

SUMMARY

- HMC Capital Partners Fund 1 (the “Fund”) reported a Net Asset Value (NAV) of \$1.4512/unit at the end of June
- The Fund generated a 24.1% return for the 2024 financial year, well above the S&P/ASX 300 accumulation index (+11.9%)
- Australian equities and bonds sold off in the June quarter with inflation surprising to the upside in May. Rate cut expectations have pushed out and several economists are now expecting a rate hike in Aug-24.
- In contrast, US economic conditions (which typically lead Australia by 6-12 months) improved over the quarter. Core inflation continues to ease, supporting the case for a first rate cut in Sep-24
- The Fund disclosed its investments in GrainCorp and Baby Bunting during the quarter. We are excited by the value creation opportunity in both companies and have already started engaging with the respective boards and management teams
- Lendlease announced a major strategy update during the quarter, a significant step in the right direction in our view – discussed in further detail below

Key Fund Statistics¹

NAV	\$1.4512 / unit
Entry price	\$1.4556 / unit
Exit price	\$1.4469 / unit
Inception Date	31 August 2022
Status	Open for investment
Management Fee	1.00% of NAV
Performance Fee	20% of returns in excess of a hurdle return of 7% per annum of NAV, subject to a high-water mark paid annually

Fund Performance – 30 June 2024¹

Returns (Net) (%)	Fund
1 month	(0.6%)
3 months	(6.5%)
6 months	13.9%
12 months	24.1%
Since inception (annualised)	22.5%
Since inception (aggregate)	45.1%

Market Commentary and Outlook

Diverging interest rate outlook

We saw divergence in economic data in Australia and US during the quarter. The US macro environment remains conducive for the Federal Reserve to commence rate cuts in Sep-24 with the market pricing in ~100bps of easing by the end of 2025. Notably, several major central banks implemented rate cuts during the quarter.

The short-term outlook in Australia is less certain with inflationary pressures picking up in May-24 notwithstanding clear evidence of a slowing in the real economy. This is also evidenced by the recent spike in Australian 10-year Government bond yields.

We are looking through the short-term noise and remain confident that inflation will continue to normalise on a 12-

Australian Government 10-year bond yields (%)



Source: Bloomberg as at 30 June 2024

¹ Entry and Exit prices reflect the Net Unit Value as at 30 June 2024, adjusted by the buy-sell spread (currently 0.30%).

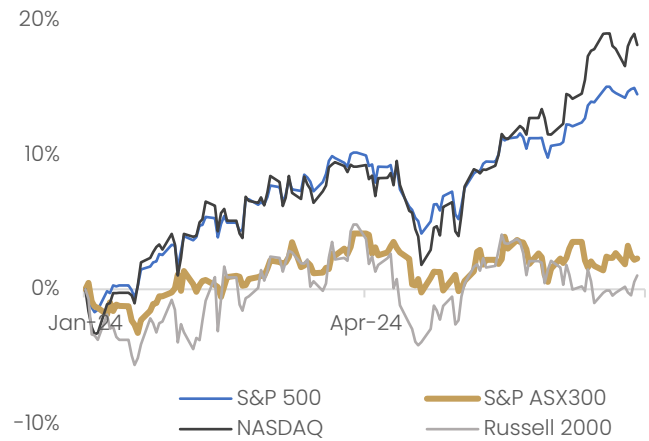
month view. Accordingly, we expect interest rates to trend lower on this time frame.

Global equity markets continue to climb

The S&P 500 continues its rise to record highs, having returned 14.5% in the year to date, once again driven by the ‘Magnificent 7’ tech giants which now comprise +30% of the S&P 500 index weight. However, these gains have not been shared evenly across the market, as evidenced by the Russell 2000 Index returning 1.0% in the year to date.

Similarly, domestic returns have lagged with the S&P ASX 300 Index returning only 2.3% in the year to date despite hitting record highs during quarter. We believe the market remains alert to the risk of earnings growth underperformance and the impact of tighter than expected monetary policy in the short term.

Year-to-date index returns (%)



Source: Bloomberg as at 30 June 2024

What does this mean for the Fund?

Irrespective of overall market uncertainty, the Fund remains firmly focused on delivering returns through adding value to our existing portfolio companies. Importantly, we continue to identify opportunities where companies are trading below long-term fundamental value across a range of sectors.

The Fund has a clearly identified runway for further upside in each our holdings through a range of short-to-medium catalysts that we will continue to assist our investee companies to deliver.

Key investments update

The Investment Team has continued to be actively engaged across the portfolio, with positive progress at all of our portfolio companies during the quarter.

GrainCorp

In April the Fund was pleased to disclose its fourth investment, having accumulated a ~5% shareholding in GrainCorp. As previously stated, we believe equity markets are failing to appropriately value the critical port infrastructure under GrainCorp’s control, and there may be opportunities to realise greater value from the infrastructure assets via increased utilisation. We also believe GrainCorp is uniquely placed to play a critical role in the nascent biofuels refining supply chain.

In May GrainCorp reported its 1H FY24 results, raising its average through-the-cycle EBITDA to \$320m and ending the period with an exceptionally strong balance sheet with core cash of \$495m². In June, ABARES released a bullish first estimate for the 2025 winter crop of 27.1Mt – if achieved, this would reflect the fifth largest crop on record. We note that while the ABARES estimate is an early forecast, the significant operating leverage in GrainCorp’s operating model puts the company in good stead to deliver significant earnings growth in FY25 should this bumper crop materialise.

Baby Bunting

The Fund was also pleased to disclose its fifth investment during the quarter, having accumulated a ~12% shareholding in Baby Bunting over recent months.

Baby Bunting is a national baby and maternity goods specialty retailer with +70 stores across Australia and New Zealand. While the company’s performance has been negatively affected over the last twelve months by weaker consumer spending, share price weakness during the quarter provided a window to acquire a meaningful stake in the dominant retailer of the fragmented specialty baby retailing market. We have subsequently engaged constructively with the management regarding the company’s strategy and opportunities to turn around performance.

At an investor day in late June, new CEO Mark Teperson’s presented his plan to stabilise and optimise the business, and position it for growth. The strategic plan centres on three planks, which if delivered would result in meaningful value creation for shareholders. The market reaction to the strategy was positive, with the stock trading up 19% on the day of announcement.

Grow market share	<ul style="list-style-type: none"> • Leverage strength in hard goods and capitalise on significant opportunity in soft goods • Leverage previously unutilised customer data to provide targeted retail experience
Grow EBITDA	<ul style="list-style-type: none"> • Grow gross margin to 40% in FY25 and 42% over the medium term • Targeting 10% EBITDA margin over time • Pursue new revenue streams in owned media
Grow return on invested capital	<ul style="list-style-type: none"> • Optimise property strategy with greater discipline, including progress roll-out of +40 stores • Refresh old-format stores to deliver improved customer experience and drive sales • Growth initiatives to be funded with operating cashflows

While the near term trading conditions for Baby Bunting are likely to remain challenging, we continue to believe the turnaround potential is significant and look forward to continuing our engagement with the business as it executes on the strategic plan.

² Based on GrainCorp disclosure.

Lendlease Group

During the quarter, Lendlease released a major strategy update – arguably the most significant pivot in the company’s recent history. The new strategy will see LLC exit its entire offshore development and construction businesses which have been a significant drag on the overall performance of the company in recent years. The new strategy is decisive and will see LLC release \$2.3bn (or \$3.42/share) of net capital back to the balance sheet for potential capital management, including an already announced \$0.5bn buyback³.

HMC fully supports the strategy which follows significant engagement with the board and management on LLC’s strategic direction over the past 12 months. The strategic reset is aligned with the recommendations set out in our August 2023 white paper.

Our recommendation in August 2023	Included in LLC strategy?	Details
Exit non-core businesses	✓	\$2.8bn of capital release by end FY25, with a further \$1.7bn over FY25-28+
Reset targets	✓	Development targets abandoned
Geographic simplification	✓	Focus on Australia Construction, Development and Investment Management and International Investment Management
Right size cost base	✓	Further \$125m <u>annualised</u> savings
<u>Downweight</u> construction	✓	Exit US and UK construction

The strategy paves the way for significant value creation with LLC’s high ROE Australian business and funds management platform no longer masked by its loss making and capital-intensive offshore assets⁴.

	High ROE Business (Retained)	Low ROE Business (To be Divested)
Return on Equity (%) <i>(FY19-23 average)</i>	+12% <i>(+15% Australia only)</i>	-6%
EBITDA (\$m) <i>(FY19-23 average)</i>	\$588m	-\$380m
Invested Capital (\$m) <i>(1H24)</i>	\$4,400	\$5,800
FUM (\$bn) <i>(1H24)</i>	\$50.2bn	\$0
Net Tangible Assets (\$m) <i>(Proforma)</i>	\$2,054m	\$2,360m
Gearing (%) <i>(proforma)</i>	19%	27%

This high ROE residual business is being valued at only ~\$2.80/share (A\$1.9bn) at today’s share price, assuming non-core business unit can be divested at a 15% discount to its current \$3.42/share NTA⁵

³ Based on Lendlease disclosure. Buyback is subject to completion of the previously announced Communities transaction and target gearing and credit rating being maintained

⁴ Based on Lendlease closing share price as at 30 June 2024, and Lendlease disclosure regarding segment returns and NTA available as at 30 June 2024

While Lendlease traded down 15.9% during the quarter, the Fund retains high conviction in this position and believes the market is looking for evidence of execution before the share price will materially re-rate. We continue to remain highly engaged with the board and management of Lendlease as they execute on the strategy.

Sigma Healthcare

Sigma's share price closed broadly flat during the quarter, recovering quickly after some initial weakness on the back of the ACCC issuing its Statement of Issues regarding the proposed merger between Sigma and Chemist Warehouse Group. The Statement of Issues outlined five areas of potential concern, and the ACCC will now engage further with Sigma and Chemist Warehouse, and consider submissions from interested parties. The Statement of Issues reflects preliminary views on potential issues, and importantly did not include any "red light" issues that are considered likely to be of concern from a competition perspective. The ACCC process is aligned with the Investment Team's expectations for a transaction of this nature, and a final ACCC decision is expected in early September this year.

Ingenia Communities

Ingenia's share price declined 8.6% during the quarter, however continues to trade well above the Fund's entry price. During the quarter the company announced significant board renewal, including the appointment of two non-executive directors in Shane Gannon (also nominated as chair-elect) and Simon Shakesheff. Both directors bring extensive experience in finance and real estate across various industry and executive roles. The Investment Team looks forward to engaging with the newly appointed directors and the remaining Ingenia board to help capitalise on the significant opportunity in Australia's highly attractive land lease sector.

Ingenia also provided a positive trading update during the quarter, noting it is on track to deliver FY24 earnings at the upper end of the guidance range. The trading update also noted newly appointed CEO John Carfi has identified material cost-out opportunities, consistent with the Investment Team's view that there is a significant opportunity to improve segment margins.

A full review of optimisation opportunities across the business are underway and the Fund retains its conviction in the significant re-rate opportunity from improved operational focus and capital allocation.

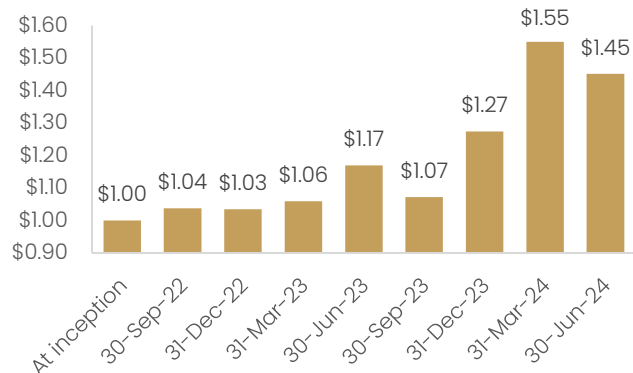
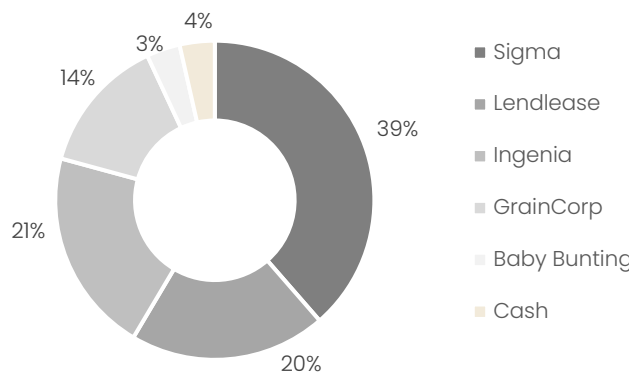
Fund Performance and Portfolio

The Fund returned 6.5% (net of fees³) during the quarter to 30 June 2024.

Since inception, the Fund has outperformed the S&P / ASX300 Accumulation Index by 25.7%.

We continue to see further upside in each of our investments and the Fund is firmly focused on delivering our value creation strategies for our portfolio companies. We have also identified a number of potential additional investments that are being actively reviewed by the investment team.

Portfolio composition as at 30 June 2024 Fund Net Asset Value per unit since inception³



3. All performance figures are quoted net of fees, including performance fees which are accrued but unpaid as at 30 June 2024. Inception date 31 August 2022. Past performance should not be taken as an indicator of future performance.

I look forward to providing further updates on the Fund's performance and our investments as we continue to assess the evolving investment landscape, work proactively with our investee companies and selectively deploy the Fund's capital.



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