Greencape High Conviction Fund

Quarterly report - December 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	-0.34	13.25	7.82	9.47	9.81	9.26	9.77
Growth return	-0.48	7.64	-0.26	2.47	1.96	2.52	2.97
Distribution return	0.15	5.61	8.09	7.00	7.85	6.74	6.80
S&P/ASX 200 Accumulation Index	-0.80	11.44	7.41	8.05	8.51	7.93	7.09
Active return^	0.46	1.81	0.41	1.42	1.30	1.34	2.68

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'.

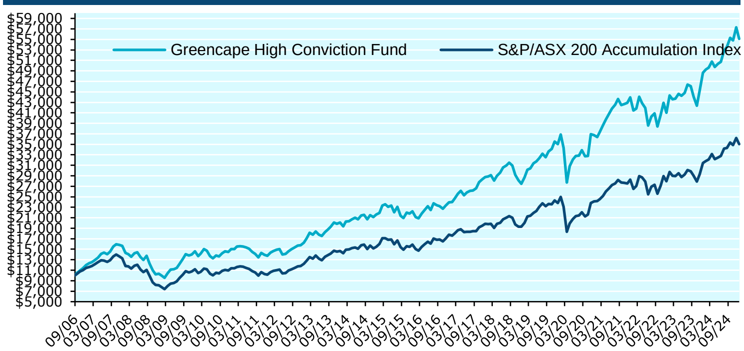
Distribution frequency

Quarterly

Suggested minimum investment timeframe

At least five years

Growth of $10,000 invested since inception (net of fees)



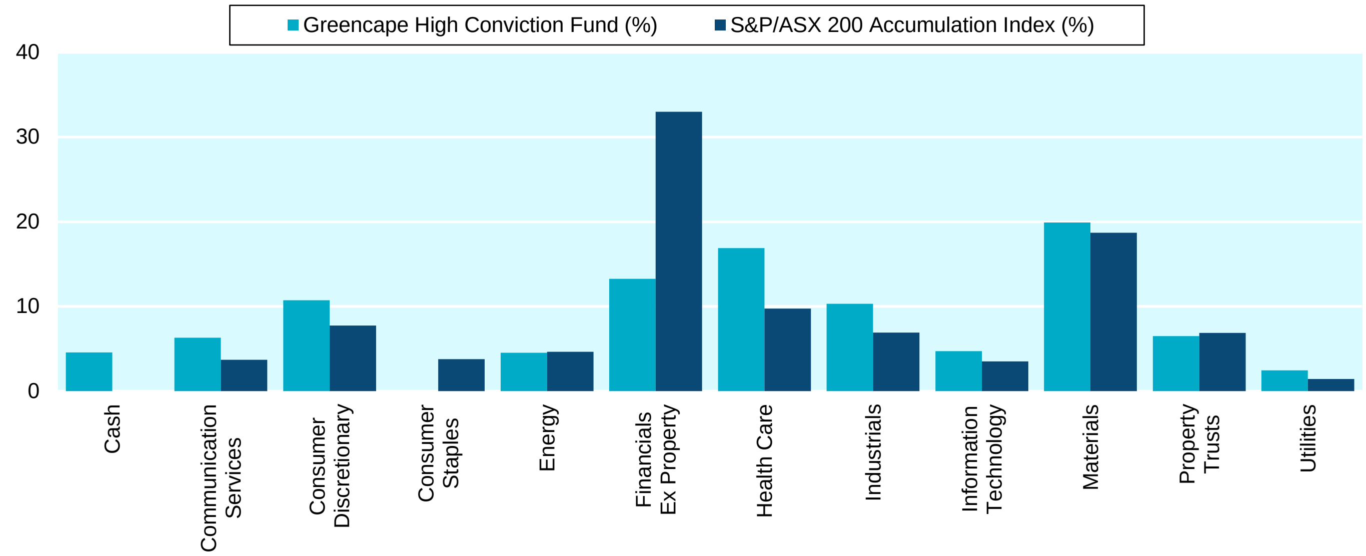
Asset allocation	Actual %	Range %
Security	95.44	85-100
Cash	4.56	0-15

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, 31 December 2024.

Sector exposure as at 31 December 2024



Data Source: Fidante Partners Limited, 31 December 2024.

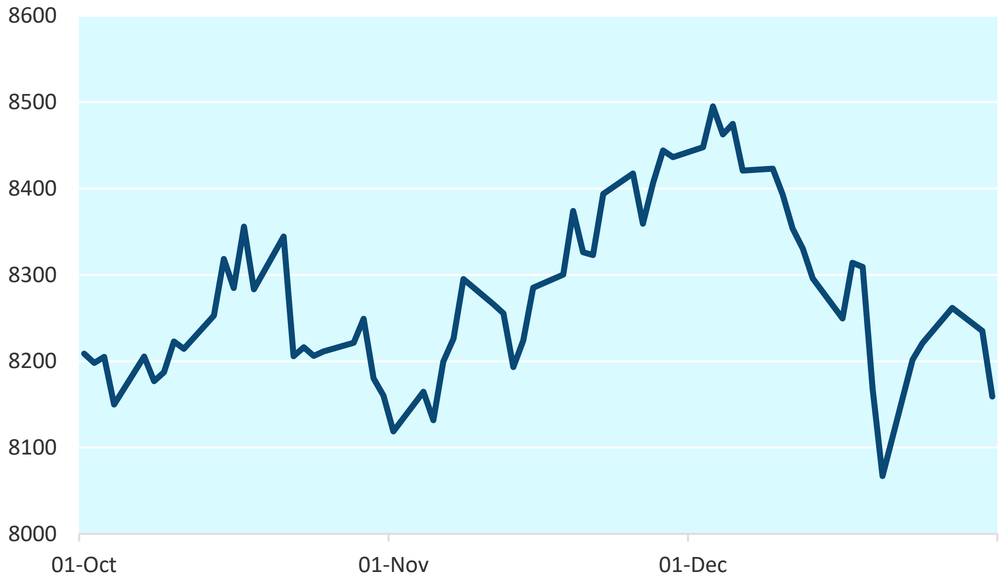
Fund performance summary

The S&P/ASX 200 Accumulation Index returned -0.80% for the quarter. The fund outperformed the market and delivered a -0.34% return over the quarter.

Market overview

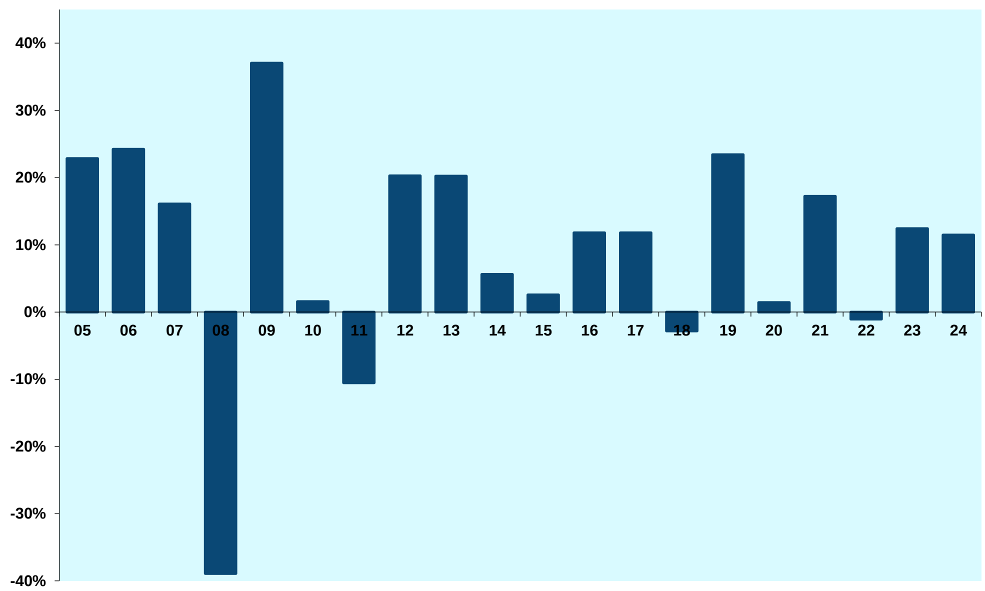
The market managed to consolidate its gains during the final quarter of the year, chalking up a double digit advance for the third time out of the past four years. Geopolitics continued to be the major theme throughout the quarter, with flow on effects on global central bank and government fiscal policy providing a consistent source of volatility during the period.

S&P/ASX 200 Index



Source: IRESS

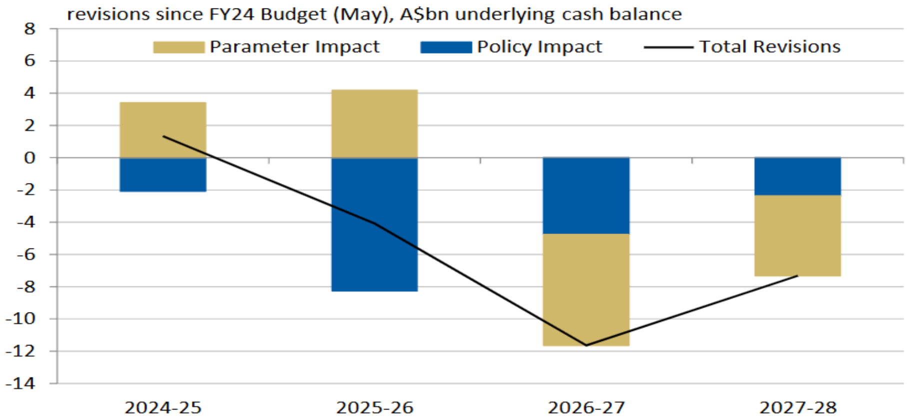
S&P/ASX 200 Index Calander Year



Source: IRESS

The RBA kept rates on hold at 4.35% at both meetings held during the quarter, making it now 12 months since there has been a move in either direction. Whilst the Cup Day rate decision came and went without much fanfare, there was a notable shift in language from the central bank following the December decision. This included several changes in the initial decision statement, which stated that 'the Board is gaining some confidence that inflation is moving sustainably towards target' and that 'some of the upside risks to inflation appear to have eased'. In the press conference following the statement, Governor Bullock then stated these changes were deliberate and intended to send a message. This dovish shift from the RBA caused the AUD to sell off as market expectations moved towards a February cut being more likely than not. The futures market is currently ascribing a 70% chance of a rate cut in February as part of 3 cuts during 2025.

The government released the Mid-Year Economic & Fiscal Outlook in December, which outlined minor changes in the current fiscal year budget deficit but larger increases to future deficits. The increase in payment projections was driven almost equally by new policy decisions and 'parameter and other variations' (e.g. indexation and changes in demand for government services).



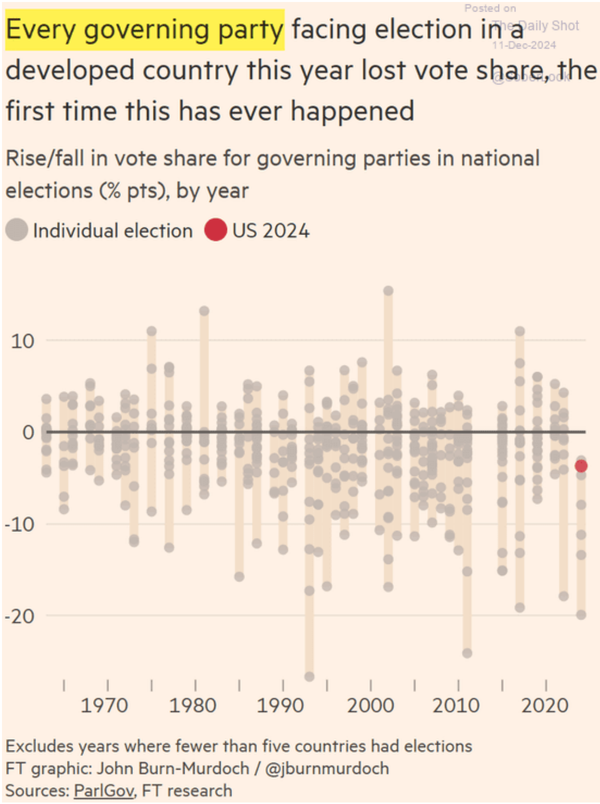
Source: MYEFO, Morgan Stanley

The main event during the period was the US Presidential Election, which despite seeming like a close race in the lead up, was won relatively easily by former President Donald Trump. Although Trump won both the House of Representatives and the Senate, the projected majorities are thin, which suggests that the incoming administration may find it challenging to implement some of its planned reform agenda. The subsequent cabinet picks by the administration were another source of volatility, with Robert F Kennedy Jr's proposed appointment as the Secretary of Health and Human Services triggering weakness in a number of Healthcare related stocks.

"We're not saying that we've won the battle against inflation yet, but we're saying we've got a little bit more confidence that things are evolving as we think in our forecasts." Michelle Bullock, RBA Governor, 10/12/2024

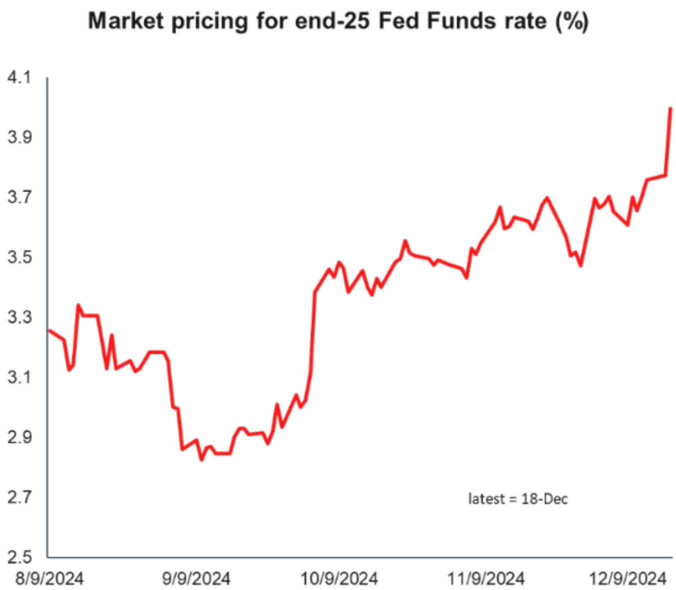
"For a while now I've been saying that I almost feel that things have to get worse before people start taking productivity seriously… there seems to be a realisation from many policymakers and politicians on both sides of politics that we really need to face into the productivity issue… continuing to increase government spending to prop the economy up is not going to drive long-term value for anyone." Rob Scott, CEO of Wesfarmers, 05/12/2024

In a potentially worrying sign for the incumbent Labor government in Australia, sitting governments have given up ground in elections held offshore.



Source: FT, The Daily Shot

The RBA weren't the only central bank to 'pivot' during the quarter. In the US, the Fed cut rates by 25 basis points as expected in December, however it was seen as a 'hawkish cut' by the market. Although the cut was fully priced by the market, four Fed participants voted against the move which was in reality a close call. The Fed's 'dot plot' also changed meaningfully, implying they expect to cut rates twice in 2025, down from the 4 expected previously. Despite the futures market already expecting only 2 cuts in 2025, the market moved even further in, now expecting a cumulative 40 basis point of cuts over the course of the year. As per the chart below, expectations for the end of 2025 Fed Funds Rate increased as much as 100 basis points over the last three months.



Source: Macquarie

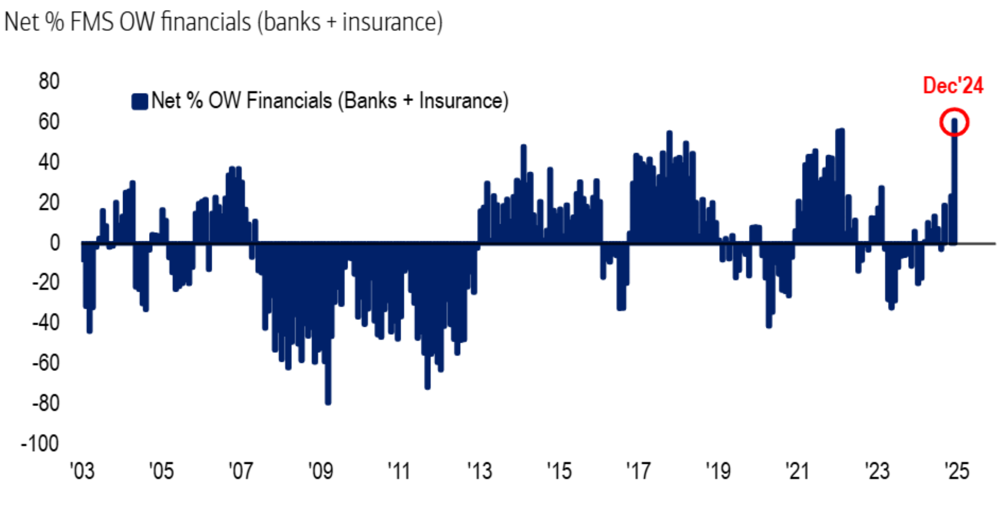
"FDA's war on public health is about to end. This includes its aggressive suppression of psychedelics, peptides, stem cells, raw milk, hyperbaric therapies, chelating compounds, ivermectin, hydroxychloroquine, vitamins, clean foods, sunshine, exercise, nutraceuticals and anything else that advances human health and can't be patented by Pharma. If you work for the FDA and are part of this corrupt system, I have two messages for you: 1. Preserve your records, and 2. Pack your bags." Robert F. Kenner Jnr, Presumptive Nominee of Secretary of Health and Human Services, 26/10/2024

"Our policy stance is now significantly less restrictive. We can therefore be more cautious as we consider further adjustments to our policy rate… For additional cuts, we are going to be looking for further progress on inflation." Jerome Powell, Chairman of the Federal Reserve, 18/12/2024

Financials surged ahead during the quarter, led by CBA which alone rallied 14%. CBA's forward Price to Earnings ratio is now 26x, higher than CSL's, despite expectations for low single digit earnings growth over the medium term versus CSL which is double digit.

Whilst we are cognisant that the drivers of local bank stock outperformance have been discussed ad nauseum this year, it is worth noting that inflows into Financials is not a purely domestic phenomenon, with Global Fund Managers holding an all-time high overweight tilt to the sector at year's end.

"Money flowed into index funds, index funds bought CBA shares, index-aware super funds bought CBA shares to keep up with the index (and rivals), and it ran hard all year. Now we have a (very good) bank with marginal earnings growth trading at more than three standard deviations above its long-term average." Anthony Macdonald, AFR Chanticleer columnist, 03/01/2025



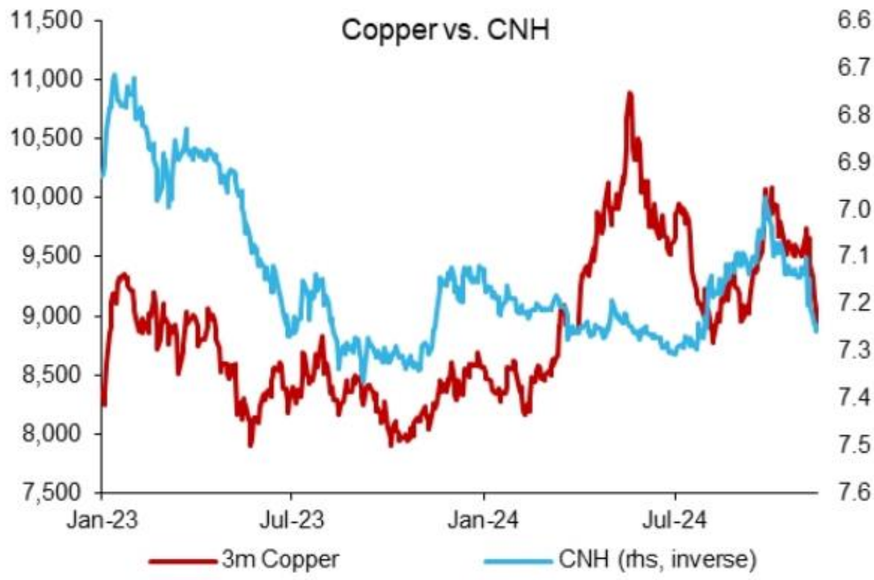
Source: BofA Global Fund Manager Survey.

	QUARTER	YEAR
ASX200 Accumulation Index	-0.8%	11.4%
Best Performing Sectors		
Financials ex-Property Trusts	5.9%	33.7%
Industrials	3.3%	15.1%
Telecom	2.2%	6.1%
Worst Performing Sectors		
Materials	-11.9%	-13.7%
Property Trusts	-6.0%	18.5%
Energy	-5.4%	-13.9%

After rallying 10% on the back of Chinese stimulus announcements in the September quarter, the Materials sector gave it all back in the December quarter. Whilst Iron Ore prices were flat over the period, copper, which is widely considered a key commodity in the energy transition, fell 12% during the quarter as the market questioned the scale and pace of the various Chinese stimulus measures, as well as the potential implications of copper demand in China as a result from any potential tariffs Trump may place on Chinese exports to the US. As per the chart below, this has seemingly caused a correlation between the Chinese currency and copper prices.

"Until such time as they stop, we will be charging China an additional 10 per cent tariff, above any additional tariffs, on all of their many products coming into the United States of America. [Tariffs will remain in place] until such time as Drugs, in particular Fentanyl, and all Illegal Aliens stop this Invasion of our Country!" Donald Trump, President-elect of the USA, 26/11/2024

Figure 9 - USD strength is putting metals under pressure



Source: Macquarie

Offshore Trips

During the period we travelled to the US twice as well as to the UK and Malaysia.

UK snippets:

- Residential building activity in the UK has remained in a malaise ever since Liz Truss' mini budget in 2022. Whilst current activity is muted, leading indicators (planning applications, mortgage approvals etc) are starting to turn positive.

- Alcohol volumes remain weak, with the compounded impact of multiple rounds of price rises proving that demand is elastic in what was historically believed to be a resilient category. The trend of moderation appears to be structural, with alcohol brands introducing products such as zero or low ABV to help mitigate the operational deleverage from volume loss.

- A consistent theme with companies we met with was weakness in their continental EU operations, particularly in France and Germany. Consumer confidence in these markets is depressed, and it is unclear what the catalysts are for a rebound.

- Travel agents are finding the current market dynamic difficult, with one contact lamenting it being the hardest time ever in their long career. The sweet spot for agents is when there is ample available capacity which needs be filled, however with the multitude of issues being faced by the major aircraft manufacturers, airlines are having little issue filling seats.

- Following the election, UK universities are seeing green shoots in international recruitment for the September 2025 intake, with the UK now appearing more welcoming relative to other major destination markets.

"We have to take action and do things differently. And part of that is being honest with people – about the choices we face and how tough this will be. And frankly – things will get worse before they get better." Kier Starmer, Prime Minister of the UK, 27/08/2024

US snippets:

- We attended the G2E gaming expo in Las Vegas in October. In conversations we had with game developers, many noted a slowdown in activity in the lead up to the Presidential election, however there was an underlying sense of cautious optimism around the outlook for 2025 and beyond.
- Sports Betting is starting to gain immense traction in the US, with one operator telling us that this season in the NFL they have seen more bets per minute compared to the Super Bowl.
- Challenger sports betting brands are still talking up their prospects but are struggling to take share from Fan Duel and DraftKings. There is a clear acknowledgement that aggressive acquisition incentives do not make economic sense in the long run, with product quality being the long-term deciding factor of customer behaviour.

"In the fourth quarter of 2024, US consumer optimism reached its highest level since before the COVID-19 pandemic. Positive economic indicators, such as low unemployment rates, steady job growth, and rising wages - as well as a swift outcome in the US election - likely helped fuel this swell of optimism." McKinsey & Company, 11/12/2024

Energy

The Australian Energy sector was the weakest performing industry for calendar year 2024 (CY24). For the year, the sector declined by 14%, underperforming the broader ASX200 Index (which rose 11%) significantly. Within the broader Energy sector, the Oil & Gas industry accounts for approximately 2.5% of the ASX200, with Woodside and Santos being the two largest companies by market capitalization.

Our approach to investing in Oil & Gas stocks (and Resources more broadly) is the same investment process as we have for all other stocks. Meaning we score them using our 4 criteria (Shareholder Stewardship, Business Evaluation, Valuation and Market Milestone) to come up with a Stock Rating (1 being the lowest, 5 the highest) that we then assess against all others. Stocks that are rated 4 and 5 make up the core of the portfolio and account for the majority of active share. Due the cyclicality of earnings, the capital intense nature of the industry and evolving environmental, social, and governance (ESG) considerations, Oil & Gas stocks tend to yield a lower stock rating. Furthermore, due the existential challenges facing the sector, which we discuss below, consolidation has been a constant which has resulted in the breadth of investment opportunities reducing.

Recent Challenges, COVID and the resurgence of Gas

The past decade has been particularly challenging for the Australian Energy sector. Australia's commitments under the Paris Agreement in 2015 intensified the focus on reducing greenhouse gas emissions. This meant their ability to attract investment has diminished significantly as stakeholders shied away, citing carbon emissions and ESG factors. This has prompted many Oil & Gas companies to pivot towards renewable energy projects, as well as carbon capture and storage (CCS) initiatives. Further, the reduction in appetite for exploration and development meant that consolidation became a preeminent feature with scale players preferring to 'buy, rather than build'. This increased focus on carbon emissions coincided with technological advancements in solar, wind, and battery technologies which made renewable energy sources increasingly competitive. These dynamics have pressured the traditional Oil & Gas industry to innovate and adapt.

"We will continue to fund corporates subject to them having a transition plan in place by 30 September, 2025." David Scrivener, Head of Energy at Westpac, 21/10/2024

The COVID-19 pandemic further exacerbated challenges for the sector. The sharp drop in global energy demand during 2020 led to significant revenue declines for Australian producers, accelerating the global energy transition. Calls for increased investment in renewable energy and hydrogen gained momentum, while major international companies such as BP and Shell announced net-zero emissions targets, signalling a broader industry shift towards greener strategies. However, as we emerged from the pandemic and renewable transition timelines started to expand, the view towards gas shifted. Notably, gas is now viewed as the fuel required to transition to renewables. This is due to several key factors:

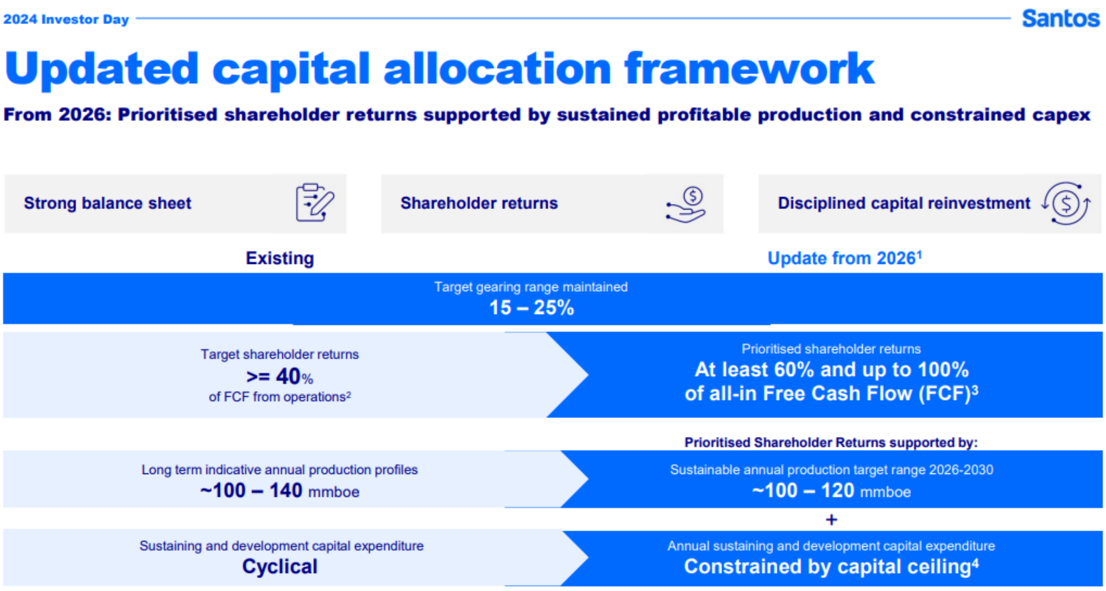
1. **Energy Security:** Geopolitical tensions, including the Russia-Ukraine conflict, have disrupted global energy markets, and boosted demand for liquefied natural gas (LNG) from reliable suppliers like Australia.
2. **Renewable Timelines:** Infrastructure constraints, regulatory hurdles, financing challenges, and the intermittent nature of renewable energy sources have seen the timelines to adoption push out.
3. **Domestic Reliability:** As mentioned, gas is positioned as a 'transition fuel' to bridge the gap between coal and renewable energy. Recent Federal support for gas projects aims to ensure energy reliability, as coal-fired power plants are retired.
4. **Asia's Growing Demand:** Long-term contracts with major Asian economies, including Japan, South Korea, and China, continue to underpin Australia's LNG export market.

Set against this backdrop there are a few key large and small cap stocks that we monitor closely:

Santos – Having written on Santos in previous reports, the company continues to present as a compelling investment proposition. Its strong operational performance, strategic growth projects and disciplined financial management means that it scores well against our key criteria. Operationally, it is robust, with PNGLNG, GLNG and other assets on track to deliver between 84-89mmboe in CY24, supported by improved asset reliability. Key growth projects, such as the Barossa Gas Project (first gas by Q3 2025) and Pikka Phase 1 (first oil by mid-2026), are progressing well and highlight Santos' ability to expand its portfolio and leverage existing infrastructure. Additionally, Santos is emerging as a leader in CCS, with Moomba CCS operational and plans to scale up significantly, aligning with net-zero targets and benefiting from the growing carbon credits market.

"We'll run the business as though the commodity price is a bit lower and invest capital at a rate that keeps us at the production target." Kevin Gallagher, CEO of Santos, 19/11/2024

Despite industry challenges, Santos' renewed focus on cost competitiveness (targeting production costs of ~$7/boe post-Barossa and Pikka) and its updated capital allocation framework are underwriting ongoing performance. At the company's Investor Day in November, Santos showcased the new framework with the company increasing its focusing on shareholder returns. Shareholders are set to receive at least 60% and up to 100% of all-in free cash flow (FCF) from 2026 – a meaningful change from the prior target of 40% of FCF from operations. This change, set against its diversified portfolio forecast to deliver between 100-120mmboe/year and its market-leading CCS capabilities, highlights why we view Santos as an attractive investment and continue to see it best positioned within the sector to perform.

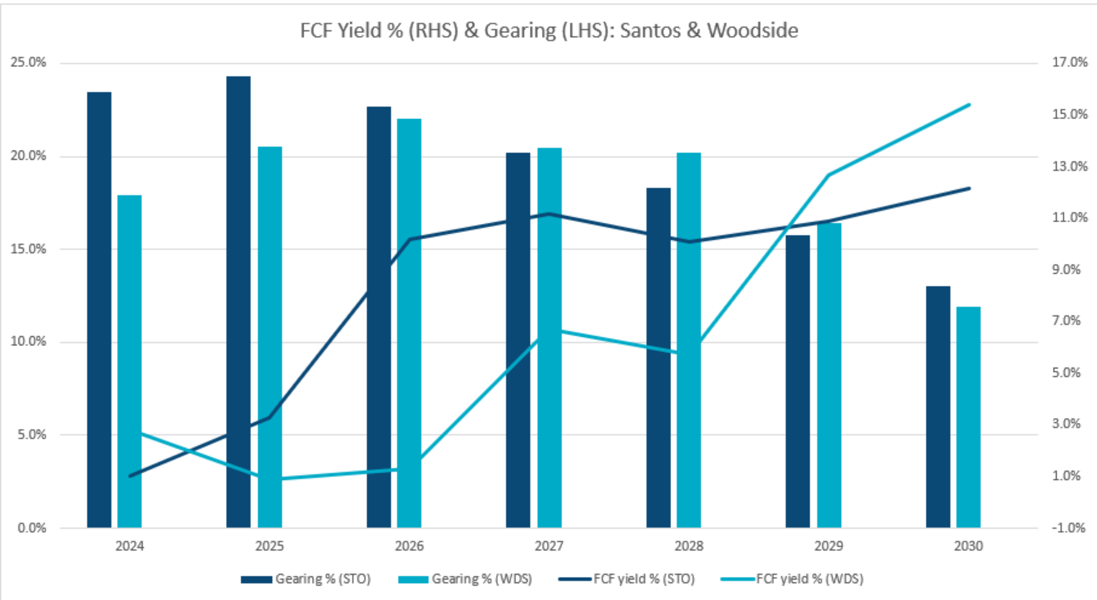


Source: Santos Investor Day Presentation

"We know that on both coasts Australia needs more gas for household and business use in order to provide the stable and consistent energy supplies that underpin the economy and our quality of life." Meg O'Neill, CEO of Woodside, 13/12/2024

Woodside - Woodside Energy (WDS) is embarking on a period of development with meaningful capital expenditure, aiming to position itself for long-term growth in the global energy transition. Strategically, Woodside aims to be aligned with global LNG demand growth, driven by emerging Asian markets. The company's portfolio is anchored by long-term oil-linked contracts but with an increased focused on LNG trading and strategic hedging, whereby WDS is aiming capitalize on market tightness and disruptions. Into the later stages of the decade and early years thereafter the strategy is compelling, however near-term we believe the narrative will be dominated by project development and the associated risk. Concerns around a stretched balance sheet in a softer LNG and oil price environment are a consideration, however management has demonstrated financial resilience and are confident they can manage through a sustained period of lower oil prices, with gearing peaking at manageable levels. Operationally, the early start of Sangomar has exceeded expectations, as has the exceptional performance at Pluto LNG and NWS, which recorded 99.9% and 99.2% reliability respectively in the third quarter.

Sangomar ramp-up aside, Woodside does have some near-term market milestones – namely the Louisiana LNG sell-down and subsequent FID, as well as increased spot LNG exposure. It is for these reasons, as well as a valuation support, that we began reducing our underweight position in Woodside during the quarter. To be clear, we continue to view Santos as our preferred Oil & Gas exposure as they are on the cusp of step-change in free cashflow (& shareholder returns) whereas Woodside is facing a period of material capital investment. However the valuation and performance gap became wide enough for us to begin to reduce the underweight in Woodside.



Source: Jarden

Beach Energy - Beach Energy is a mid-cap exploration and production company that is set to deliver substantial free cashflow over the next few years. However, numerous setbacks in the delivery of the Stage 2 Waitsia Gas plant have weighed on the stock given how pivotal the project is to the company's near-term growth and strategic goals. During the quarter we visited the Waitsia plant which has passed mechanical completion and is in the final stages of commissioning. Since taking over as CEO, Brett Woods has increased the engagement and collaboration with the Waitsia JV stakeholders, which is beginning to yield results. The importance of Waitsia shouldn't be understated, despite the Beach story being bigger than this asset alone. That is because the Waitsia's cash flows will enable Beach to reinvest in reserves and pursue selective M&A opportunities to achieve a reserve life target of over 10 years, up from the current sub-8 years.

Amplitude Energy – Amplitude Energy (AEL), formally Cooper Energy, has enjoyed a period of operational strength at its Orbost Gas plant. The company increase its FY25 production guidance to 65 –72 TJe/day (previously 62 – 69 TJe/day) driven by improved performance at the Orbost Gas Processing Plant.

While historic volatility and a planned plant shutdown in March necessitate cautious guidance, the consistent improvements at Orbost signal increased operational reliability. Beyond Orbost, the key growth catalyst for AEL is the development of the East Coast Supply Project (ECSP). With the Transocean Equinox drill-rig secured and long-lead orders placed, the project is on track for drilling to commence in late 2025. Funding for this phase remains subject to JV-partner developments, however we remain confident of the strategic nature of the development and expect project alignment to occur early in 2025. Crucially, Amplitude's outlook for increased east coast gas production will come online at a critical time for east coast supply as existing projects come to the end of their production life.

Conclusion

As mentioned, the Energy sector has endured a period of weakness of late, however we remain positive on our investments given they remain attractive from a bottom-up, stock selection standpoint. That said, it would be remiss to ignore that the sector's performance can be determined by exogenous, macro factors. To this end, we believe the sector is pricing in little for any potential supply disruptions and extended resilience in oil & gas demand. Gas is a critical resource and our positions held reflect that. Stock specific drivers give us confidence that our holdings will outperform over the cycle, with any potential move higher in energy prices adding to the positive outlook.

Outlook

Geopolitical uncertainty has stepped up with the outcome of the US election, with the incoming administration's policy heavily influenced by political outsiders. Markets have taken the outcome as inflationary, with US interest rate expectations stepping up meaningfully in the wake of the result. This, combined with tariff speculation has strengthened the USD, reversing the AUD rally that was evident last quarter.

An expectation of reduced regulation and US corporate tax cuts has gone some way to offset market nerves around inflation and the rising cost of capital. On balance we are more cautious towards the US market as the spread of outcomes has widened. China has added stimulus, but for the time being appears to be waiting for more detail on the Trump tariffs before implementing more material action. Our observation is Europe has weakened somewhat of late, driven more by political uncertainty in France and Germany and not helped by an antagonistic Trump.

In Australia, our high frequency channel checks suggest demands continues to be soft, albeit there are pockets of growth. Heavy discounting was required to stimulate demand over the key promotional period, with trading down evident as consumers become increasingly frugal. The first rate cut from the RBA is now likely to come in February according to the market, with inflation still trending lower, although progress has been slowed somewhat by services inflation which remains stubborn.

We expect further cautious outlook commentary during the upcoming February reporting season. Expectations don't appear stretched, however we do believe more companies will join the 'second half club' with earnings skews to become more weighted to the back end of the year. The Greencape portfolios remain focussed on highly rated management teams running quality businesses, a combination we expect to deliver through uncertain times.

"The return of America-first trade policies introduces uncertainty into global supply chains and trade relationships that have only recently stabilised. History suggests that trading partners are likely to respond in kind to new tariffs." Joe Zidle, Chief Investment Strategist at Blackstone, 09/01/2025

More information

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This material has been prepared by Greencape Capital Pty Ltd ABN 98 120 328 529 AFSL 303 903 (Greencape), the investment manager of the Greencape High Conviction Fund ARSN 121 326 225 (**Fund**). Fidante Partners Limited ABN 94 002 835 592 AFSL 234 668 (**Fidante Partners**) is a member of the Challenger Limited group of companies (Challenger Group) and is the responsible entity of the Fund. Other than information which is identified as sourced from Fidante in relation to the Fund, Fidante is not responsible for the information in this material, including any statements of opinion. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable to your circumstances. The Fund's Target Market Determination and Product Disclosure Statement (PDS) available at www.fidante.com should be considered before making a decision about whether to buy or hold units in the Fund. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. Past performance is not a reliable indicator of future performance. Greencape and Fidante Partners have entered into arrangements in connection with the distribution and administration of financial products to which this material relates. In connection with those arrangements, Greencape and Fidante Partners may receive remuneration or other benefits in respect of financial services provided by the parties. Investments in the Fund are subject to investment risk, including possible delays in repayment and loss of income or principal invested. Accordingly, the performance, the repayment of capital or any particular rate of return on your investments are not guaranteed by any member of the Challenger Group.