Steel frame structure, 5 floors above ground + 2 floors (Phase I) floor area: 30,827.22㎡ (Phase II) of tower building 30,827.22㎡
height	41.12 m (Phase I) (Phase II)
builder	address: Shimamoto Certified Public Accountant Office, 1-11-2 Hino, Shibuya-ku, Tokyo
creator	full name: Tokias Special Purpose Company Director Kohji Kibuchi Phone: 03-6910-3369
designer	address: 1-23-1 Toranomon, Minato-ku, Tokyo
full name	First Class Architect Office Nippon Sekkei Co., Ltd. Yuyuki Iwashashi Phone: 050-3139-7100
builder	address: 2-1-2 Koraku, Bunkyo-ku, Tokyo
full name	Hokai Boku, Managing Executive Officer, Branch Manager, Tokyo-Kancho, Branch, Penzance Construction Co., Ltd. Phone: 03-3817-7600
Installation	From September 1, 2020 to December 31, 2020 (I and II periods)
date of sign board	April 22, Reiwa 4
Contact information	address: 2-14-13 Minamiazabu, Minato-ku, Tokyo Anbokuwa Co Building 5th floor full name: Towa Sogo System Co., Ltd. Phone: 03-6453-8600 Person in charge: Nagahirotsuka

GMG's 1GW site at Tsukuba has now started in earnest, with infrastructure such as roads and a conduit to deliver power over a staged process underway



Our view is that over the coming years that this site could provide material value to GMG in a region where power is heavily constrained and demand continues to increase for data

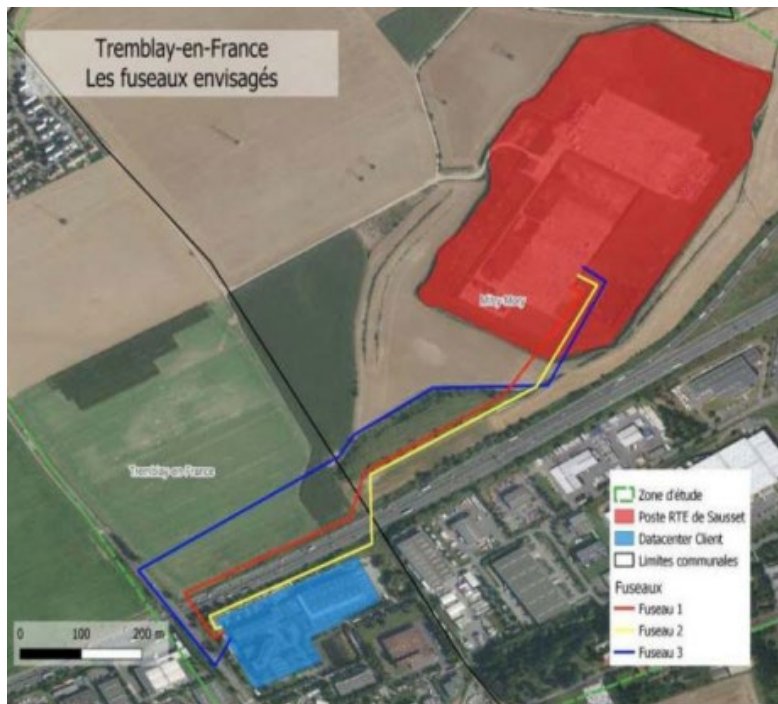
Tsukuba site progress



Source: Greencape

Across in Europe, the datacenter market is focused on the 'FLAP-D' markets being Frankfurt, London, Amsterdam, Paris and Dublin. GMG have key sites in each of these cities except for Dublin, and we believe there is optionality for further sites to be added.

Our research suggests that the GMG sites in Tremblay-En France and Villeneuve St George are in excellent locations with good access to power and in the case of Tremblay, the power station (in red) is across the road.



Source: Local document submissions

Furthermore, we are of the view that there is likely to be further opportunity to develop additional sites or expanding exiting sites relative to current expectations based on local feedback from the industry. We are of the view that these are not currently included within GMG's explicit 'Work In Progress' or 'powerbank', however it is possible that over time these sites could work their way into the picture.

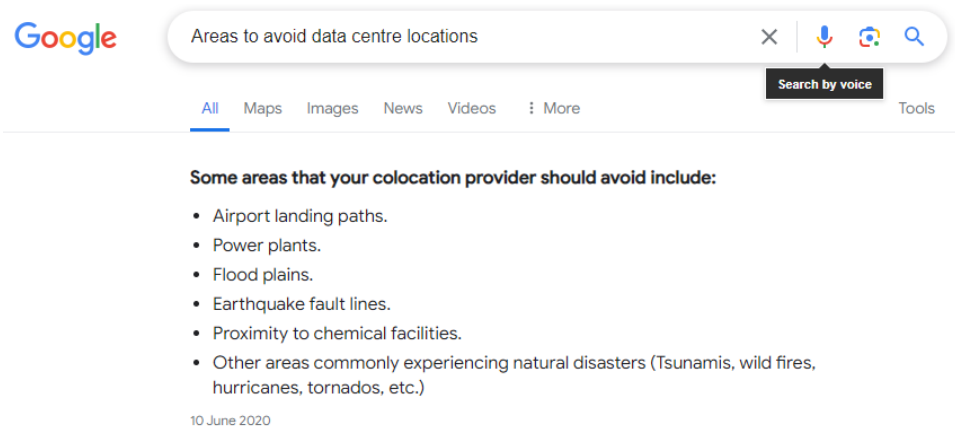
Another interesting observation that highlights just how desperate some are for sites and how valued power is over location at times can be seen with the below image. This shows a new Google data centre, to be built into a side of a mountain directly in the flight path of Hiroshima airport.



Source: Google Maps

“We continue to deliver large-scale, high-value data centres and expand our global power bank to address growing data centre demand as AI usage and cloud computing expands. Demand is strong... certainly over the medium to long term.” Greg Goodman, CEO of Goodman Group, 07/05/2024

Somewhat ironically, asking Google about places to avoid building datacenters, yields 'airport landing paths' as the first issue to consider!



Whilst we'll continue to assess valuation against the share price, at this point we believe that there remains upside to GMG over the medium to long term as we consider the likely end value of their sites against the backdrop of strong AI and general data center demand.

Outlook

The market's focus on the direction of interest rates remains the primary driver of short term sentiment, with 'bad news is good news' being the prevailing view at the current juncture.

Greencape's numerous travels during the quarter highlighted that the US remains on the goldilocks path, the EU is slower with inflation abating (and with some countries starting their rate cut cycle), whilst Australia remains the most sluggish jurisdiction, with a slowing economy yet stubborn inflation.

Increasingly, the non-synchronised interest rate cycles are resulting in currency movements, with much attention turning to the strengthening AUD relative to the weakening USD. Greencape is once again considering how our index tail positions are deployed in our portfolios to manage for currency risk. As we approach reporting season, we expect cautious outlook commentary. We continue to prefer high returning, well managed and recession-proof holdings for our core positions.

"We're pulling the levers that we've got available... Treasury forecasts are that inflation will continue to moderate, and that is very welcome. We want it to get back to band. It isn't unusual when you look at the international experience... as (inflation) moderates, there's a bit of movement up and down. It doesn't necessarily taper in a straight line." Katy Gallagher, Minister for Finance of Australia, 27/06/2024

"Despite the improvement, consumer sentiment remains below its March level and still firmly in deeply pessimistic territory. The survey detail suggests positives from fiscal support measures are being negated by increased concerns about inflation and the outlook for interest rates. Notably, the wider news backdrop is still viewed as broadly unfavourable." Matthew Hassan, Senior Economist at Westpac, 25/06/2024

More information

To find out more about investing with Greencape, please contact:

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