HMC Capital High Conviction Alternatives Fund

QUARTERLY INVESTOR UPDATE– SEPTEMBER 2023

SUMMARY

- HMC Capital High Conviction Alternatives Fund (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
- Optimism in equity markets faded in September on the back of rising bond yields and a growing consensus of 'higher for longer' interest rates
- Consequently, the Underlying Fund's investment in Sigma and Lendlease both declined during the month, resulting in a Fund NAV of $1.0065 at month end
- While performance of the Fund disappointed in September, we remain confident in each of the high conviction investments the Underlying Fund has made and continue to actively engage with our investee companies

Key Fund Statistics[1]

NAV per unit	$1.0065 / unit
Entry price	$1.0095 / unit
Exit price	$1.0034 / unit
Inception Date	31 March 2023
Status	Open for investment
Aggregate Fund Size	$324m (inclusive of the Fund and the Underlying Fund)

Fees & expenses

Management Fees and Costs	1.57% of NAV[2]
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 (%)	(7.9%)	(8.6%)	0.6%	n/a	n/a	0.6%

Contact Details

Chris Boyd - Head of Distribution
chris.boyd@hmccapital.com.au
+61 416 077 166

Website: www.hmccapital.com.au

[1] Entry and Exit prices reflect the Net Unit Value as at 30 September 2023, reduced by the buy-sell spread (currently 0.30%).

[2] 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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Email: invest@hmccapital.com.au

Phone: 1300 466 326

IMPORTANT NOTICE

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HMC Capital Partners Fund 1

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SUMMARY

- Optimism in equity markets faded in September on the back of rising bond yields and a growing consensus of 'higher for longer' interest rates
- Consequently, Sigma and Lendlease both sold off during the month, resulting in a Fund NAV of $1.0717 at month end – however the Fund has outperformed the S&P / ASX300 Accumulation Index since inception
- The Fund has accumulated a c.5% stake in Ingenia Communities, a developer and operator of over 55's lifestyle communities and holiday parks – our investment thesis is discussed in further detail below
- While performance of the Fund disappointed in September, we remain confident in each of the high conviction investments we have made and continue to actively engage with our investee companies

Key Fund Statistics[1]

NAV	$1. 0717 / unit
Entry price	$1.0749 / unit
Exit price	$1.0685 / 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 September 2023[2]

Returns (Net) (%)	Fund
1 month	**(7.9%)**
3 months	**(8.3%)**
6 months	**1.1%**
Since inception	**7.2%**

Market Commentary

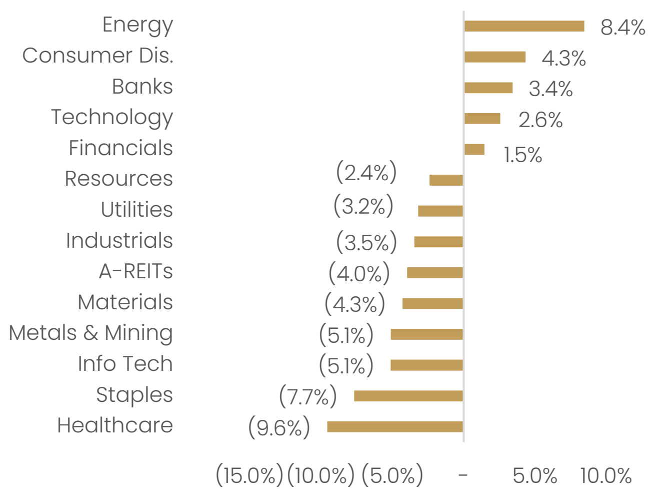
The September Effect

September lived up to its reputation as a challenging month for equity markets, with the S&P/ASX 300 Accumulation index down 2.9% and the S&P500 Total Return Index down 4.9%[3].

Hawkish messaging from central banks regarding the risk of further rate rises and the likelihood of interest rates staying 'higher for longer' weighed on stocks and saw bond yields rise to cycle highs. Uncertainties around a US government shutdown (temporarily avoided at quarter-end via stop-gap measures), the ongoing risk of a recession, and rising oil prices added to the negative sentiment.

The index decline through the quarter has not been broad based, with rising gas and oil prices globally continuing to drive strong gains across the energy sector. Healthcare experienced another challenging quarter, driven largely by the performance of key constituents ResMed and CSL as the market reacts to increased competition and margin pressure across the sector. Interest rate sensitive sectors such as tech and property also underperformed.

September quarter S&P/ASX300 performance by sector



Source: IRESS

[1] Entry and Exit prices reflect the Net Unit Value as at 30 September 2023, adjusted by the buy-sell spread (currently 0.30%).

[2] 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.

[3] Market data in this update is all sourced from IRESS.

HMC Capital Partners Fund 1

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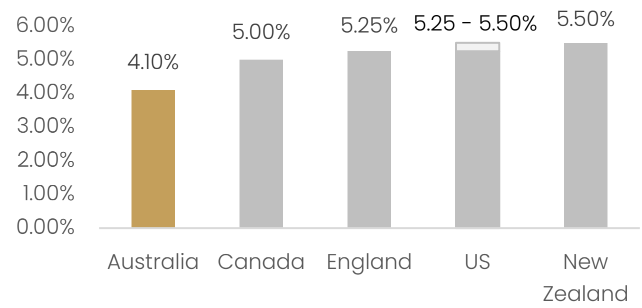
Our view on the outlook

With market expectations of one more interest rate hike to come in Australia, interest rates are likely to persist at above neutral levels into the second half of next year. Australia lagged the US in raising rates, with RBA rates still meaningfully below the US Fed's target range (arguably justified given the greater weighting to variable rate mortgages in Australia) and is likely to also lag in the cutting cycle.

Higher interest rates are translating into weaker consumer demand and slowing economic growth, with the economy already in a 'per capita recession' (i.e. after adjusting for population growth). Uncertainty in relation to the economic and investment outlook is likely to continue – which may weigh on equity markets through the remainder of CY2023.

Current central bank official rates



Source: RBA, BoC, BoE, Federal Reserve, RBNZ

What does this mean for the Fund?

While the market selloff has resulted in a disappointing month end NAV for the Fund, the short-term impact was not entirely unanticipated given the concentrated nature of the portfolio and the uncertain outlook. Indeed, in our last quarterly report we noted that "*we anticipate some potential turbulence in markets*", and we see the current risk-off environment as a potential opportunity for the Fund as attractive buying may emerge in selected prospects.

Given the differentiated, highly active approach we take to our investments, we are focused on positively exerting our influence and assisting our investee companies to deliver long term value – with less regard to the day-to-day noise of share price movements. We remain confident that, over the longer term, the strategy will deliver strong, positive returns that are uncorrelated to the broader equity market.

Key investments update

Ingenia Communities Group

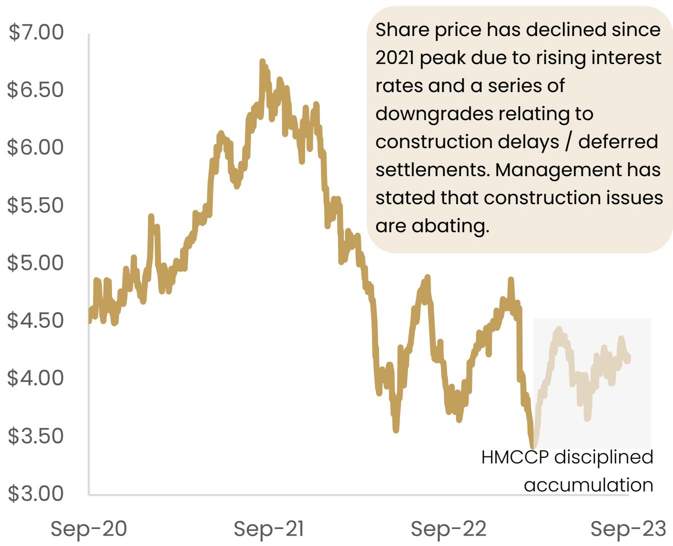
The Fund has accumulated a c.5% interest in Ingenia Communities Group (ASX: INA, "**Ingenia**"), a developer and operator of land lease communities and holiday parks.

What are land lease communities?

Land lease communities, otherwise known as Manufactured Housing Estates (MHEs), offer residents the opportunity to own their own home and rent the land upon which the home sits from the community owner. Since their origins in caravan parks, land lease communities have now evolved to offer attractive, resort-style community living to over 55's with a number of advantages to residents:

- No stamp duty upon acquisition
- Eligibility for Commonwealth Rental Assistance
- More affordable than freehold in a similar location
- Typically no exit fees / Deferred Management Fees

Ingenia 3 year share price performance



Why do we like land lease communities?

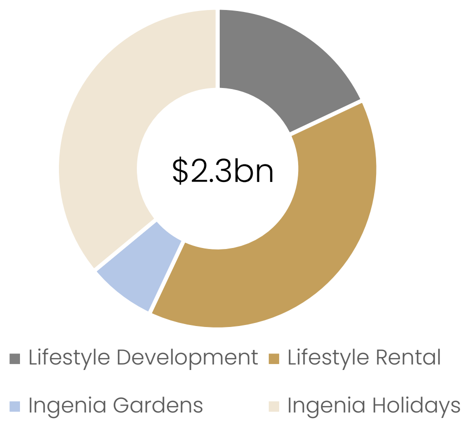
- ✓ Exposed to compelling demographic tailwinds, with a growing and aging population and increasingly challenging housing shortages;
- ✓ Potential to generate attractive development returns in addition to stable, growing rent based cashflows from stabilised sites;
- ✓ Attractive lease structure, with long average tenure and CPI linked escalation;
- ✓ Underpenetrated market in Australia, with the opportunity for significant growth potential from not only a growing cohort of aging Australians but also increased penetration.

Ingenia has a significant development pipeline of new communities and expansions, providing an embedded path to continued growth in earnings.

Holidays, Ingenia's other major operating segment, operates waterfront holiday parks along the east coast of Australia, providing a variety of caravan, camping and cabin accommodation. The segment is performing strongly on the back of ongoing demand for domestic travel, providing an affordable travel option as cost-of-living pressures build.

We have commenced engagement with the Ingenia team and look forward to ongoing engagement as an active shareholder to unlock value for Fund investors.

Ingenia Property Portfolio by value



Source: IRESS, company filings

Sigma Healthcare

Sigma Healthcare ("**Sigma**") closed the month at $0.69, down c.18% over the quarter, but still well above our average entry price. The business released its half year results in September, reporting strong operational performance and a 78% improvement in EBITDA over the prior corresponding period. We were pleased to see CEO Vikesh Ramsunder delivering operating cost efficiencies and setting up the business to be able to deliver on the new Chemist Warehouse contract due to commence 1 July 2024.

As we have previously noted, the Chemist Warehouse contract represents step one in our longer-term strategic vision for Sigma, and we believe the business is well placed to grow and improve margin, as well as play a role in potential strategic industry consolidation and M&A opportunities.

Post quarter end, Sigma announced the appointment of Dr. Chris Roberts to the Board of Sigma as HMC Capital Partners' nominee. Dr. Roberts has had an accomplished executive and non-executive career, including as the former CEO of Cochlear Limited (ASX:COH) from 2004 to 2015, Executive Vice President of ResMed Inc (NYSE:RMD) from 1992 to 2003 and as a director until November 2017. He is director on the HMC Capital Partners Fund 1 Trustee Board and sits on the Fund's Investment Committee.

We are pleased to have Dr. Roberts joining the Sigma Board and believe his considerable skills and experience will be a valuable addition to the Sigma Board as the company seeks to execute on its growth ambitions.

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Lendlease Group

Lendlease traded down c.7% during the September quarter, impacted by rising bond yields and negative sentiment towards interest rate sensitive stocks. We continue to look for progress in non-core asset sales, as set out in the presentation we released in August, and believe this could result in c.$2.5bn of proceeds, significantly de-levering LLC's balance sheet.

We retain our high conviction view on the value potential in Lendlease over the medium term, and continue to engage with management regarding our views on the optimal strategy to deliver value for shareholders.

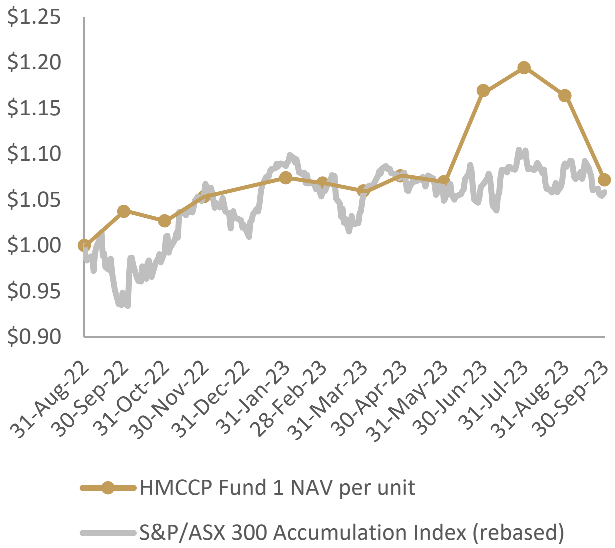
Fund Performance and Portfolio

The Fund returned (8.3%) (net of fees[3]) during the quarter to 30 September 2023. Declines in both the Sigma and Lendlease share prices contributed to the decline in the NAV, slightly offset by a 5.5% increase in the Ingenia share price.

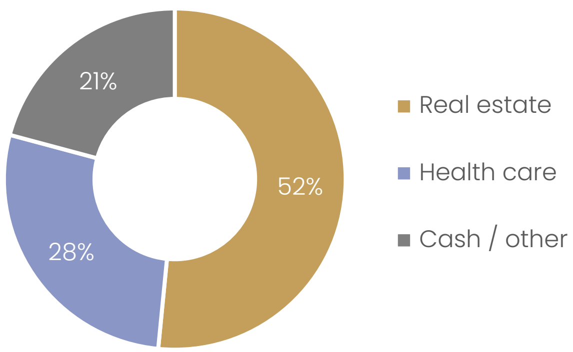
Since inception, the Fund has outperformed the S&P / ASX300 Accumulation Index by 1.4%.

We continue to have high conviction in each of our investments, and see a number of potential catalysts for a re-rate in the portfolio in coming months.

Fund Net Asset Value per unit since inception[3]



Portfolio exposure by sector (% of net assets)



3. All performance figures are quoted net of fees, including performance fees which are accrued but unpaid as at 30 September 2023. Inception date 31 August 2022. Past performance should not be taken as an indicator of future performance.

HMC Capital Partners Fund 1

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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

Contact Details

Chris Boyd - Head of Distribution
chris.boyd@hmccapital.com.au
+61 416 077 166

Kate Hillyar - Director, Institutional Capital
kate.hillyar@hmccapital.com.au
+61 499 954 988

Website: www.hmccapital.com.au
Email: invest@hmccapital.com.au
Phone: 1300 466 326

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