Greencape High Conviction Fund

Quarterly report - March 2025

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	-5.78	2.18	5.58	13.37	8.22	8.62	9.28
Growth return	-5.83	-2.59	-2.20	6.11	0.48	1.95	2.60
Distribution return	0.05	4.76	7.78	7.26	7.74	6.67	6.69
S&P/ASX 200 Accumulation Index	-2.80	2.84	5.62	13.24	7.15	7.63	6.83
Active return^	-2.98	-0.66	-0.03	0.13	1.07	0.99	2.45

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'.

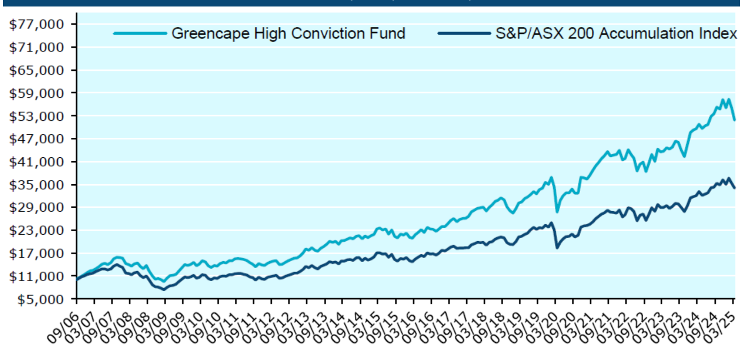
Distribution frequency

Quarterly

Suggested minimum investment timeframe

At least five years

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



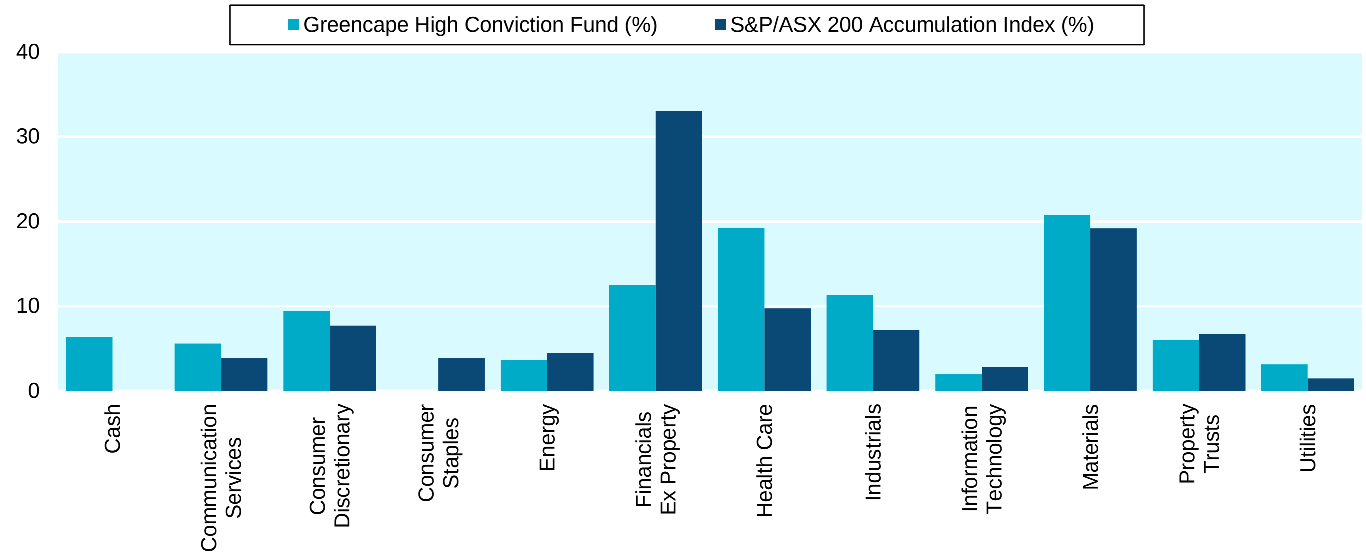
Asset allocation	Actual %	Range %
Security	93.62	85-100
Cash	6.38	0-15

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 March 2025.

Sector exposure as at 31 March 2025



Data Source: Fidante Partners Limited, 31 March 2025.

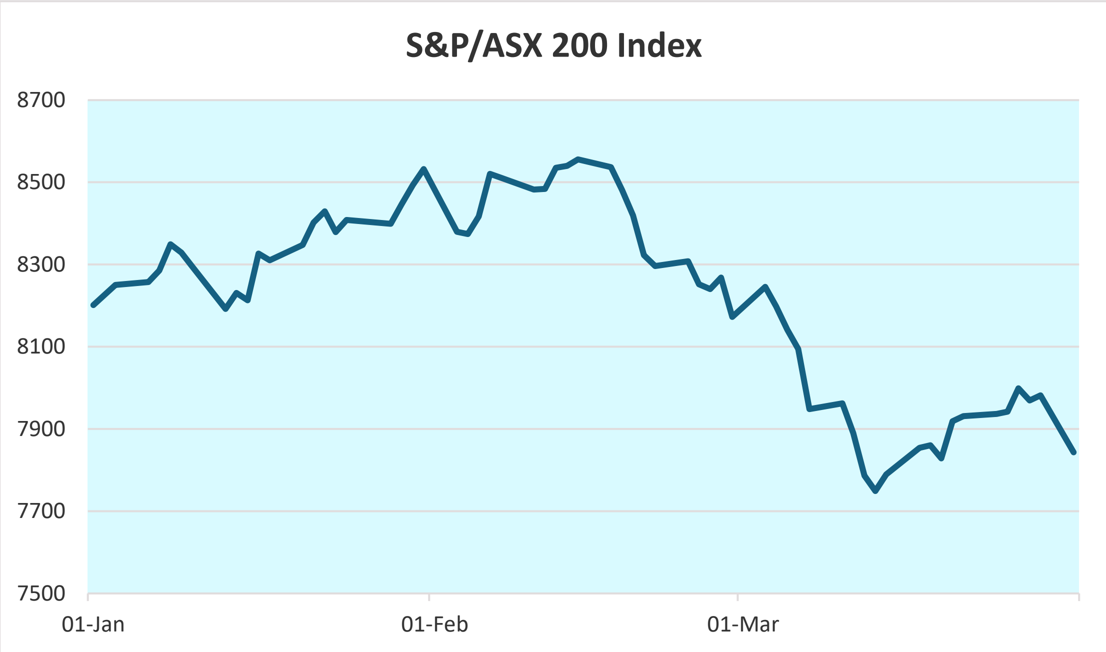
Fund performance summary

The S&P/ASX 200 Accumulation Index returned -2.80% for the quarter. The fund underperformed the market and delivered a -5.78% return over the quarter.

Market overview

The local index retreated during the period as political uncertainty reached fever pitch. Potential tariffs being implemented by the new administration in the US caused widespread consternation, with tariff level uncertainty (including second and third order impacts) weighing on markets. The AI phenomenon also hit a speed bump, with a model release out of China causing investors to question the assumptions which underpinned the rally experienced since the initial release of ChatGPT.

S&P/ASX 200 Index

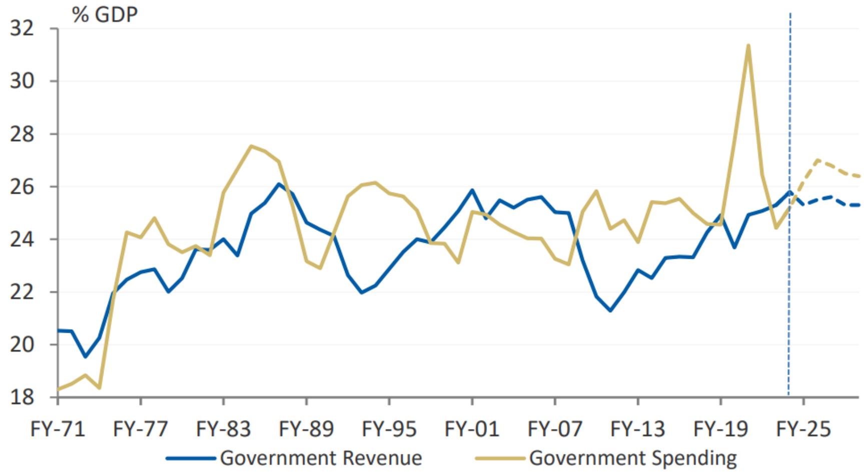


Source: IRESS

The RBA made the first change to the cash rate since November 2023, cutting rates by 25 basis points in February. Whilst the cut was fully priced by the market ahead of the meeting, Governor Bullock's comments suggested there was meaningful debate amongst RBA board members about whether or not to begin the easing cycle. At least one more rate cut is currently fully priced by the market for the May meeting, which will be held two weeks after the Federal election on the 3rd of May. 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).

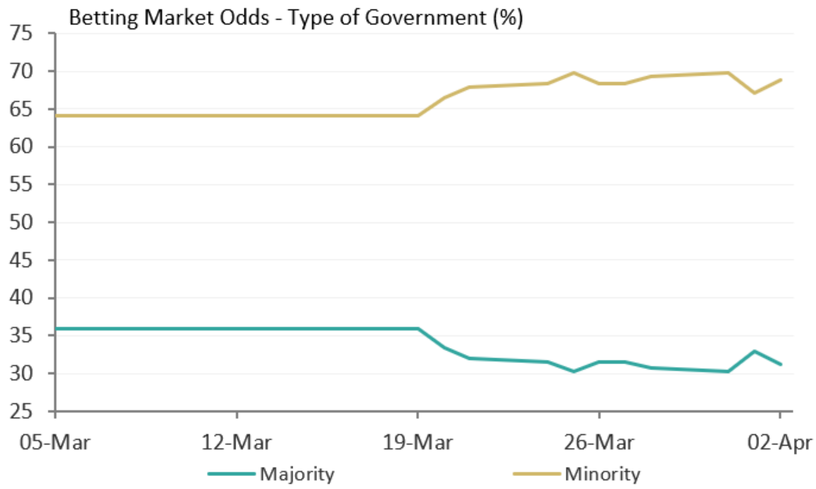
"I'm not an international relations expert, but I think generally, if you look at the direction of world trade policy over the last few years, the direction has been to basically have less free world trade… There's going to be some permanence to these sorts of trade restrictions that we're seeing now." Michelle Bullock, RBA Governor, 01/04/2025

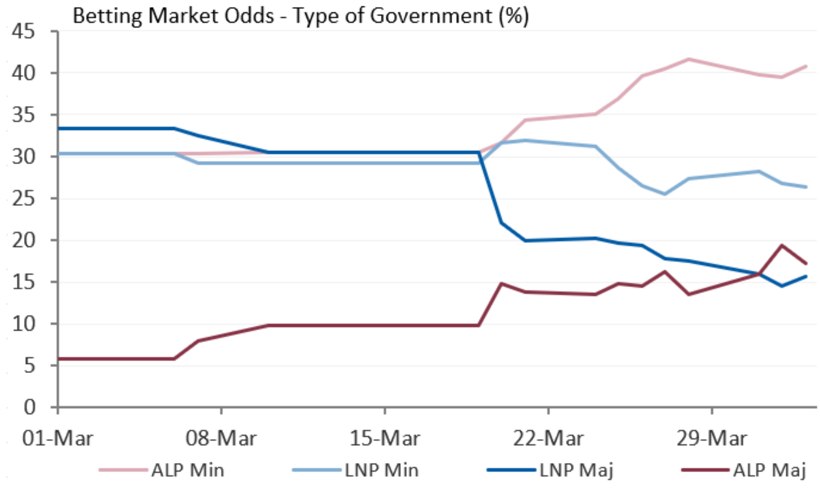
Due to their timing of the upcoming election, the Federal Budget was released early this year. Revenue tailwinds have been mostly spent, with projected deficits largely unchanged. Government spending as a percentage of GDP is forecast to hit the highest level since the mid-1980s (ex-COVID).



Source: Commonwealth Treasury, Morgan Stanley Research

The betting markets are indicating that Australians should brace themselves for 3 years of Minority government, with the ALP most likely to succeed.





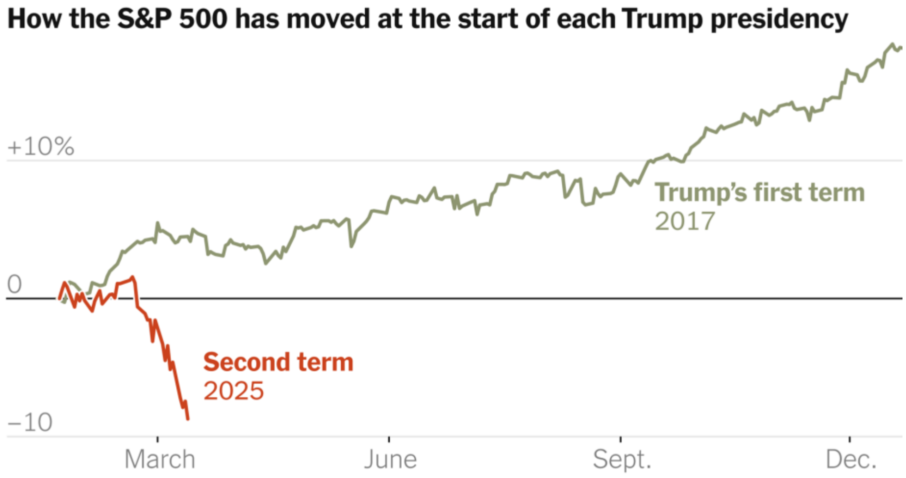
Source: Morgan Stanley, Sportsbet

"Every Australian taxpayer will get a tax cut next year and the year after, to top up the tax cuts which began last July. This will take the first tax rate down to its lowest level in more than half a century." Jim Chalmers, Treasurer of Australia, 25/03/2025

All eyes were on the incoming US administration during the quarter, as investors waited with bated breath as to what tariffs would be implemented post inauguration. Somewhat surprisingly, Trump began with neighbouring countries in Canada and Mexico, before announcing (and increasing) tariffs on China, before then moving on to Steel, Aluminium, Automobiles and auto parts. Post period end the administration announced significantly higher tariffs than previously expected.

The initial performance of the equity market under Trump mark II has been markedly different to that of the first iteration. The consideration for investors from here is whether a 'Trump put' exists, whereby the President is only willing to put up with so much weakness before he steps in to allay the situation.

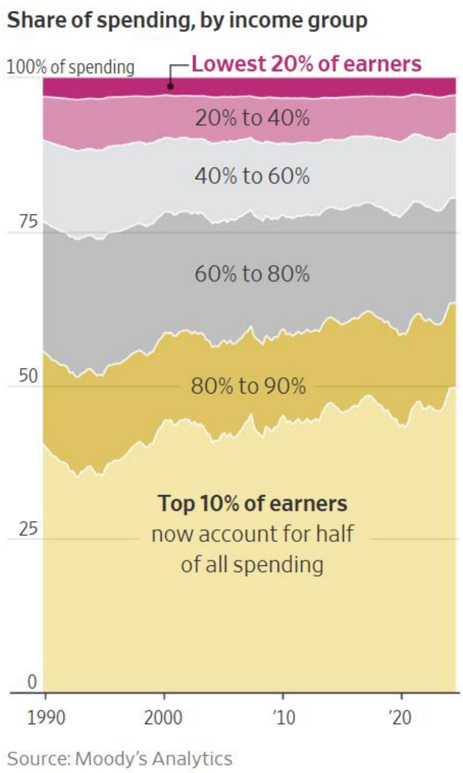
"Tariffs don't cause inflation, they cause success. They cause big success. So, we're going to have great success." Donald Trump, President of the USA, 31/01/2025



Source: The New York Times

"At the end of last year, the attitude was, 'Full on, this is going to be an exceptionally pro-growth agenda, and it will be executed in a clear way.' All of that has gone in reverse." Ed Al-Hussainy, Global Interest-rate Strategist, Columbia Threadneedle Investments, 25/03/2025

The chart below provides some visualisation as to the dichotomy between US consumer cohorts, with the top 10% of income earners now accounting for over 50% of all spending. This provides some context as to why categories such as Travel have been relatively resilient whilst other discretionary categories have softened.



Defensive and domestic earners outperformed during the quarter, as investors sought protection from a potential global trade war and resultant economic slowdown.

	QUARTER	YEAR
ASX200 Accumulation Index	-2.8%	2.8%
Best Performing Sectors		
Industrials	2.6%	11.9%
Utilities	2.2%	16.1%
Telecom	1.5%	6.5%
Worst Performing Sectors		
Information Technology	-17.5%	-0.5%
Healthcare	-9.1%	-5.3%
Property Trusts	-6.8%	-5.4%

Tech was by far the worst performing sector during the quarter, giving back some of the 90% cumulative gain from the past 2 years. The major catalyst was the release of DeepSeek model ‘R1’ which claimed to deliver comparable performance to ChatGPT with a significantly lower cost. This saw not only first order AI stocks such as Nvidia contract sharply, but also other companies in the value chain such as Data Centre operators and even Uranium stocks. The melodrama at Wisetech compounded pain in the sector, with the company announcing that all Independent Directors had resigned from the board due to ‘intractable’ differences with Founder Richard White, who was also appointed Executive Chairman of the company.

Healthcare, typically a defensive sector, also underperformed as concerns grew about potential implications of the ‘MAHA’ (Make America Healthy Again) agenda in the US. Further weighing on sector sentiment was a major trial failure from Opthea, a biopharmaceutical eye-disease treatment developer, whose COAST trial did not meet its primary endpoint.

Offshore Snippets

During the quarter, we made three trips to North America and one to China.

North America observations:

- Uncertainty surrounding tariffs was raised in nearly every meeting, putting corporate America in an effective holding pattern. There’s a clear disconnect between Wall Street and Main Street regarding their impact, with the latter (currently) dismissive of any potential consequences.
- There is broad consensus that the new administration has a limited window before next year’s midterm elections to win over the public. Implementation of the growth agenda is therefore expected in the coming months.
- In certain categories, such as consumer electronics, sales momentum has recently picked up as consumers attempt to front-run potential tariffs. However, it remains unclear whether this pull-forward is substantial enough to trigger a noticeable inventory cycle.
- The recent change in Prime Minister has dramatically altered the Canadian election landscape, giving Mark Carney the momentum in what had seemed like an unwinnable race under Justin Trudeau. In addition, the ‘trade war’ with the U.S. has galvanized the Canadian public, sparking a renewed sense of patriotism.

“Malcolm Turnbull, the former Prime Minister of Australia who was always leading that wonderful country from ‘behind,’ never understood what was going on in China, nor did he have the capacity to do so. I always thought he was a weak and ineffective leader and, obviously, Australian’s agreed with me!!!” Donald Trump, President of the USA, 11/02/2025

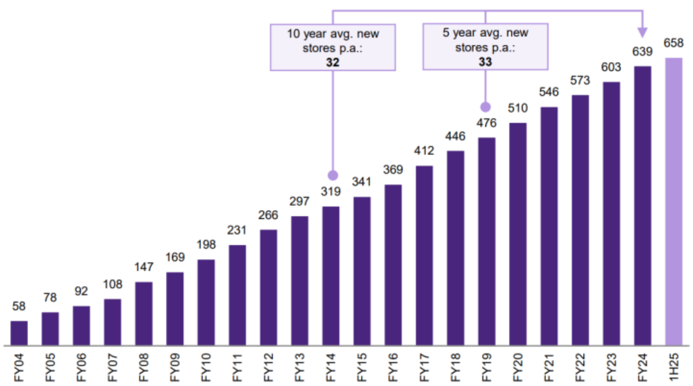
In Ontario, alcohol is sold exclusively by the Liquor Control Board (LCBO), which, due to its monopoly, is one of the largest purchasers of liquor in the world. In wake of the announced tariffs, they have completely removed American wine and spirits from their shelves. This photo is of the Australian wine section which has resultantly been given additional space. Let's hope the Canadians like Yellowtail!

Sigma Healthcare (SIG)

In December 2023, Sigma Healthcare announced a transformational transaction to merge with Chemist Warehouse (CWG), combining one of Australia's major wholesalers with the country's largest retail pharmacy network. Greencape first acquired shares in Sigma during the initial equity raise when the deal was announced, and we have since steadily increased our exposure as our conviction in the business has grown.

Chemist Warehouse traces its origins back to 1972, when brothers Jack and Sam Gance opened their first pharmacy in Melbourne. In 1980, they brought Mario Verrocchi into the partnership. The trio broke away from the Amcal franchise system in 1997, launching the My Chemist brand before eventually opening the first Chemist Warehouse store in 2000. Over the past 25 years, the group has executed exceptionally well, leveraging aggressive discounting, high-volume sales, heavy marketing, and an expansive product range to establish itself as the 'category killer' in the retail pharmacy sector. The business has rapidly grown its store footprint, now boasting over 500 stores across Australia, along with international expansion into New Zealand, Ireland, China, and Dubai.

CW Retail Network evolution (no. of stores)[1,4]



Source: Company Reports

The legacy Sigma business operates across three key segments: Wholesale, Community Pharmacy, and Third-party Logistics (3PL). Its wholesale division is a full-line pharmaceutical distributor and one of four Community Service Obligation (CSO) distributors in Australia. The community pharmacy segment includes well-known retail banners such as Amcal, Discount Drug Stores, and Guardian. The 3PL division provides contract logistics solutions to customers in the pharmacy, medical consumables, and Fast- Moving Consumer Goods (FMCG) sectors.

Whilst the strengths of the Chemist Warehouse business have been widely recognised and well-articulated since the merger announcement, we believe there are several underappreciated factors that will contribute to the combined entity's long-term outperformance.

The 'Chemist Warehouse Way'

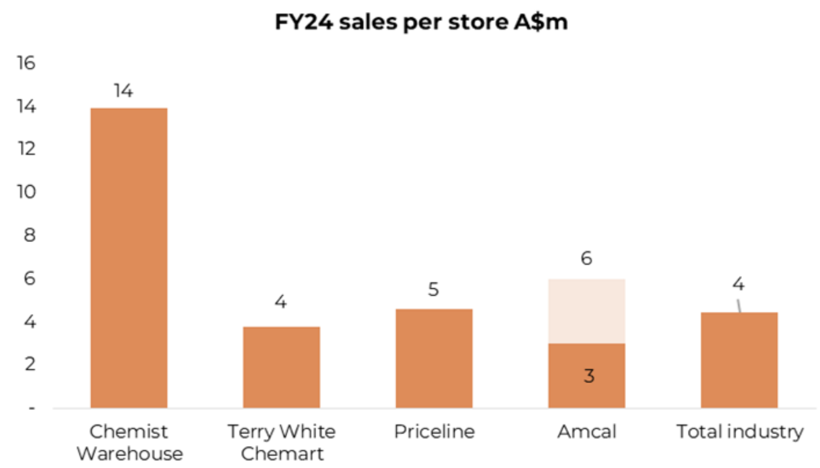
The Chemist Warehouse store ownership model is distinctive as it is shaped by the regulatory framework governing the pharmacy industry. CWG acts as both the franchisor and the wholesale supplier of front-of-store products to franchisees, who are typically required to be registered pharmacists. In addition, CWG provides marketing, leasing, and a suite of other value-added services to support franchisees.

The strength of any franchise system hinges on an equitable and sustainable economic split among participants, as well as strong internal demand for new franchise opportunities. Chemist Warehouse sources its franchisees internally, typically from a pool of graduate pharmacists who have progressed through the system. The training program is rigorous, with prospective franchisees required to learn the 'Chemist Warehouse Way' and work their way up through the organisation (often over many years) before becoming eligible to operate their own store. The closest domestic comparison we found is McDonald's, a franchise system famously difficult to break into. Our analysis of franchise economics indicates that operators can earn substantial income even from a single store, which aligns with our observations of consistently strong internal demand for new locations.

A recurring theme in our discussions with individuals close to CWG, including former franchisees, was the central importance of *compliance*. Whilst franchisees are not technically obligated to purchase stock from CWG, they are strongly incentivised to do so. These incentives extend beyond procurement, underpinning the broader philosophy of consistent in-store execution. Head office provides directives on pricing, product range, stock weightings, and merchandising with which is closely monitored via an extensive audit program. As a result of these strict operational standards, customers know what to expect when they enter a Chemist Warehouse store.

"We see the benefit of working with Sigma… They bring expertise in warehousing, and we bring expertise in retail. Together, we can expand much faster." Jack Gance, Co-Founder of CWG, 05/12/2024

We believe this level of operational discipline is unmatched by other pharmacy networks, positioning CWG to continue gaining market share over time. As per the table below shows, CWG stores are much more productive than the industry average.



Source: Barrenjoey

This operational consistency benefits not only the customer but also the supplier base. For instance, suppliers investing in promotional campaigns with CWG can be confident in how those promotions will be executed at the store level, something that is often inconsistent across other retailers, including the major supermarkets. CWG's strong compliance and in-store execution has been effective in encouraging suppliers to increase their investment, as the platform consistently delivers superior returns on marketing and trade spend relative to other advertising mediums.

CWG also operates a highly effective retail media arm, encompassing in-store advertising, digital platforms, and broadcast media. While this division has been a significant value driver for CWG itself, its scale, efficiency, and alignment with best-in-class execution also create meaningful value for suppliers. We are aware of multiple instances where CWG has aggressively backed emerging brands (often from a standing start) helping them scale from virtually no sales to tens of millions of dollars in a relatively short period. In several of these cases, CWG has taken equity stakes in the brands, allowing it to share in the value creation it helps unlock.

Synergies

Whilst not a standalone reason to support the transaction, we believe there is meaningful upside potential from merger-related synergies. The company has guided to $60 million in annual synergies, expected to be realised by the end of the fourth full year post-implementation. This equates to less than 1% of combined costs, which at a high level appears conservative.

Importantly, and understandably given the ongoing Australian Competition & Consumer Commission (ACCC) process, the company has not included any procurement synergies in its guidance. Prior to transitioning its wholesale supply contract to Sigma, CWG procured through three primary channels: pharmaceuticals via Symbion, front-of-store FMCG products via Sigma, and direct sourcing. The merger effectively consolidates these into a single, more direct procurement channel.

While it is difficult to precisely quantify the potential procurement synergies, we believe they could be material. It remains to be seen whether these benefits will flow through to operating profit or be reinvested into pricing, and thereby driving higher gross profit dollars through increased volume. Regardless of the allocation, we believe there is clear scope for upside to the currently guided synergy figure over time.

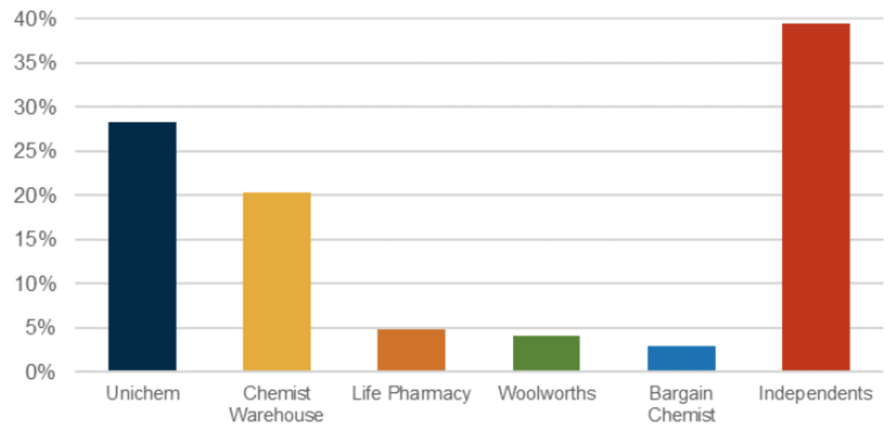
"The power of the grind and that never give up attitude is real. We are on a 100-year journey, and we are about 40 years into it." Mario Verrocchi, Co-Founder of CWG, 13/02/2025

International

There is a healthy degree of market scepticism regarding CWG's ability to consistently expand its store footprint offshore. However, we view the New Zealand rollout as a strong blueprint for what successful execution looks like when CWG delivers to plan.

CWG entered the New Zealand market in 2017 and has since rapidly expanded to over 55 stores. The key to this success was replicating the same proven formula that drove significant market share gains in Australia: aggressive discounting, large-format stores with strong inventory levels, and heavy marketing investment. The New Zealand pharmacy market, dominated by high-priced independents, was particularly ripe for disruption. CWG entered with prices often up to 50% lower and backed this with bold advertising campaigns featuring its trademark slogans, such as "Stop Paying Too Much!!!"

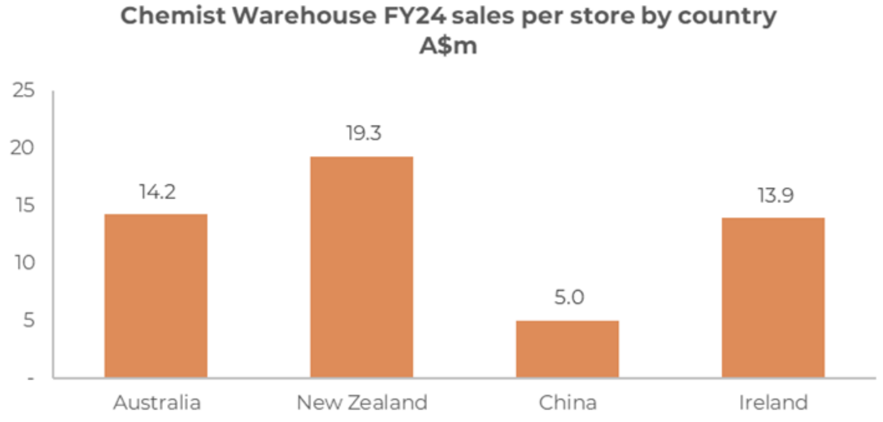
NZ Retail Pharmacy Market Share



Source: Ord Minnett

The strategy has proven effective, with CWG capturing significant market share to become the clear number two player in New Zealand behind Unichem, which operates over 270 stores. As a testament to the strength of the model, average sales per store in New Zealand exceed AUD $20 million, meaningfully above the average for Australian stores.

Early signs in Ireland are similarly encouraging, with sales per store tracking near the Australian benchmark. While CWG is still in the early stages of its expansion in Ireland (currently ranking around sixth in market position), continued success could eventually provide the confidence needed to enter large adjacent markets such as the UK or Continental Europe.



Source: Barrenjoey

Whilst we caution against fully extrapolating New Zealand's success to other geographies, we believe it serves as compelling evidence that CWG can execute effectively in offshore markets.

Valuation

The most common pushback from the market is the company's current valuation, given the high near-term earnings multiple at which the stock trades. While it may appear expensive on the surface, our view is that the earnings denominator currently assumed by the market has room for upward revision, driven by continued sales momentum and the realisation of greater synergies from the merger.

On the sustainability of the multiple, we believe that if sales momentum continues, the domestic store rollout pace is maintained, and only the guided level of synergies is delivered, the current valuation can be justified. We draw parallels with businesses like JB Hi-Fi and Chipotle, where successful domestic expansion and sustained sales growth supported strong long-term earnings and share price performance despite trading at seemingly elevated multiples throughout their listed history.

Where we see meaningful upside to the current share price is in a scenario where CWG successfully executes offshore expansion whilst also unlocking synergies above current expectations. Whilst this outcome is not guaranteed, we believe the odds are positively skewed given the strong track record of execution from what we believe is an outstanding management team.

Outlook

After inheriting what was generally accepted as a strong US economy, the new administration's attempt to address perceived trade imbalances via broad based tariffs has left global markets highly uncertain and reactive. As the administration implemented its agenda, the animal spirits post US election proved short lived, turning quickly towards broad concern around the inflationary impact of tariffs and the negative consequences for global growth.

Our channel checks in the US suggest a slowdown is occurring as management teams find it difficult to invest given the heightened level of uncertainty. We expect upcoming US economic data points to further highlight headwinds in the US economy, which may see GDP growth skewed to the downside as the year progresses. With that said, the unpredictable nature and strength of follow through with respect to US policy means potential economic and market outcomes remain as wide as ever.

As markets work through the consequences of blunt US tariffs, China's response has been noticeable. On the ground sentiment and confidence has improved, with the Government more willing to support the economy with a bias towards stimulating consumption (compared to prior efforts focussed on investment and construction). This support appears to extend into the private sector which underpins much of the Chinese economy. Regarding Europe, our observation is that they have benefited from a combination of waning US exceptionalism and a tilt towards a pro-growth agenda as its members come to terms with what a Trump Presidency means for their respective economies and regional security.

In Australia, our company touch points suggest demand remains soft, with a cost conscious consumer evident. Spending has been underpinned by continued low unemployment levels, the wealth effect of solid house prices, positive wage growth and expansionary fiscal policy. By leaving the cash rate unchanged at the most recent (April) meeting, the RBA is likely signalling a more measured reduction in rates, balancing the risk of a stickier domestic inflation trajectory against the backdrop of heightened global growth uncertainty.

We expect cautious outlook commentaries during the upcoming conference and reporting seasons. Whilst expectations and valuations have reduced, the ramifications of unprecedented levels of uncertainty ultimately playing out in near term earnings risks remains front of mind. During these periods, Greencape retains portfolio construction flexibility via the use of tail positions to manage both risks and opportunities. The Greencape portfolio remains focussed on bottom up fundamentals combined with highly rated management teams that allocate capital well through cycles, a combination that typically rewards shareholders over time.

"What started out as a cooling effect that impacted M&A and Capex has turned into a growth shock that will now have broader implications. It is very well fixing a problem…. but you don't solve broken arms by cutting off limbs." Bobby Molavi, Partner at Goldman Sachs, 04/04/2025

More information

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

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