HMCCapital

HMC Capital High Conviction Alternatives Fund

QUARTERLY INVESTOR UPDATE– DECEMBER 2023

SUMMARY

- HMC Capital High Conviction Alternatives Fund (the "Fund") returned 18.9% during the December quarter, resulting in a Fund NAV of $1.1963 at 31 December 2023
- The Fund invests substantially all of its assets in HMC Capital Partners Fund 1 (the "Underlying Fund") – the quarterly report of the Underlying Fund is appended to this report, providing information on the investment activities of the Underlying Fund
- Equity and bond markets recovered strongly in the December quarter as investors became increasingly confident peak interest rates and inflation are in the rearview mirror
- The Underlying Fund successfully helped portfolio company Sigma Healthcare ("Sigma") announce a transformational merger with Chemist Warehouse Group, which was positively received by the market and has resulted in a c.70% unrealised return on the Sigma investment since the Underlying Fund's inception[1]

Key Fund Statistics[2]

NAV per unit	$1.1963 / unit
Entry price	$1.1999 / unit
Exit price	$1.1927 / unit
Inception Date	31 March 2023
Status	Open for investment
Aggregate Fund Size	$393m (inclusive of the Fund and the Underlying Fund)

Fees & expenses

Management Fees and Costs	1.57% of NAV[3]
Estimated Transaction Costs	0.06%[2]
Performance Fee	The Fund itself does not charge a Performance Fee. However, the Underlying Fund charges a Performance Fee of 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 (Net)[1]

%	1mth	3mth	6mth	1yr	2yr	Inception
Net Return (%)	23.5%	18.9%	8.7%	n/a	n/a	19.6%

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[1] As at 31 December 2023. Underlying Fund inception date was 31 August 2022

[2] Entry and Exit prices reflect the Net Unit Value as at 31 December 2023, reduced by the buy-sell spread (currently 0.30%).

[3] Based on information available as at the date of the Supplementary PDS dated 12 July 2023 and reflects the Responsible Entity's reasonable estimates of the typical ongoing amounts for the current financial year. See the PDS and Supplementary PDS for further details.

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HMC Capital Partners Fund 1

QUARTERLY INVESTOR UPDATE– DECEMBER 2023

SUMMARY

- HMC Capital Partners Fund 1 (the "Fund") returned 18.9%[1] during the December quarter and 27.4% since inception[2], outperforming the S&P/ASX300 by 12.7%
- Equity and bond markets recovered strongly in the December quarter as investors became increasingly confident peak interest rates and inflation are in the rearview mirror following commentary from the US Fed
- The Fund successfully helped portfolio company Sigma Healthcare ("Sigma") announce a transformational merger with Chemist Warehouse Group, which was positively received by the market and has resulted in a c.70% unrealised return on our Sigma investment since the Fund's inception[3]
- The Fund successfully completed a capital raising during December, allowing the Fund to take up its $76 million pro-rata share of the Sigma Entitlement Offer in January 2024 and providing capacity for further investments

Key Fund Statistics[4]

NAV	$1.2738 / unit
Entry price	$1.2776 / unit
Exit price	$1.2700 / 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 December 2023[1]

Returns (Net) (%)	Fund
1 month	**23.5%**
3 months	**18.9%**
6 months	**8.9%**
Since inception (annualised)	**19.9%**
Since inception (aggregate)	**27.4%**

Market Commentary

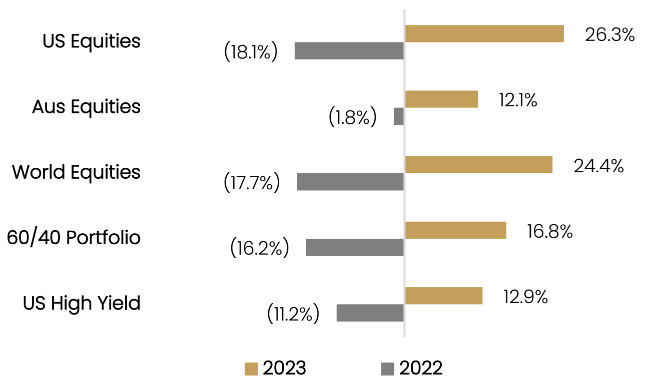
Bullish finish to the year

Equity markets experienced a strong recovery during the quarter, ending the year on a high with the S&P 500 finishing close to an all-time peak of 4769.8. The S&P/ASX 300 index finished the year just shy of an all-time high at 7535.9.

The surge in equity markets was driven by optimism, on the back of US Fed commentary, that inflation and interest rates have peaked – with potential rate cuts now firmly on the horizon in 2024. Headline inflation across the developed world has continued to fall sharply over the quarter. Normalising supply chains, sluggish aggregate demand and narrowing contributions from energy and food prices have all played a role. Core inflation (the inflation measure that excludes food and energy) however remains sticky.

Equity market gains during the quarter were not shared equally, with interest rate sensitive sectors including real estate and technology driving the majority share of gains.

2023 market performance vs 2022 across key asset classes (Total return, 2022 vs 2023)



Source: IRESS, Bloomberg. US Equities represented by S&P500 Total Return Index. Aus Equities by ASX300 Accumulation Index. World Equities by MSCI Accumulation Index. 60/40 portfolio by 60% MSCI World and 40% Vanguard Global Aggregate Bond Index. US High Yield by Bloomberg U.S. High Yield Corporate Index.

[1] All performance figures are quoted net of fees. Figures may not sum exactly due to rounding. Inception date 31 August 2022. Past performance should not be relied upon and should not be taken as an indicator of future performance.

[2] Aggregate performance since inception

[3] As at 31 December 2023

[4] Entry and Exit prices reflect the Net Unit Value as at 31 December 2023, adjusted by the buy-sell spread (currently 0.30%).

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HMC Capital Partners Fund 1

QUARTERLY INVESTOR UPDATE– DECEMBER 2023

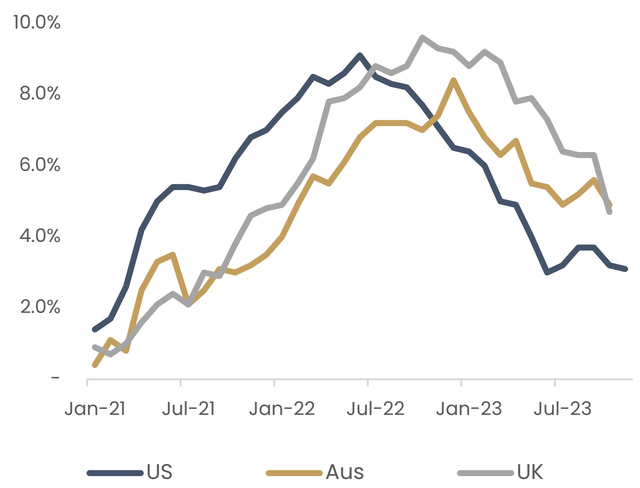
Our view on the outlook

With the interest rate hiking cycle seemingly in the rearview mirror, we anticipate pockets of volatility in 2024 as global growth slows, core inflation remains sticky and the risk of recession lingers in several key economies. This presents an ideal environment for the Fund, with potentially attractive entry points emerging.

Keeping a close eye on the Fed and the US economy

The markets remain tightly focused on the timing of Federal Reserve rate cuts through next year. More aggressive rate cuts were being priced into the market during December – however the mantra of "higher for longer" is still expected to hold as the US appears on course for a soft landing. The US did not enter recession in 2023 (despite consensus view it would), however key leading indicators such as yield curve, monetary aggregates and credit conditions suggest chances of a slowdown in growth, or even recession, remains high.

Headline inflation YoY (%)



Source: RBA, BoE, Federal Reserve

The Australian economy is also expected to remain robust through 2024 despite reduced growth expectations – with interest rate cuts likely to lag the US. Demand conditions for Australian businesses have remained resilient to tighter fiscal and monetary policy, whilst labour market conditions remain tight – this is expected to persist through 2024.

Enduring political risk

Geopolitical risk remains high but the market is increasingly optimistic of no further major escalations in 2024. Expectations of a spike in oil prices from war in the Middle East has failed to materialise as petroleum supplies experience minimal disruption. However, heightened risk is expected to be a durable feature of the investment landscape to come. The consequence of geopolitical risk is a marked departure from globalisation and integration - reshoring is on the rise and trade restrictions are growing.

What does this mean for the Fund?

In a world where overall expected returns have fallen (as markets brace for "higher for longer" rates) and heightened volatility is expected to persist, we see more active strategies likely to play a bigger and more important role. As we have previously stated, we view uncertainty and volatility as a significant opportunity. The ultra-low interest rate and loose fiscal policy environment that stoked decade-long bull markets in both bonds and equities are no longer.

Therefore, we see the current investing environment as highly conducive to the Fund's strategy.

Having catalysed two major events for Sigma Healthcare during the year, our focus in 2024 will remain on delivering similar outcomes for our other portfolio companies Lendlease and Ingenia Communities as discussed below. The Fund expects to deploy into further opportunities in 2024 as attractive opportunities emerge across the market. The Fund will continue to maintain a disciplined approach to deployment, preferring great businesses with real asset backing in sectors with strong long-term growth trajectory.

HMC Capital Partners Fund 1

QUARTERLY INVESTOR UPDATE– DECEMBER 2023

Key investments update

Sigma Healthcare

Sigma delivered exceptional returns during the December quarter, trading up 50.0%, driven by the announcement of a transformational merger with Chemist Warehouse Group ("Proposed Merger"). The Proposed Merger is a step-change event for Sigma Healthcare, creating a leading healthcare wholesaler, distributor and retail pharmacy franchisor. As Sigma's largest shareholder, we believe the company will significantly benefit from the material increase in scale, capability and the significant potential for synergies upon completion of the Proposed Merger.

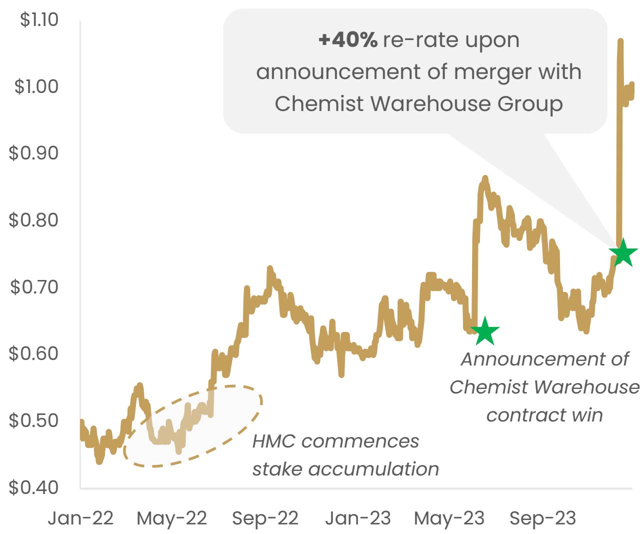
As we previously articulated, our view at the time of making the investment in Sigma was that the business was well placed to grow, improve margin and play a role in strategic industry consolidation. The announcement of the Proposed Merger supports our initial hypothesis and reflects significant work by the Investment Team to generate value for Fund investors. The outcome is a key marker of success for the Fund's strategy - **pro-actively engaging with our investee companies and leveraging the investment team's unique deal making capabilities to catalyse value for the Fund's investors.**

Chemist Warehouse Group is an iconic Australian retail brand, and HMC Capital believes the MergeCo has the potential to be significant on a global scale, with prospects of joining the S&P/ASX100 soon after implementation of the Proposed Merger. Upon implementation of the merger, the Fund's stake in the combined group would be ~3%.

Key highlights of the Merged Group include:

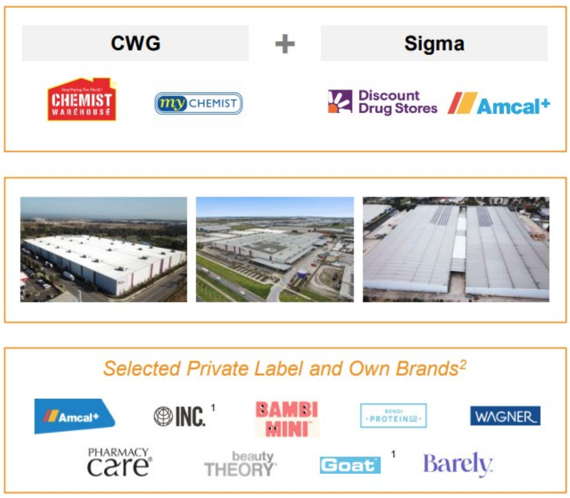
- Creation of a full-service wholesaler, distributor and retail pharmacy franchisor
- Combines Sigma's extensive and state-of-the-art distribution infrastructure with CWG's leading retailing know-how
- Aggregate historical MergeCo EBIT >$495m, before synergies
- Significant potential for synergies – $60m p.a. of cost synergies expected
- Highly experienced management team and Board
- Greater scale, investor interest and balance sheet strength

Sigma 2 year share price performance[5]



Source: IRESS

Merged group overview



Source: Sigma Healthcare public announcement

The Fund has catalysed two major events for Sigma since our investment in mid-2022 (being the Chemist Warehouse PBS contract win in July 2023 and the announcement of the Proposed Merger with Chemist Warehouse Group). The Fund's average entry price in Sigma is ~$0.58/share relative to the closing price at the end of the December quarter of $1.01/share, which represents a +70% return on our investment (relative to ~15% return[6] on the S&P/ASX 300 Accumulation index over the same period).

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HMC Capital Partners Fund 1

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Lendlease Group

Lendlease traded up 4.0% during the quarter, underperforming the broader A-REIT sector with its removal from the MSCI Global Standard Australia Index weighing on the stock during October and November. In early December, the company announced it had entered into an agreement to sell 12 Australian master-planned communities projects to Stockland for $1.3bn.

The announcement is a further demonstration of the Fund's active engagement strategy in action, as the sale of Communities was one of the key recommendations the Fund stated publicly in August 2023. The Fund has continued to pro-actively engage with Lendlease during the intervening period to help achieve this outcome. This transaction is a significant milestone for Lendlease as it reweights capital to investments, reduces gearing and realises the inherent value created in its existing Communities projects.

HMC Capital Partners White Paper – *August 2023*

Proposed strategies to improve long-term shareholder returns

1	EXIT NON-CORE BUSINESSES	**We want LLC to sell up to $2.6bn of low ROE and low multiple investments** ▪ Residential Communities (up to 100%) ▪ Retirement Living (sale of remaining 25%) ▪ Military Housing (100% exit) ▪ Ardor Gardens, China (100% exit)	Timeframe: 6-12 months
2	RESET TARGETS	**We want LLC to avoid compromising its balance sheet to hit its targets** ▪ Reset >$8bn p.a production target post asset sales to more sustainable level ▪ Avoid capital intensive acquisitions to achieve $70bn FUM target by FY26	Timeframe: 6-12 months
3	GEOGRAPHIC SIMPLIFICATION	▪ Exit non-core markets (e.g. Shanghai, Malaysia, Milan) ▪ Reduce low margin 3rd party construction work in offshore markets	Timeframe: 6-12 months
4	RIGHT SIZE COST BASE	▪ Further reset of cost base following execution of steps 1, 2 & 3 to improve focus, agility, and accountability as a more streamlined business	Timeframe: 6-12 months
5	DOWNWEIGHT CONSTRUCTION	▪ Over time consider options to reduce exposure to construction division (e.g. demerger with a significant retained holding)	Timeframe: 12-24 months

The transaction is expected to realise a ~20% premium to book value (pre-tax) and equates to a pro-forma ~5% reduction to FY23 gearing – eliminating the risk of a discounted equity raising in 2024.

We will continue to pro-actively engage with Lendlease management and Board, and we are confident they have embraced our additional strategic recommendations including exiting other non-core assets including retirement living, Ardor Gardens in China and Military Housing.

We retain our high conviction view on the value potential in Lendlease over the medium term as a more focused, capital light group.

Ingenia Communities Group

The Fund has accumulated a c.7% interest in Ingenia Communities Group (ASX: INA, "**Ingenia**"), a developer and operator of land lease communities and holiday parks. Ingenia operates in the highly attractive land lease sector and is exposed to strong demographic megatrends including a growing and aging population.

We have communicated our views on the optimal future strategy for the company to the Ingenia Board, and believe there is an opportunity to deliver significant value upside for shareholders as a more focused business. Ingenia holds one of the largest pipelines in the Australian land lease sector of new communities and expansions, providing an embedded path to continued growth in earnings in this segment.

Peers in the land lease sector trade on a significantly higher premium as pure play developers with a focus on higher ROE projects – we look to these observable market examples as a barometer for potential upside. The Fund maintains strong conviction in the sector and believes there is significant embedded value in Ingenia that is not reflected in the current share price.

[5] 2 years to 31 December 2023

[6] Since 31 August 2022

HMC Capital Partners Fund 1

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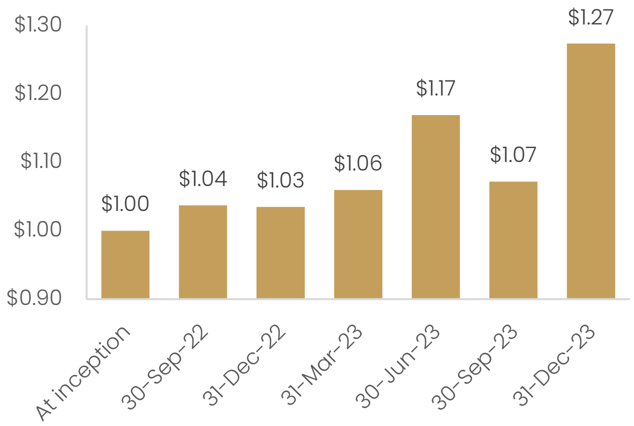
Fund Performance and Portfolio

The Fund returned 18.9% (net of fees[3]) during the quarter to 31 December 2023.

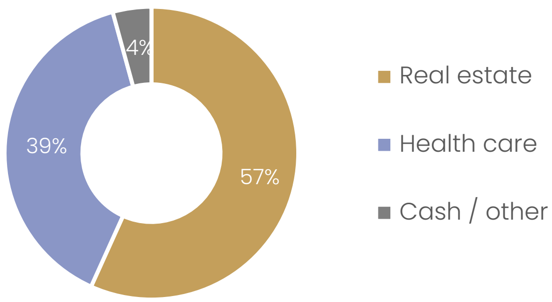
Since inception, the Fund has outperformed the S&P / ASX300 Accumulation Index by 12.7%.

We continue to have high conviction in each of our investments, and see a number of potential catalysts for ongoing positive performance of the portfolio in coming months. In January, the Fund intends to take up its pro-rata share of the $400 million Sigma entitlement offer, which will result in the Fund acquiring $76m Sigma shares at $0.70/share.

Fund Net Asset Value per unit since inception[3]



Portfolio exposure by sector (% of net assets)[7]



3. All performance figures are quoted net of fees, including performance fees which are accrued but unpaid as at 31 December 2023. 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

[7] Excludes cash received for applications for investment in the Fund pursuant to capital raising undertaken during December 2023. These applications will be unitised in early – mid January 2024

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HMC Capital Partners Fund 1

QUARTERLY INVESTOR UPDATE– DECEMBER 2023

IMPORTANT NOTICE

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