# HMC Capital Partners Fund I

QUARTERLY INVESTOR UPDATE – MARCH 2025

## SUMMARY

- HMC Capital Partners Fund 1 (the "Fund") reported a Net Asset Value (NAV) of **$2.0487/unit**[1] at the end of March, up 3.0% over the quarter
- The Fund outperformed the S&P/ASX 300 Accumulation Index by 5.8% for the quarter
- The Fund delivered a 32.0% annualised return since inception to 31 March 2025[1], outperforming the S&P/ASX 300 Accumulation Index by 23.3% p.a.
- The S&P/ASX 300 Index saw a peak to trough fall of over 9% during February and March as markets reacted to increased geopolitical uncertainty caused by Trump's trade agenda
- Following the Fund's realisation of profits from the Sigma Healthcare investment and partial selldown of Ingenia Communities, the Fund declared an interim distribution of $0.805/unit

## Key Fund Statistics[2]

| | |
|---|---|
| **NAV** | $2.0487 / unit |
| **Entry price** | $2.0548 / unit |
| **Exit price** | $2.0426 / 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 – 31 March 2025[1]

| Returns (Net) (%) | Fund | vs Index[3] |
|---|---|---|
| **3 months** | **3.0%** | **+5.8%** |
| **6 months** | **21.7%** | **+25.3%** |
| **12 months** | **32.0%** | **+29.3%** |
| **2 years (annualised)** | **39.0%** | **+30.6%** |
| **Since inception (annualised)** | **32.0%** | **+23.3%** |
| **Since inception (aggregate)** | **104.9%** | **+80.8%** |

## Interim Distribution Declared and Proposed Changes to Fund Strategy and Terms

On 1st April 2025, the Fund announced declaration of its inaugural distribution of $0.805/unit, to be paid on or around 15 April 2025 to unitholders who hold Fund units on the record date (being 7 April 2025). Please check your bank account details are updated in the Automic portal at https://investor.automic.com.au/ to ensure no delay in receiving the distribution.

The Fund Trustees have decided that, given the market volatility and absent a meaningful recovery in equity markets by the end of April, it is not likely to be in investors' interest to reinvest via the Distribution Reinvestment Plan (DRP) which was to be priced at the 31 March 2025 NAV (adjusted for the distribution) less a 5% discount. As a result, the DRP has been suspended. Investors wishing to re-invest all or part of their distribution at the end of April buy price may do so by logging into their Automic portal and selecting the 'top-up' option.

The Fund also announced an intention to pivot the fund investment strategy to allow greater weighting towards unlisted opportunities alongside our best and highest conviction strategic stakes, and that it will seek unitholder approval for associated changes to the trust deed and fund terms. Refer to the Investor Letter for further information.

A unitholder meeting to approve the proposed changes will be scheduled in May. A Notice of Meeting and Explanatory Memorandum providing further detail on the proposed changes as well as instructions on how to participate in the unitholder meeting and lodge your proxy online will be sent to unitholders in the coming weeks.

[1] All performance figures are quoted net of fees and costs. Figures may not sum exactly due to rounding. Inception date 31 August 2022. Performance is shown for informational purposes only. Past performance should not be taken as an indicator of future performance.

[2] Entry and Exit prices reflect the Net Unit Value as at 31 March 2025, adjusted by the buy-sell spread (currently 0.30%).

[3] Fund outperformance / underperformance (net of fees and costs) vs S&P / ASX 300 Accumulation Index.

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## Market Commentary and Outlook

### *Markets pull back as investors reassess global growth & inflation outlook as geopolitical uncertainty intensifies*

The strong start to the year for global and Australian equities has been derailed by Trump's highly aggressive and chaotic trade policy. The violent re-pricing of risk assets highlights how materially markets underestimated Trump's trade policy and implementation strategy. The significant increase in uncertainty has decimated confidence in highly valued growth stocks. The Nasdaq is currently down more than 20% from its December peak[4].

Global economic growth is now expected to be meaningfully lower coupled with upside risk to inflation over the next 12 months. Markets are now quickly reassessing the potential for further interest rate cuts as the prospect of subdued economic growth / recessionary concerns come into play.

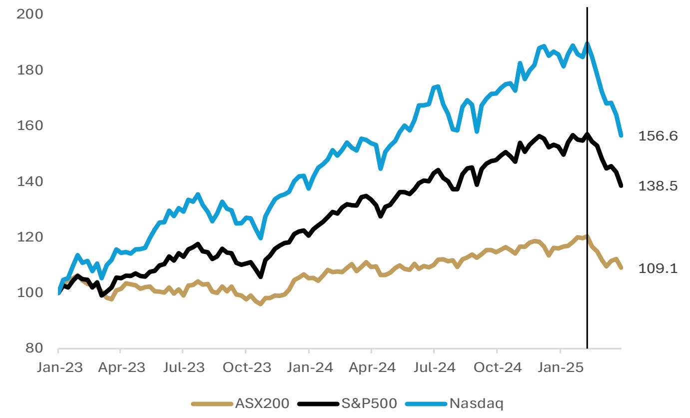
Australian equities (S&P/ASX300) have not been immune with the index seeing a 9.4% peak to trough correction during the quarter, finishing the March quarter down 3.9% and declining further post quarter end. The greater uncertainty in global markets follows the most volatile Australian reporting season on record based on the number of companies that saw >10% share price movements post reporting.

US and Australian equities were vulnerable to a correction with both markets trading on elevated earnings multiples. Notwithstanding the recent pull-back, the S&P/ASX200 is trading at ~17x NTM earnings[4] (long-term average of 14.7x). This highlights the potential for further de-rating, particularly as consensus expectations for ~8% EPS growth in FY26 may prove to be overly optimistic given the challenging geopolitical backdrop.

### *RBA easing cycle now underway*

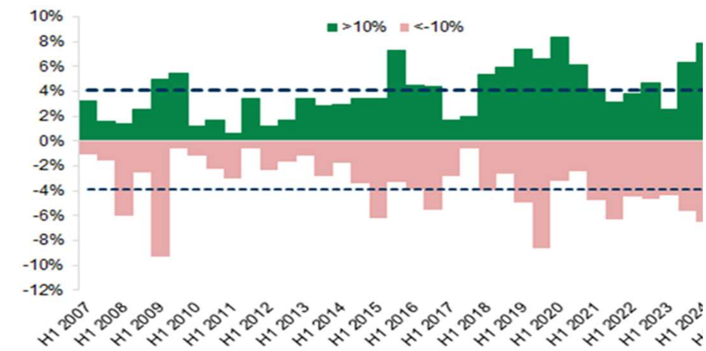
On 18 February 2025, the RBA cut the cash rate by 25bps to 4.1%. This marked the first cut since November 2020 and follows 13 consecutive hikes that lifted the cash rate to the highest level since 2011. The start of the easing cycle in Australia follows earlier moves by other major central banks including the Federal Reserve, ECB, BOE, BOC, RBNZ, BOJ and SNB. The significant progress in bringing down

### Equity market returns (indexed)



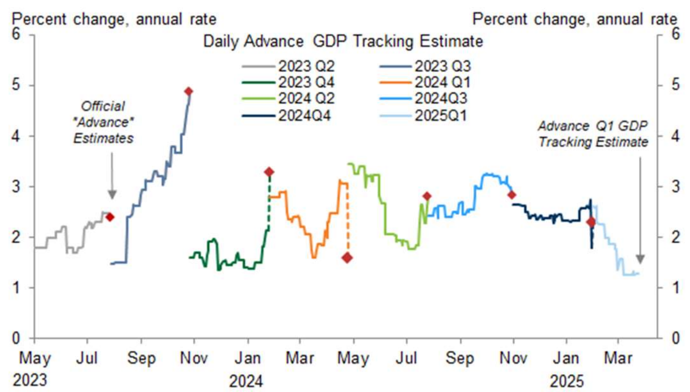

Source: Bloomberg as at 04 April 2025

### ASX200 % of earnings day movement >10%




Source: Goldman Sachs Investment Research

### Goldman Sachs US GDP tracking forecast (%)




[4] As at 7 April 2025

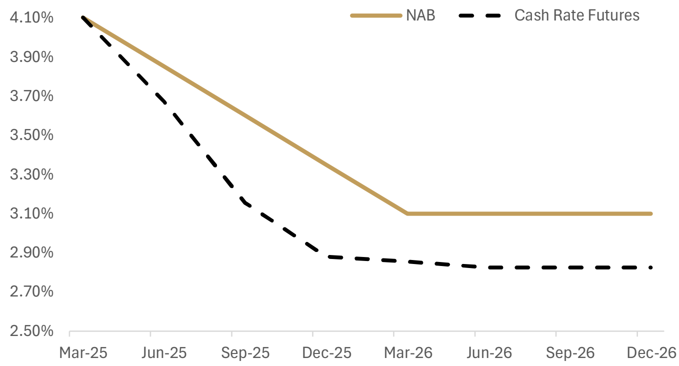
inflation towards the RBA's 2-3% target band is consistent with trends seen by other major advanced economies.

The market reaction to the RBA's 25bp cut was relatively muted with the decision more "line ball" than the market had expected. This was evidenced by comments from RBA Governor Michelle Bullock in her media conference that the market's expectation (at the time) for three additional rate cuts by the middle of 2026 was "far too confident".

This dynamic has once again changed following "Liberation Day". The far more uncertain global growth outlook has increased the likelihood of additional rate cuts by both the RBA and the Federal Reserve in the near-term. Markets are currently pricing in 100-130 basis points of additional cuts by the end of 2026 in Australia.

Source: Goldman Sachs Investment Research

**RBA cash rate forecast (%)**




Source: NAB, IRESS. As at 08 April 2025.

## What does this mean for the Fund?

The Fund remains firmly focused on delivering returns by helping our portfolio companies execute value enhancing strategies. Each our holdings have a range of short-to-medium catalysts with the potential to deliver meaningful upside for the Fund. In the context of a volatile macro driven market environment, our track record of unlocking "trapped value" in our portfolio companies remains compelling.

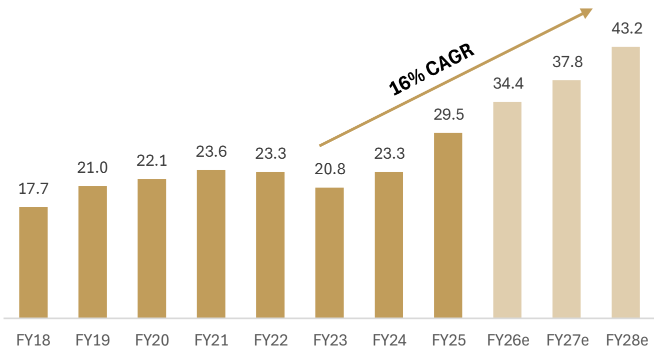
## Key investments update

### Ingenia Communities

Ingenia Communities (ASX: INA) was the Fund's best performing investee company during the March quarter, up 18.3%. INA provides affordable housing solutions (via land lease communities) to Australia's rapidly growing over 55 demographic. This is an underpenetrated sector with the potential to expand beyond retirees to address Australia's chronic housing undersupply and affordability challenges.

In January INA announced a material earnings upgrade for FY25 underpinned by strong progress in executing a renewed strategy under new CEO John Carfi. INA's upgraded EPS guidance range for FY25 of 29 to 30 cents implies annual growth of 24-29%. This demonstrates the significant operating leverage in the core land lease development business from 1) increasing development volumes, 2) improving margins (via operating efficiencies) and 3) higher average selling prices on new homes.

**Ingenia Underlying EPS (cents)**



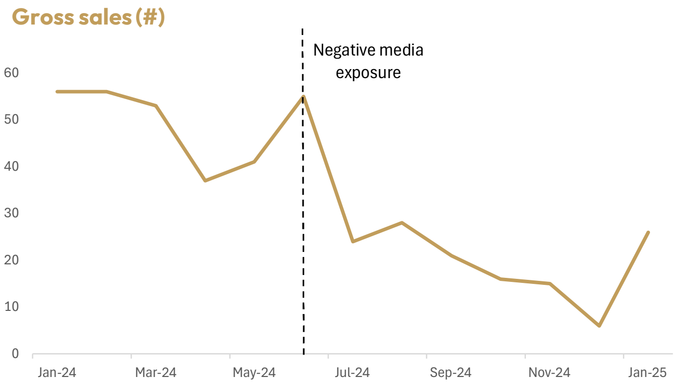

Source: FY26-28 based on broker consensus

Since joining less than 12 months ago, John has articulated a clear strategy to simplify the business, reduce corporate costs and improve margins across each of INA's businesses. Pleasingly, the business plan addresses all of the issues we identified and discussed privately with the Board after building a meaningful position in the company.

We took advantage of the stock's strong performance to partially sell down our INA position during the quarter, and currently retain a stake of just under 5%. We remain excited about the material potential to grow the earnings base of INA's core land lease business. Importantly, we believe this growth can by organically funded by re-allocating capital from INA's lower growth Holiday Parks and Senior Rental Housing (Gardens) businesses over time. In the meantime, these "non-core" businesses generate strong cash flows to fund distributions and new land lease site acquisitions.

## Lifestyle Communities

Lifestyle Communities (ASX: LIC) is a pure play land lease operator and developer which focuses exclusively on the Victoria market. Our investment in LIC, alongside our existing investment in Ingenia Communities, reflects our high conviction in the growth outlook and prospects for scale developers and owners of land lease communities in Australia.




The Fund became a substantial holder in LIC in October 2024 after a torrid 12-month period which saw LIC's share price decline by over 60%. The company's impressive long-term track record has come under scrutiny. LIC's balance sheet is stretched following a period of over-spending on development and new site acquisitions in an increasingly challenging operating environment (particularly Victoria). This has been exacerbated by the significant reputational damage caused by negative media exposure in July 2024 in relation to resident dissatisfaction regarding LIC's deferred management fee model. More recently, LIC announced the departure of the company's co-founder and long-standing CEO, James Kelly.

The current near-term earnings uncertainty has created an attractive entry point for the Fund to invest in a business with significant medium-term earnings growth potential. However, whilst we are confident in LIC's position that the negative publicity is unfounded, we are realistic that significant work is required to restore confidence in LIC's brand which was previously market leading.

The 1H FY25 result was largely in line with our expectations, however the share price reaction was disappointing with the shares falling 9% during the quarter. Notably, most brokers had not updated their forecasts following the trading update in November 2024 which showed a marked reduction in customer demand and spike in cancellations. Accordingly, EPS expectations for FY26 were overly optimistic and have since been recalibrated.

The near-term focus for LIC is to protect its balance sheet (i.e. avoid a capital raising) and position the business to take advantage of a broader market recovery as well as improved customer demand for Lifestyle's brand. Management is doing the right things by committing to undertake asset sales to "right size" the development pipeline, increasing discounting to improve settlement volumes and minimising development capex given the significant amount of completed or near-complete inventory already on foot. LIC's financiers have also agreed to reduce its interest coverage ratio (ICR) covenant for the next two years which provides additional relief

## Lendlease

Lendlease's (ASX: LLC) 1H FY25 result was mixed. The company is making good progress on its simplification strategy and the company reaffirmed its full year FY25 EPS guidance of 54-62 cents.

For the first time, the company disclosed the financial result for both the core business (IDC) and its Capital Release Unit (CRU) which houses its non-core assets and businesses. From our perspective the result validated the company's strategy by highlighting the profitability of its development and funds management operations in Australia and Asia, notwithstanding the disappointing result in Australian construction which was impacted by two underperforming projects which will complete this year. The track record of each of these businesses is strong and with the distraction of LLC's loss-making offshore businesses removed (over time), we remain confident that there is a significant re-rate opportunity.

LLC is midway through a major transition to become a significantly more focused and profitable business. The market is taking a wait and see approach which remains justified at this juncture given the significant amount of work still to be done and the company's historical track record. Whilst LLC has done a decent job executing on $2.2bn of asset sales since announcing its new strategy in May 2024, the market wants to see further progress on the remaining ~$4.8bn of non-core asset divestments (including projects that will be developed to completion). The non-core divestments are key to strengthening LLC's balance sheet which will enable LLC to:

1. Execute capital management - $500m buy-back has already been flagged; and
2. Re-stock its Australian development pipeline

The latter will address concerns regarding LLC's earnings growth profile from FY28 onwards as its existing Australian development projects run-off.

Management have made significant progress on asset sales including the less than straight forward exit from its Asian, European and Americas construction businesses. We think the market may be underestimating the quantum of additional asset sales over the next 6-12 months and LLC's ability to secure new pipeline opportunities in Australia. LLC is currently bidding on over $20bn of development opportunities in Australia where it has exclusivity or is only bidding against one other party. Pleasingly, this is focused on opportunities where the company has genuine competitive advantages and capability.

## Baby Bunting

Baby Bunting (ASX: BBN) reported its 1H FY25 result – the key components of which had already been pre-announced in January. Importantly, FY25 Guidance (NPAT: $9.5m - $12m, LFL Sales: 0%-3%, Gross Margin: 40%, Capex: $10m-$13m) was re-confirmed by the company. The BBN result indicated that important progress has been made by the company on reaching their 40% Gross Margin Target for FY25 (1H25: 39.8%) – whilst also not sacrificing sales growth (LFL Sales were +2.2% in 1H25, +2.8% in 2H25 so far) or store rollout (2 new stores opened in Australia in 1H25, 1 new store opening slated for NZ in 2H25).

BBN is in the process of an encouraging turnaround, in our view – with 1H25 marking the first period of LFL sales growth (after two consecutive years of decline). Whilst we are encouraged by progress made by the company on its gross margin & sales performance over 1H25, a weakening macro outlook could continue to weigh on the consumer (notwithstanding potential further rate cuts). We think further upside exists to the current BBN share price levels if the company can generate a return on significant FY26 CapEx (store rollout/refurbishment & ERP) and generate operating leverage from a growing store network.

## GrainCorp

GrainCorp's AGM occurred in February, accompanied by the release of maiden earnings guidance for FY25. GNC indicated in its update that it expects underlying EBITDA in the range of $270m – $320m, and Underlying NPAT of $60m-$95m for the full-year. Significantly, whilst FY25's winter-crop is set to be +30% larger than in FY24, EBITDA is guided to be only +10% greater than the prior year – suggesting margin compression within GNC's export business due to strong global grain & canola production. The company also announced a $50m share buyback in the update. In GNC's AGM voting, we note that 46% of the shareholder register voted against the re-election of Chairman Peter Richards.

Given strong Australian crop production volumes for the year so far (ABARES forecasts the FY25 crop to be +47% larger than average), the market was expecting stronger earnings than GNC's guidance – with the midpoints of GNC's EBITDA guidance and NPAT guidance falling below Consensus expectations by -11% and -33% respectively. This disappointment relative to market expectations led GNC shares to trade down (-5.4%) on the guidance release, with the stock reaching 1-year lows in recent trading.

We think GNC remains materially under-valued at current share price levels, particularly given that from FY26 onwards, GNC's crop production insurance contract will be fully paid out (aside from a small $6m premium). Consequently – from FY26-FY30, this contract will both provide considerable downside earnings protection to the company (in the event of a poor harvest) alongside uncapped earnings upside (in the event of a bumper harvest). Global Agriculture peer and industry commentary also indicates that worldwide production is likely to fall from current elevated levels, which would provide GNC with an export margin tailwind y/y in FY26. Significantly, GNC's balance sheet is currently +$337m Core Cash, allowing the company significant scope to return capital to shareholders. On a valuation basis, we think the stock is trading attractively at ~ 5x LTM Underlying EBITDA.

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## Fund Performance and Portfolio

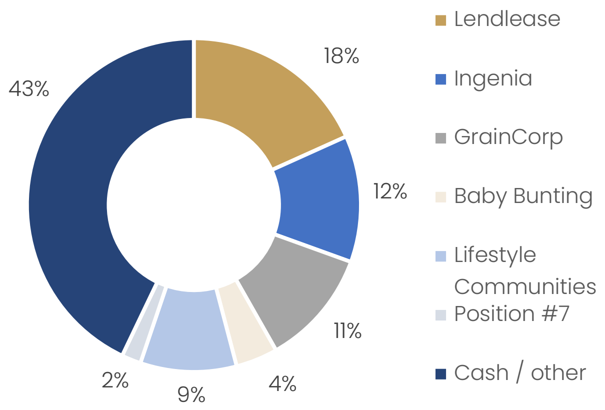
The Fund returned 3.0% (net of fees[4]) during the quarter to 31 March 2025.

Since inception, the Fund has outperformed the S&P / ASX300 Accumulation Index by 23.3% p.a.

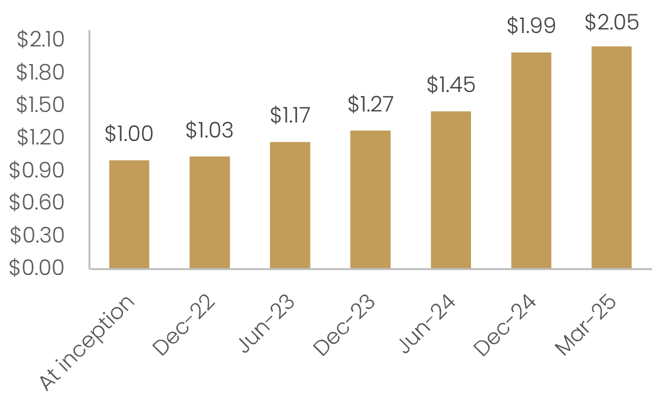
During the quarter, the Fund exited its seed investment in Sigma Healthcare, realising an unlevered IRR for the Fund in excess of 100%. The Fund also partially sold down its investment in Ingenia Communities to realise gains, retaining a stake of just under 5%.

The Fund remains firmly focused on delivering returns by helping our portfolio companies execute value enhancing strategies. Each our holdings have a range of short-to-medium catalysts with the potential to deliver meaningful upside for the Fund. In the context of a volatile macro driven market environment, our track record of unlocking "trapped value" in our portfolio companies remains compelling.

### Portfolio composition as at 31 March 2025[3]




### Fund Net Asset Value per unit since inception[4]




3. Figures may not sum due to rounding. Cash balance is prior to payment of declared interim distribution, due to be paid on or around 15 April 2025
4. All performance figures are quoted net of fees, including performance fees which are accrued but unpaid as at 31 March 2025. 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.

**Victoria Hardie**
**Managing Director, HMC Capital Partners**

**Tim Koroknay**
**Head of Wholesale**
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## Further information

Please contact HMC Capital if you have any questions including the proposed changes to the Fund and the opportunity to invest in Fund II.

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**Phone:** 1300 466 326

How to Invest: Refer to Information Memorandum at https://www.hmccapital.com.au/our-funds/hmc-capital-partners-fund-i/ . If you are a Wholesale Client you may apply for Units at: https://investor.automic.com.au/#/w/hmccp. Existing investors can login to their Automic online investor portal at https://investor.automic.com.au/ to access information on their holding, or to apply for additional units.