Greencape Broadcap Fund

Quarterly report - June 2019

Performance #	Quarter %	1 year %	3 years % p.a.	5 years % p.a.	10 years % p.a.	Inception % p.a.
Fund return	7.71	7.40	13.37	9.89	11.82	9.74
Growth return	4.41	2.22	5.63	2.32	4.91	3.19
Distribution return	3.30	5.18	7.73	7.57	6.91	6.54
S&P/ASX 300 Accumulation Index	8.05	11.42	12.86	8.89	9.92	6.66
Active return^	-0.33	-4.01	0.51	1.00	1.91	3.08

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'.

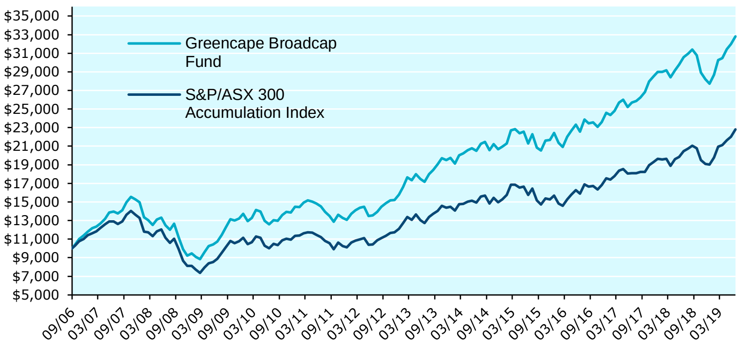
Distribution frequency

Quarterly

Suggested minimum investment timeframe

At least five years

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

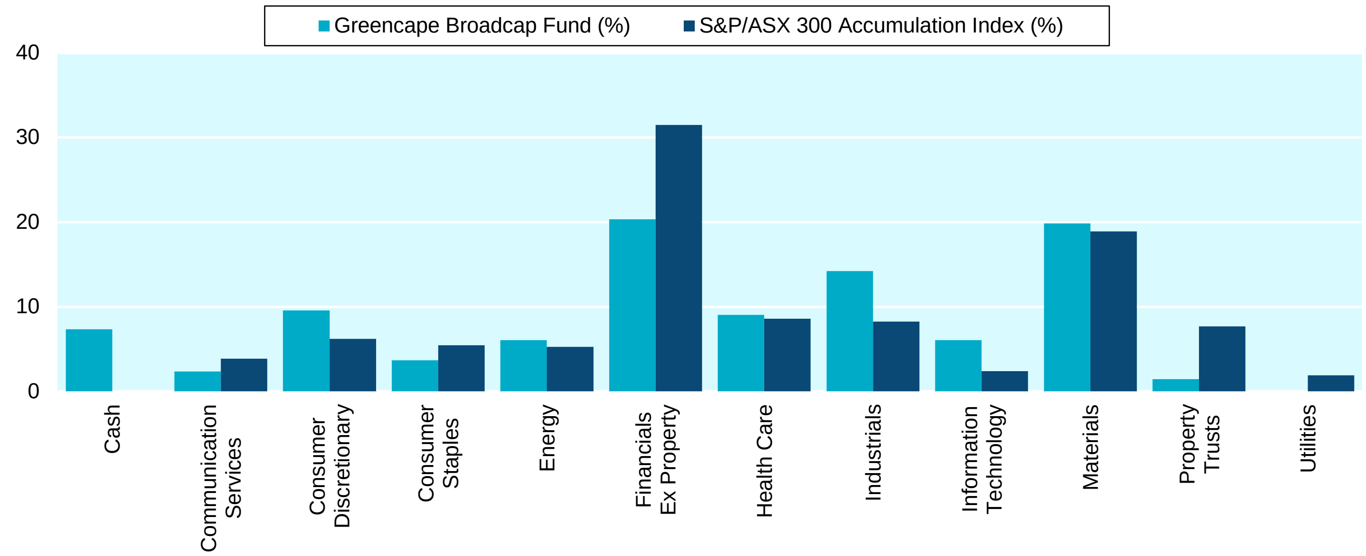


Asset allocation	Actual %	Range %
Security	92.67	85-100
Cash	7.33	0-15

Fund facts	
Inception date	11 September 2006
APIR code	HOW0034AU

Fees	
Entry fee	Nil
2017-2018 ICR	1.53%
Management fee	0.95% 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 300 Accumulation Index).
Buy/sell spread	+0.20% / -0.20%

Sector exposure as at 30 June 2019



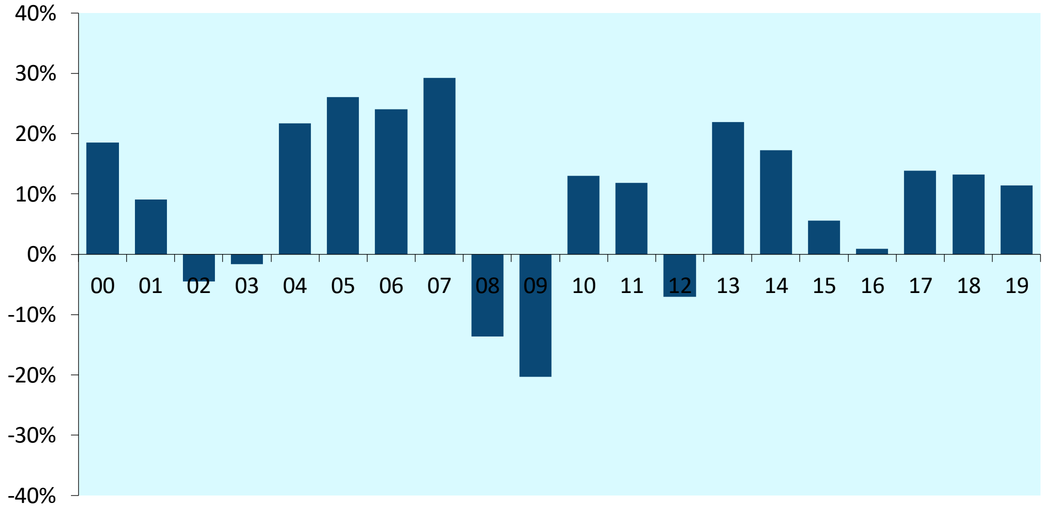
Fund performance summary

The S&P/ASX 300 Accumulation Index returned +8.05% for the quarter. The fund underperformed the market and delivered a +7.71% return over the quarter.

Market overview

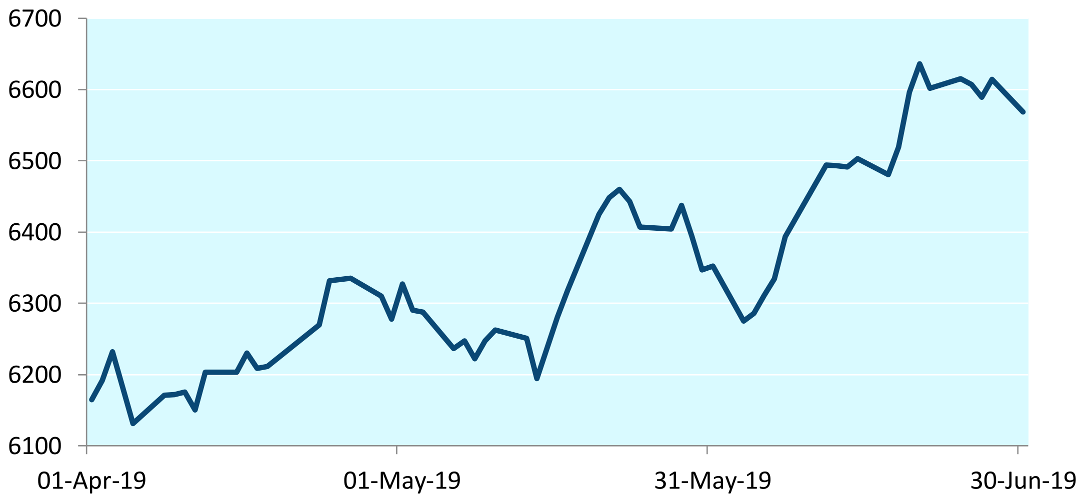
A confluence of supportive factors worked to benefit the local market during the quarter, with the index almost eclipsing its record high set more than a decade ago. Elsewhere, the trade war tensions between the world's two largest economies continued to simmer without a definitive outcome.

S&P/ASX 300 Accumulation Index Financial Year Returns Since 2000



Source: Iress

S&P/ASX 300 Index



Source: Iress

"It's a legitimate question to ask how effective further monetary easing would be." Philip Lowe, RBA Governor, 24/06/2019

A weaker than expected Consumer Price Index (CPI) print for the first quarter, where the CPI rose 1.2% year on year compared to consensus estimates of 1.6% provided the ammunition for the RBA to finally move from the target cash rate last changed in 2016. The RBA cut rates by 25 basis points in the June meeting, and again post period end in the July meeting to now sit at a fresh record low of 1%. The market now expects the RBA to keep rates on hold for the remainder of the calendar year.

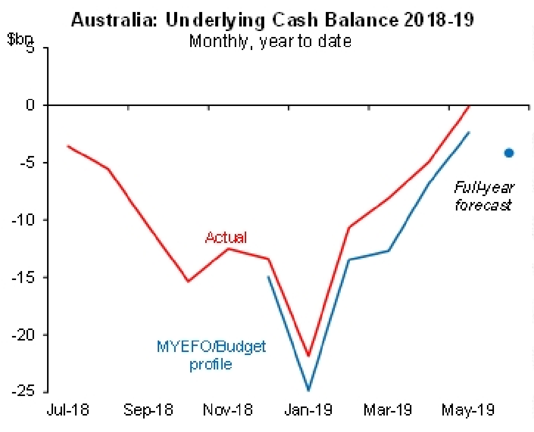
The surprise Federal Election result came as a positive to markets, with the index rallying strongly on the Monday following the result. The Coalition's promise to deliver $7bn of tax cuts was particularly well received, with the policy predicted to boost spending by up to 1.5% in the third quarter. Also working in the market's favour was the proposal announced by APRA to ease mortgage lending requirements by removing the 7% interest rate serviceability floor.

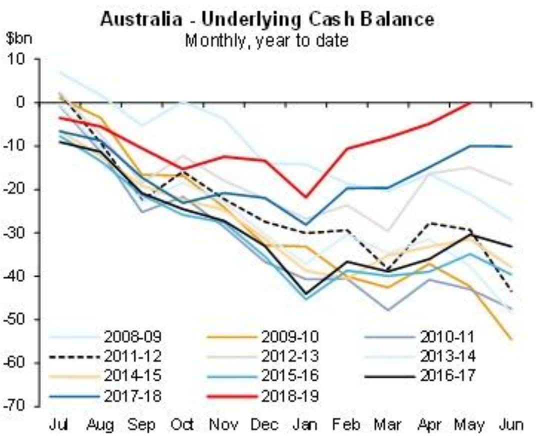
Australian bond yields fell to a record low during the period, with the Australian 10-year rate at one stage falling below 1.3% before staging a minor late June recovery.

Australian 10-Year Bond Yield

Source: Iress

Among other factors, the higher iron ore price has markedly improved the fiscal situation for the federal government, which provides an extra layer of cushioning in the event the economy slows and additional stimulus is required. At current levels (assuming the currency is also stable), the current iron ore price adds $25bn annually to the budget bottom line.





Source: Macquarie

After raising rates on several occasions last year, the rhetoric coming out of the Fed turned decidedly dovish during the quarter with the market now factoring in a 100% chance of a rate cut at the next meeting in July. Meanwhile, an escalation in trade tensions between the US and China saw global equity indexes sell off in May before staging yet another miraculous recovery as concerns were swiftly traded for optimism. In the UK, Prime Minister Teresa May finally fell on her sword and resigned her position after failing yet again to deliver a Brexit deal. Her likely successors are 'Brexiteers', which suggests we will (hopefully) see an outcome to the saga by the end of the calendar year.

"S&P 500 hits new record high. Up 19% for the year. Congratulations!" Donald Trump, President of the United States of America, 03/07/2019

	QTR	YR
ASX300 Accumulation Index	8.0%	11.4%
Best Performing Sectors		
Telecom Services	12.2%	39.0%
Healthcare	11.5%	13.9%
Financials ex Property Trusts	10.8%	8.2%
Worst Performing Sectors		
Energy	-0.2%	-6.1%
Utilities	1.9%	6.0%
Property Trusts	4.1%	19.4%

Source: IRESS

"How good is Australia! How good are Australians!" Scott Morrison, Prime Minister of Australia, 18/05/2019

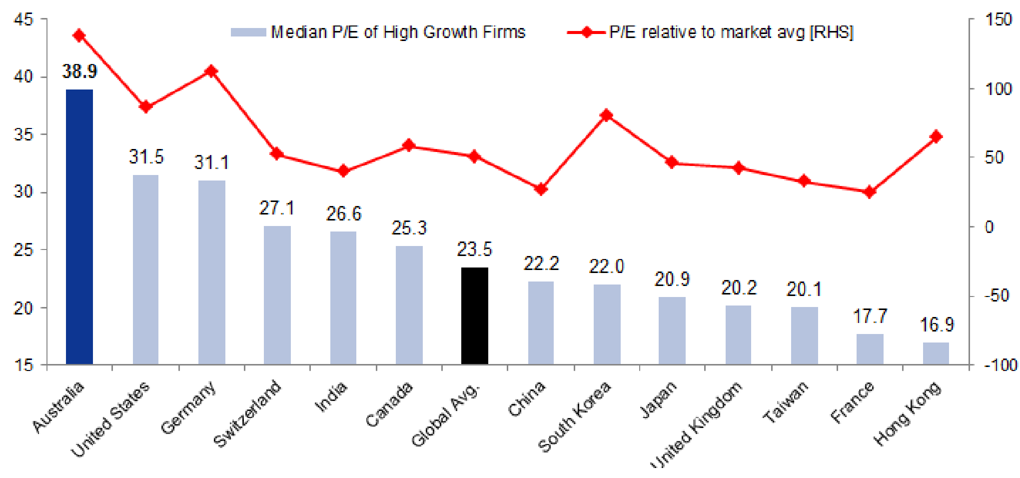
The fall in local bond yields coupled with a lower AUD saw a weight of money shift into interest rate sensitive equities, many which trade at all-time high share prices and record low yields and/or capitalisation rates. Another evident theme was the continuation of high multiple 'growth' style names reaping the benefits of lower interest rates. The trend of 'expensive' stocks becoming more expensive and 'value' stocks continuing to lag has pushed the ASX200 Industrials Index to a 12-month forward Price to Earnings (P/E) Ratio over 24x.

ASX200 Industrials 12 Month Forward P/E

Source: Bloomberg

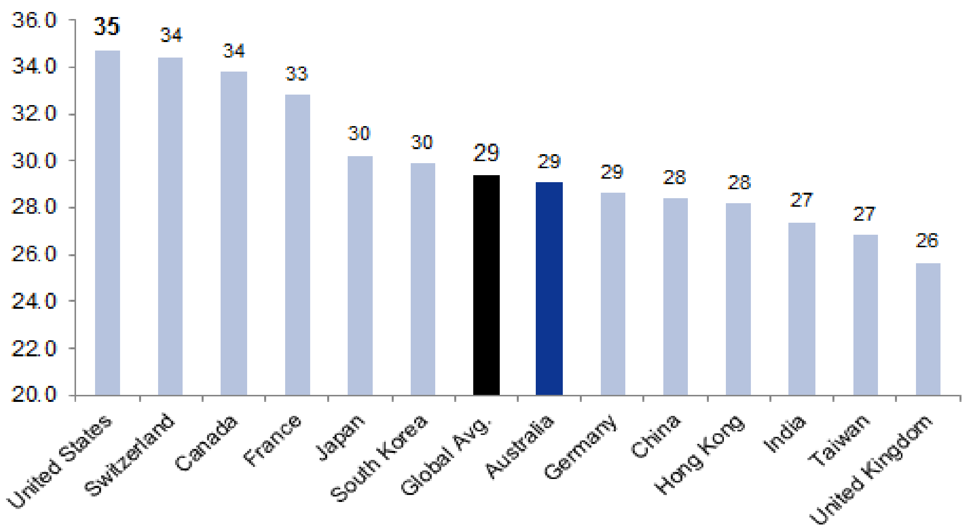
Recent research from Goldman Sachs indicates that Australia now has the most expensive 'growth' stocks in the world, trading at a median P/E of 39x and near 150% premium to the market average despite offering mid-range earnings growth relative to other countries.

12mth forward P/E of stocks forecast to grow EPS by >20% p.a. over FY1 to FY3



Source: Goldman Sachs

Median EPS Growth rate (FY3/FY1) for 'High Growth' stocks across global markets



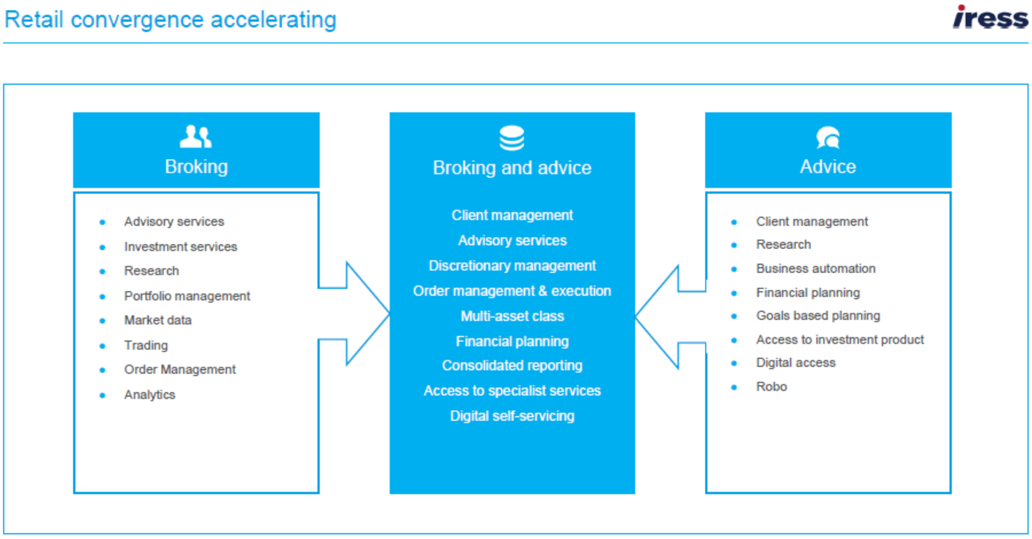
Source: Goldman Sachs

Iress

Iress is an independent financial technology provider of financial markets related software (trading and market data) as well as wealth management software for financial planners across Australia, the UK, South Africa and Canada. Its main operations are in Australia and the UK, and a core attribute of the business is that 90% of revenues are recurring in nature.

Whilst in aggregate, Australasia Financial Markets (flat growth in FY18) and Australian Wealth Management (9% growth in FY18) generate over 50% of Iress's revenues, the UK Wealth Management segment, which is over 25% of group revenues is currently growing at 13% p.a. Operating leverage takes its direct contribution to 16% growth. This UK segment is likely to be a key contributor to the Group's overall growth going forward and is worth exploring further.

The Australian wealth management industry is broadly seen as several years ahead of the UK market, and Iress's X-Plan software has the dominant share in Australia, helping financial planners manage their practice, drive efficiencies, and adhere to regulation. With the UK undergoing various rounds of regulatory change, there's been an overwhelming requirement for firms to use technology solutions in order to manage and automate workflow, improve productivity and manage the regulatory burden.



Source: Iress

Iress' acquisition of Avelo in 2013 provided an entry point into the UK financial planning market, and a pathway to migrate users to X-Plan (once the software was made appropriate for the UK market nuances). The UK financial planning market since 2013 has also experienced material consolidation as a result of the changes to the industry, with X-Plan delivering a highly scalable, modular, and efficient technology solution for large planner groups looking to acquire smaller players. Furthermore, the UK market also evolved over this period with the amalgamation of both financial planning and investment management practices under the one banner. Strategically, Iress increased its software capability in the investment management area via acquisitions which ultimately has added to the modules of X-Plan in the UK. More recently, they have also acquired a data sourcing capability. The outcome of these investments is a feature rich, highly modular software platform that allows clients to run consistent systems, increased quality of service and support scale across an evolving UK wealth landscape.

The systems that Iress implements are complex. Clients do not swap systems out easily, and the data migration process is demanding. Once implemented, X-plan becomes the core software package that runs the business, and for some of the larger players, it has become a highly strategic part of their continued consolidation growth plans. This lends itself to sticky, recurring revenue streams and over time, operating leverage as software investments and upgrades are implemented across a larger group of clients.

We've followed the company's UK progress closely for several years. This has involved meeting with various clients throughout their X-Plan journey, talking to non-clients and competitors in the space as well as the Iress UK Management team in order to better understand the industry, and opportunity for Iress as they continue to execute on their UK plans. We remain encouraged by both the longer-term growth prospects and the current pacing of the business. We also regard the executive management team led by Andrew Walsh highly. Our view is that operating leverage is likely to continue as X-Plan increases both its share of the market and grows the market overall. This is likely to come via conversions of legacy Avelo users, executing on a pipeline of new client wins, existing clients using additional modules, and larger existing clients consolidating smaller clients who currently use other, less capable software. Should this play out as we anticipate, operating margins should continue to expand, and earnings growth is likely to see incremental upgrades over time.

From a valuation perspective, we note that Iress doesn't have similar peers in the Australian market, however globally businesses with similar attributes in this space either trade on or have been acquired on multiples that reflect the high quality and resilient nature of cash flows and earnings that Iress generates.

"We are continuing to improve the user experience in the range and depth of products and solutions that we offer… Clients in these times need sophisticated and compliant data analytics and RegTech solutions that we are already providing." Andrew Walsh, CEO of Iress, 20/01/2019

Trip notes

During the quarter we travelled to the US twice, the UK, Europe, China and New Zealand.

US notes

- The US economy continues to track OK without being robust, with no contacts we spoke to expecting any near term macro-economic weakness. Spending on advertising remains strong and there's certainly a growing confidence around the gig economy as well as the extensive growth ahead for businesses leveraged to the 'shift-to-cloud' thematic.

- There is a growing belief that the next evolution of cloud for enterprise will be delivered though a hybrid of cloud, data and Artificial Intelligence. Approximately less than 20% of workloads have moved to the cloud thus far, which indicates how long the runway is for cloud capacity demand.

- Ad buyers are increasingly shifting their ad spending to social media, with Instagram providing the best Return on Investment and hence growing fastest. Specifically, Instagram 'stories' is attracting more spend, with some buyers we spoke to citing their spend on the platform share more than doubling from last year.

China notes

- Whilst Chinese commodity demand is moderating somewhat, supply disruptions (e.g. in Iron Ore) are more than offsetting any weakness with respect to commodity prices. There was no clear picture to be gleaned around inventory levels.

- Electric Vehicle (EV) demand has been disrupted as China has transitioned from a consumer rebate system to manufacturer double credit system to incentivise EV growth over the next 2 years. At the same time supply has ramped up heavily such that the market is now oversupplied over the next 3 years, which has already caused a step back in processing demand in China.

"The real trade war began 30 years ago, and we lost. This is a bright new Age, the Age of Enlightenment. We don't lose anymore!" Donald Trump, President of the United States of America, 24/05/2019

Outlook

As flagged last quarter, fears of a deep global slowdown have dissipated somewhat which has now been reflected in improved market sentiment. Whilst the trade war has not been resolved, negotiations continue, and rhetoric is sounding incrementally more constructive. The equities market has enjoyed a relief rally, albeit confidence into the longer term appears lacking. We conducted two research trips to the US during quarter and feedback suggests macro demand has slowed but is still growing, with corporates still displaying confidence in their forward plans. Discussions around dividend payout ratios to satisfy demand for income were also prevalent, with corporates now slightly turning the dial towards dividends over share buybacks when it comes to capital management.

In Australia, corporate and consumer sentiment has improved from its previously decaying trajectory. The election of a majority government with the assumed stability that it brings has added to positive corporate sentiment. In particular, the surprise victory by the LNP Coalition has amplified the bounce with a pro-lending, pro-coal and income tax cut agenda. The Reserve Bank of Australia chipping in with back to back rate cuts has also added fuel to the fire. Our observations suggest its far too early to say this suggests a turning point, with only a short bump observed by industrial and retail contacts we have spoken to. We therefore still struggle to see meaningful upside risk to corporate earnings forecasts (except for some commodity producers which we believe is now largely factored into their share prices). Performance of domestic facing stocks will still largely be very stock specific.

We remain cautious on China, with clear consumer slowing evident, but we acknowledge the possibility for stimulus to be undertaken. As for Europe, we have observed a noticeable slowdown of consumption in the West, albeit activity remains stable. The UK also remains stable, despite Brexit concerns.

With such a solid bounce in share prices over the quarter, we have taken some profits. More recently this includes the bank sector in small part. As we have stated before, we remain comfortable backing good management teams deploying capital to generate attractive returns. The scope of good capital allocation from our favoured stocks has increasingly extended to dividend provision.

"Companies that do have better technology, better earnings prospects and the ability to be disrupters rather than disrupted still aren't worth infinity. Thus it's possible for them to become overpriced and dangerous as investments, even as they succeed as businesses." Howard Marks, Chairman of Oaktree Capital, 12/06/2019

More information

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

Fidante Partners Investor Services team on: **13 51 53**

Visit the Greencape website: **www.greencapecapital.com.au**

Email Greencape at: **bdm@greencapecapital.com.au**

Financial advisers

For more information, please contact:

Fidante Partners Adviser Services

Phone: **+61 1800 195 853**

Email: **bdm@fidante.com.au**