



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 as at 31 March 2026		Top 10 Holdings (alphabetical order)	Key Fund Information	
Financial YTD	-11.9%	Breville	Manager	DS Capital
1 Year (pa)	-2.7%	Dalrymple Bay	Strategy	Long only
3 Years (pa)	7.5%	HUB24	Liquidity	Monthly
5 Years (pa)	3.8%	Intercontinental Exchange (US)	APIR Code	DSC001
7 Years (pa)	8.2%	Macquarie Technology	Investors	Wholesale
10 Years (pa)	8.3%	Netwealth	Distribution	Annually
Since inception (pa)	11.1%	NEXTDC	Inception	1/01/2013
<small>Notes: (1) Inception date is 1 January 2013. (2) Returns are after all fees and assumes reinvestment of net distributions. (3) Data does not include franking credits distributed to unitholders.</small>		Pacific Current Group	Minimum	\$250,000
		Resimac	AFSL	427283
		SGH Group	Contact	dscapital.com.au

The crisis in the Middle East saw stock markets fall heavily in March as the oil price surged on the closure of the crucial Straits of Hormuz through which 20% of global oil is shipped. While the oil price was the ‘headline’ challenge, the interruption in the supply of commodities such as energy and fertiliser was damaging to the ‘just in time’ nature of the global supply chain. This added to inflationary concerns that had already re-emerged in Australia causing the Reserve Bank to raise official rates in both February and March.

AI disruption concerns also weighed on markets as investors debated the impact on existing business models. While the current earnings of many existing businesses remain stable, the competitive positions have been reassessed, and investors are now discounting future cash flows due to the longer-term uncertainty. This has pressured valuations (and share prices) across several of our holdings and impacted the portfolio. While we continue to develop our thinking in the rapidly evolving environment, we feel businesses servicing AI players, businesses with proprietary data and those in heavily regulated sectors are better placed than business models that simply offer a handy user interface to access publicly available information. Among those impacted were **NEXTDC**, **Macquarie Technology**, **HUB24**, **Netwealth** and **Zip** that are all discussed below.

Our preferred exposures to AI continue to be through data centre groups, **NEXTDC** and **Macquarie Technology** and note that as at the time of writing, NEXTDC has made significant progress in addressing the financing needed to expand its capacity and meet surging demand.

SGH Group reported a resilient half year result. Boral was the highlight delivering record earnings on improved margins. WesTrac was flat with higher services revenues offsetting a normalisation in equipment sales. Coates continued to be impacted by a weak Victorian construction market. Notably, the Steel Dynamics/SGH consortium submitted a revised bid for BlueScope Steel which we hope will succeed given SGH’s record of capital allocation.

Both wealth management platforms **HUB24** and **Netwealth** delivered outstanding half-year results that demonstrated continuing structural tailwinds driving this sector. Both HUB24 and Netwealth recorded strong net fund inflows and earnings growth of 23% and 35% respectively.

Long term portfolio holding, **Resimac** delivered a strong half-year result, nearly doubling its normalized NPAT to \$29.6 million and grew assets under management by 11%. This performance, bolstered by the Westpac auto loan acquisition and rising originations, allowed management to signal confidence through a special dividend.

Zip's half year result was not well received by the market resulting in a share price fall of circa 35%. This had an outsized impact on the portfolio. While the result itself was only a slight miss to expectations, the focus was on the level of bad debts in the US business which is ZIP's main growth driver. ZIP explained it as almost entirely related to the roll out of its new 'Pay in 8' product rather than a deterioration in US conditions across its US loan book. ZIP's assurances that it has slowed the roll out of this product was not enough to assuage the markets fears. While it may take a few months to see the effect of management's action, we were comforted that the problem was being addressed.

Outlook

Near-term stock market performance will be influenced by moves toward resolving the Middle East crisis and the restoration of global trade routes. While this would ease inflationary stress (that was already climbing prior to the current crisis), we expect that some of the supply chain interruptions will take time to work through, resulting in added inflationary pressure and higher interest rates. Embedded inflation remains our key concern.

We continue to believe that AI will profoundly impact the economy and society. We expect investors will move from pricing AI scenarios of widespread disruption and economic destruction to more nuanced approaches in assessing the winners and losers. We remain open-minded but cautious given the rapidly unfolding and uncertain landscape.

In terms of portfolio positioning, we remind our investors that we are focused on capital preservation. Our experience tells us that while the uncertain path out of a crisis creates short-term volatility, markets historically recover once resolutions become clearer. Consequently, we chose to stay invested throughout this period, which impacts short term performance but have also selectively added some investments to capitalise on the expected recovery.

We estimate that our portfolio is currently trading on a weighted average 1 year forward PE of about 21x with earnings growth of around 17-18% for the year. Additionally, we are expecting earnings to continue to grow at close to 18% per annum over the next 3 years. This leaves the portfolio well positioned for attractive returns.

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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