Greencape High Conviction Fund

Quarterly report - September 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	9.03	25.40	9.15	10.45	10.31	9.56	9.93
Growth return	8.53	18.81	0.90	3.30	2.35	2.79	3.04
Distribution return	0.50	6.59	8.25	7.16	7.96	6.77	6.89
S&P/ASX 200 Accumulation Index	7.79	21.77	8.44	8.37	8.93	8.22	7.24
Active return^	1.24	3.63	0.71	2.08	1.37	1.34	2.69

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

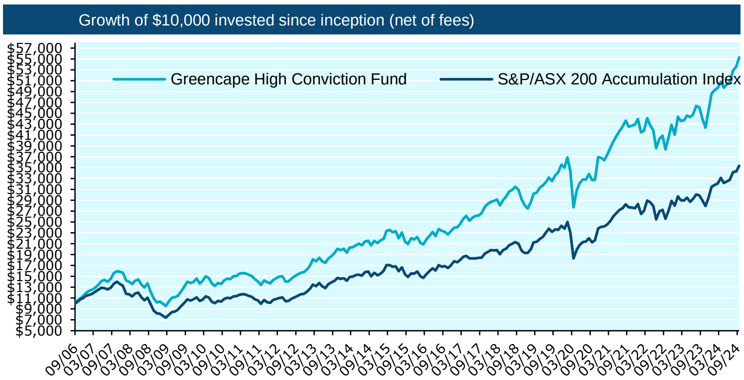
Greencape is an active, 'bottom-up' stock picker. Whilst Greencape does not target any specific investment style and will invest in stocks displaying 'value' and 'growth' characteristics, its focus on a company's qualitative attributes will generally lead to 'growth' oriented portfolios. This is an outcome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



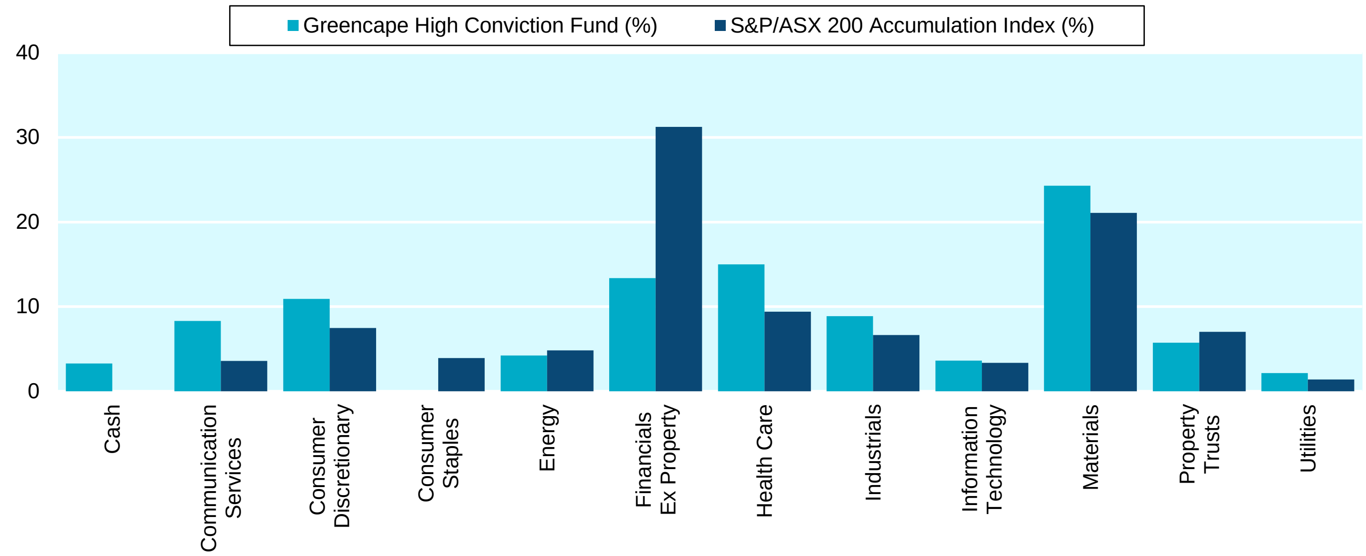
Asset allocation	Actual %	Range %
Security	96.70	85-100
Cash	3.30	0-15

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 September 2024.

Sector exposure as at 30 September 2024



Data Source: Fidante Partners Limited, 30 September 2024.

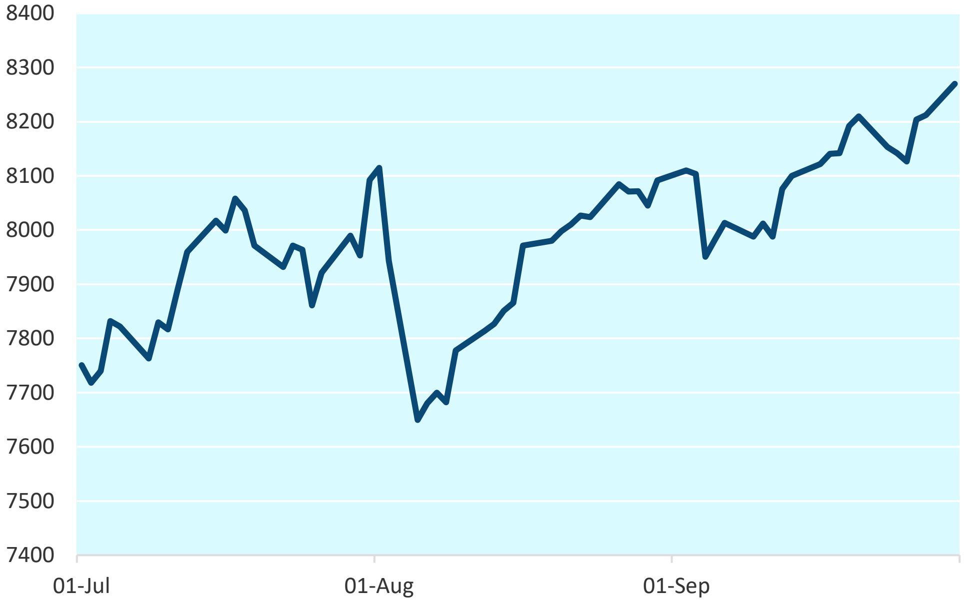
Fund performance summary

The S&P/ASX 200 Accumulation Index returned +7.79% for the quarter. The fund outperformed the market and delivered a +9.03% return over the quarter.

Market overview

Equity markets powered to fresh all-time highs during the quarter, as rates cuts from the US Federal Reserve (Fed) and stimulus out of China drove renewed optimism. Locally, investor attention in August was focused on the bi-annual reporting season in which unlike February, delivered results below expectations.

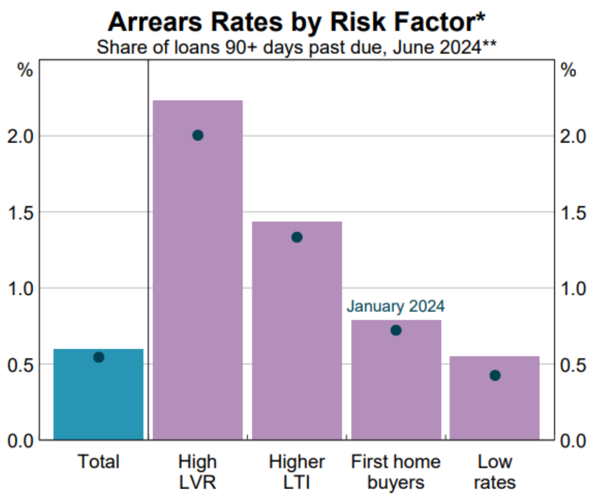
S&P/ASX 200 Index



Source: IRESS

As per consensus expectations leading in, the RBA kept rates on hold at both meetings during the quarter. In comments following the August decision (which were again later reiterated in September) Governor Bullock made it clear that market expectations for rate cuts over the next six months were 'not aligned' with the current thinking of the bank. She also noted in September that progress in getting inflation under control has slowed, and whilst goods inflation has returned to about normal, services inflation remains elevated. Therefore, the board is not yet sufficiently confident that inflation is moving sustainably towards the bank's 2-3% target range. Despite Governor Bullocks protests, the futures market continues to expect almost a full rate cut by year end.

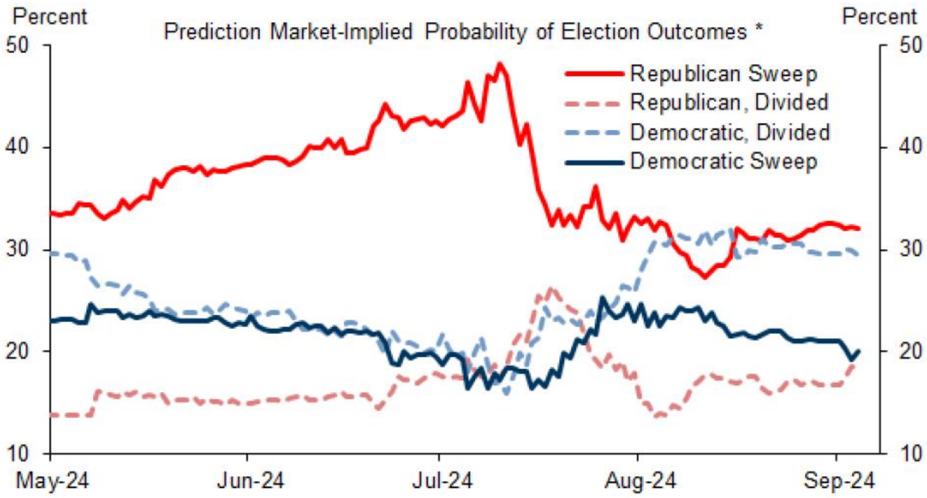
The RBA released its Financial Stability Review in September. The overall picture the review painted was strong, with only around 0.5% of loans in arrears being in negative equity, and less than 0.01% of total loans outstanding estimated to be both in arrears and negative equity.



Source : RBA

"The Fed went up more than we did. If you look at our sort of judgments about where, how restrictive our policy is relative to some other countries when they were at their peak interest rates, it's true that we are restrictive but a little bit less restrictive than some of those other countries were at their peak." Michelle Bullock, RBA Governor, 24/09/2024

In the US, the Fed kicked off their first rate-cutting cycle for 4 years in September by dropping the cash rate by 50 basis points. In their statement accompanying the decision, the Fed noted they had gained greater confidence that inflation is moving sustainably towards 2%, and that the risks to achieving its employment and inflation goals are now roughly in balance. Board member Michelle Bowman voted against the decision, the first dissenter since 2005. In his post decision press conference, Chair Powell stressed that 50 basis points should not be considered the new pace. The futures market has fallen in line with Powell's commentary, with markets factoring in 2 rate cuts by year end, which implies a 25-point cut in each of the remaining two meetings.



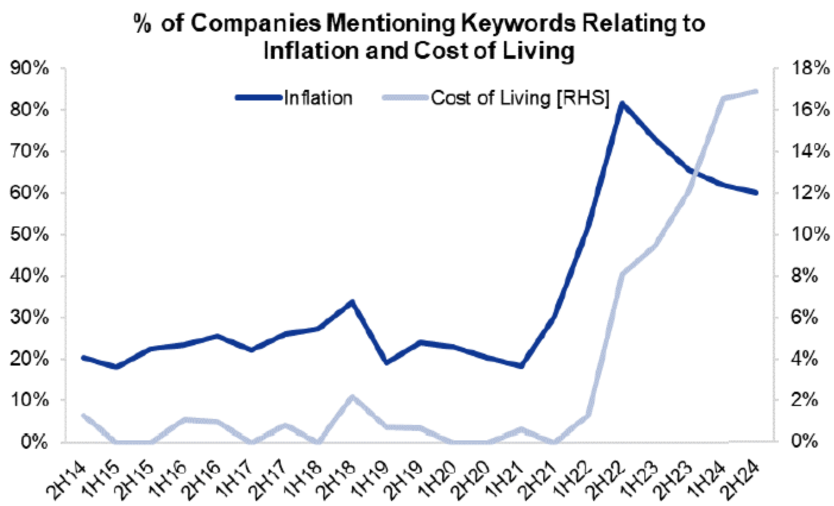
Source : Goldman Sachs

"The move aims to intensify the counter-cyclical adjustment of monetary policy and support the country's stable economic growth." PBOC Statement 25/09/2024

Late in the period, the People's Bank of China (PBOC) announced a raft of stimulus measures aimed at reinvigorating the Chinese economy. The stimulus announcements included (but were not limited to) a cut in the seven-day reverse-repo rate, lowering of the Reserve Requirement Ratio for banks, lowering of mortgage rates for existing housing loans, reduced minimum downpayments for house purchases, allowing second-home buyers to refinance mortgages and allowing institutional investors to tap PBOC financing to buy equities.

Reporting season fell short of expectations in August, with the ratio of Beats to Misses (0.8x) well below the long-run average (1.4x). Common themes were slowing sales and stickier costs, the combination of which was squeezing profit margins. As a result, FY25 earnings were cut by 3.5% in aggregate.

More management teams are mentioning Cost of Living over Inflation on earnings calls.



Source: Goldman Sachs

	QUARTER	YEAR
ASX200 Accumulation Index	7.8%	21.8%
Best Performing Sectors		
Information Technology	16.1%	58.3%
Property Trusts	14.5%	47.0%
Materials	10.8%	11.0%
Worst Performing Sectors		
Energy	-6.2%	-17.2%
Utilities	-1.2%	13.3%
Healthcare	0.3%	19.3%

Source: IRESS

Tech stocks were the best performers on the local bourse, driven by strong offshore leads from the major stocks in the US. Wisetech led the sector, as the company reported FY24 revenue and EBITDA of $1bn and $0.5bn respectively, both up 28% on FY23. Financial software developer Iress also fared well, as the company delivered a first half EBITDA result above their initial guidance range, and also upgraded their FY24 EBITDA by 9%.

Whilst falling just short of a podium finish, Materials finished the quarter strongly, rallying 12% as a sector in the last week of September. Companies with both financial and operating leverage staged the most notable recoveries, as Mineral Resources for example traded as much as 70% higher than its low which was only reached in the second week of September.

Energy was the worst performing sector as oil prices continued to drift lower throughout the quarter. In September, a Financial Times article reported that Saudi Arabia was ready to abandon its unofficial price target of $100 in order to regain market share as it and other OPEC+ members were preparing to pump more crude from December. In terms of company news flow, Woodside Energy announced it was acquiring Tellurian, including its owned and operated US Gulf Driftwood LNG project for an implied enterprise value of USD$1.2bn.

Supermarkets came under scrutiny in September, with the ACCC taking Coles and Woolworths to Federal Court for misleading pricing claims. The ACCC alleges the Supermarkets both breached Consumer Law by initially raising prices and then dropping them above the original price and claiming them as ‘Prices Dropped’ or ‘Down Down’. These proceedings are separate to the ongoing ACCC Supermarkets enquiry which releases its final report in February next year.

“No wonder people are angry. And they’re right to be. They go along, they see a sign saying it’s on special, they expect it to be cheaper, not more expensive. Essentially the price is going up by a dollar, then they reduce it by fifty cents, so it’s still 50c more than it was.” Anthony Albanese, PM of Australia, 24/09/2024

Trip Snippets

During the period we travelled to the US on two occasions.

US Observations:

- There was a consistent theme amongst contacts we met with in that activity is somewhat on hold until the Presidential election passes in November. Whilst activity is by no means completely muted, there is broad expectation of a meaningful pick up after the election.

- Most contacts see the outcome of the election itself as largely irrelevant. Energy contacts we met with were at pains to point out that there is little the Trump administration could do to wind back the measures in the Inflation Reduction Act.

- There is expected to be a continued consolidation of companies in the Packaging sector. Many smaller operators which have been owned by Private Equity had seen a capex holiday, and resultantly are now facing a capital expenditure cycle which will drive closures or exits.

- An airline we met with were surprised with the US Department of Transport's inquiry into airline loyalty programs. As a significant number of points have been accrued via spending since the onset of the pandemic, it seems as though the government is keen to ensure this currency is not devalued by the airlines.

- The mix shift observed to premium airfares is likely to be structural. The current generation of retirees view travel differently to the previous generation, and similarly, younger cohorts are also premiumising with less travellers purely seeking the cheapest airfare possible.

Lynas (LYC)

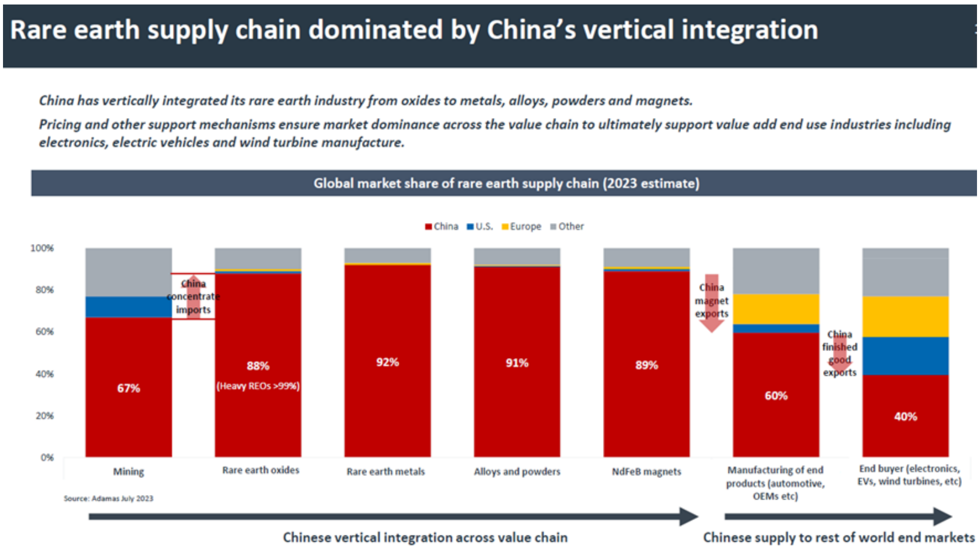
Lynas Rare Earths (LYC) is the largest (and only significant) producer of separated rare earth materials outside of China. It has a market capitalisation of approximately $7bn.

Rare earths are a group of 15 elements in the periodic table that have unique magnetic and electrochemical properties which enable technologies to perform better through greater efficiency, durability and by allowing products to be lighter and smaller. The uses for rare earth materials continues to expand, with most prominent technology today being high-performance permanent magnets. The demand outlook for rare earths is solid, underpinned by strong growth in automobile production (permanent magnets used in EVs, hybrids and internal-combustion engine cars), wind turbines and robotics.

Today the rare earths supply chain is dominated by China, the result of a visionary 30+ year strategy. In 1992, Chinese leader Deng Xiaoping famously said, "The Middle East has oil, China has rare earths." Over the following decades China invested heavily into their rare earths industry which has resulted in China dominating the industry today. Approximately 90% of separated rare earths globally are produced in China with LYC being the only significant producer of separated rare earths outside of China. Given the confluence of geopolitical tensions and the importance of rare earths in the production of defence and 'green' technologies, we believe that LYC is one of the most strategic Resources companies globally.

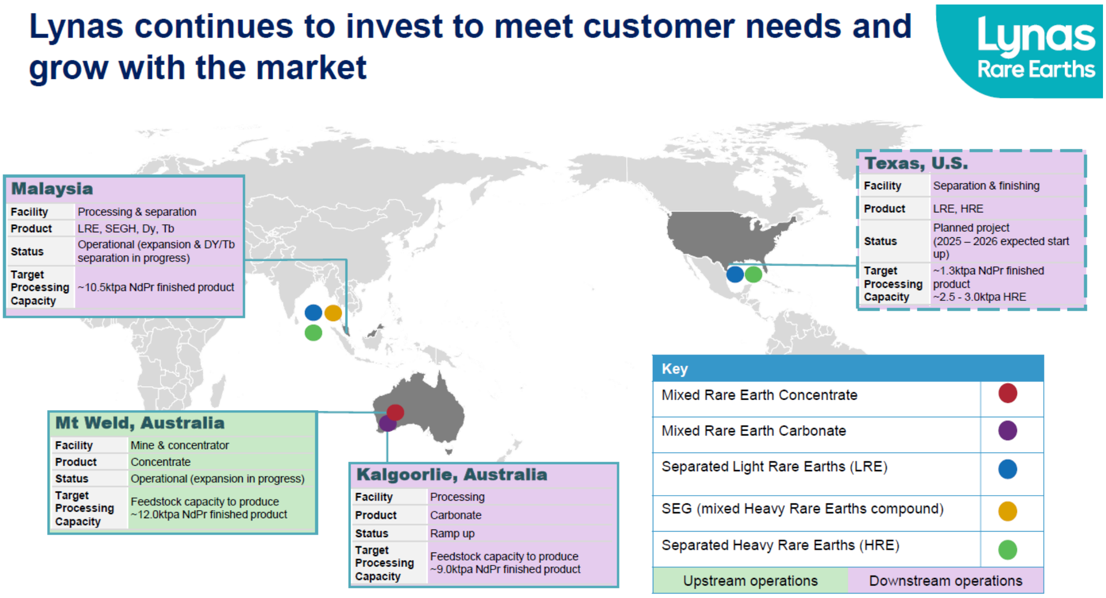
"Trump policies will fuel growth, drive down inflation, inspire American manufacturing, all while protecting the working men and women of our nation from lopsided policies tilted in favour of other countries. Just like 2016, Wall Street forecasts said that Trump policies would result in lower growth and higher inflation. Actual growth and job gains widely outperformed these opinions." Brian Hughes, Senior Advisor to the Trump Presidential Campaign, 15/09/2024

"In Springfield, they're eating the dogs. The people that came in, they're eating the cats. They're eating the pets of the people that live there. And this is what's happening in our country, and it's a shame." Donald Trump, Former President of the United States, 10/09/2024



Source: Iluka

LYC owns the Mt Weld rare earth mine in Western Australia. It is one of the largest and highest-grade rare earth mines globally. LYC produces a rare earth concentrate at Mt Weld which is sent to either its recently constructed cracking and leaching plant in Kalgoorlie or its fully integrated advanced materials plant in Malaysia. At Kalgoorlie, the concentrate is processed into a rare earth carbonate product which is sent to Malaysia for further processing. In Malaysia, their plant further processes both concentrate and carbonate into separated rare earth products. LYC is in the final stages of its Lynas 2025 plan which was initiated in 2019 to grow its production >50%. The plan involved an increase in output from Mt Weld, the construction of the Kalgoorlie plant, an increase in processing capacity in Malaysia and the construction of a separation plant in the US. The execution of the plan sees LYC further cement itself as the premier ex-China separated rare earth producer with multiple processing plants across three countries fed by one the best rare earth mines globally.



Source: Lynas

Greencape has been a shareholder in LYC since 2018. Applying our stock rating process, LYC is our highest rated Resources stock on the ASX. As has been detailed above, it rates highly under our Business Evaluation score given the high quality asset base, the strategic nature of the company and its net cash balance sheet (e.g. able to fund the Lynas 2025 expansion from operating cash flow and cash on balance sheet). It has the highest rating for Shareholder Stewardship possible under our investment process as we rate CEO Amanda Lacaze as one of the leading CEOs in Australia.

Over the last 10 years she has transformed LYC from a highly indebted company struggling to ramp output at their Malaysian plant, to (in our view) the world's leading rare earths business with dependable operational delivery, a rock solid financial position and still enormous optionality beyond their 'Lynas 2025' growth plan. Amanda exhibits a genuine care for her employees and we think the culture developed within LYC under her tenure is quite unique and a large factor in the success of the company over the past decade.

Outlook

The Fed has started its downward rate cycle, joining the downward trajectory already evident in Europe, Canada and New Zealand. As discussed in the last quarterly, the divergent monetary policy settings between Australia and the rest of the world is peaking, with Australia's inflation continuing to prove relatively stubborn. The consequences are a strengthening AUD and importantly, more risk around the speed at which the Australian economy decelerates. Indeed, recession risk has grown as is evidenced by the cautious outlook commentary from the recent reporting season. Our high frequency domestic channel checks highlight declining pipelines of work, with demand from new orders insufficient to replenish pipelines as projects are completed. This suggests domestic activity is expected to slow further in coming months.

At this juncture, the recently announced China stimulus appears sufficient to put a floor under commodity prices, whilst the resultant capital inflow back into China also appears to have put a cap on extreme Australian bank sector valuations. Greencape's relative portfolio sector weightings are positioned for this rotation to continue, whilst our core portfolio positions continue to comprise of high returning, well managed and recession-proof businesses.

"This is an economy being buffeted by global uncertainty, price pressures and higher interest rates. Consumption went backwards and discretionary spending fell substantially. And to get your head around that, in through the year terms, we saw around the same growth in the year as we usually see in a single quarter when it comes to consumption and that gives you a sense here of consumption going backwards but particularly discretionary spending, which has fallen quite substantially." Jim Chalmers, Treasurer of Australia, 04/09/2024

More information

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

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