CALTHA
CAPITAL

Caltha Equity Fund

FY24 Q4 Update

June 2024

Return	3 Months	1 year	FY 2023	Since Inception Per annum
Caltha Equity Fund Net of Fees, Including Franking Credits	(3.78%)	3.92%	18.12%	**11.37%**
ASX200 Price Index	(1.64%)	7.83%	9.67%	**9.13%**
Out-performance	(2.14%)	(3.91%)	8.45%	**2.24%**

Year in Review (Continues on page 2…)

The financial year 2024 was a modest year for the Caltha Equity Fund, consistent with our six year track record. Notably, four of these years are excluded from our official returns due to a structural change and being unaudited. Our strategy often results in lower return years following higher return years. We continue to strive for a smoother year-on-year performance, currently focusing on creating a portfolio of positions that counterbalance each other's cycles more effectively. However, achieving this remains challenging given our concentrated portfolio approach and the emphasis on selecting only the best businesses at optimal times.

Strategic Review and Portfolio Adjustments

In the final quarter of FY24, we entered a new top-three position with IDP Education (IEL), a move that aligns with our long-term strategy. After closely monitoring IDP Education, we observed that recent policy changes regarding international student immigration into developed countries exerted external pressure on the company's share price. IEL has now reached a price below its intrinsic value and is well-positioned to capture market share. The company has recently expanded in Southeast Asia and African markets while focusing on reducing expenses. Our detailed research report on IDP Education is available for review.

IDP Education is part of our effort to smooth the return trajectory of our portfolio by diversifying across sectors that are resilient through typical commodity cycles. Our largest unrealised contraction this year came from our holding in Woodside Energy, which is navigating a standard commodity cycle in the oil and gas sector. During our annual portfolio review, we recognised that we should have reduced our exposure when Woodside was around $40 per share, a price reflecting its fair value in the current market. Our decision to maintain our position was driven by our research, which indicated potential upside risks due to ongoing global conflicts in the Middle East and Eastern Europe. We viewed our Woodside holding as a hedge against these risks, which could cause runaway inflation in developed countries, leading to significant market corrections as central banks tightened fiscal policies.

Portfolio Outlook

Our portfolio is now well-positioned for the next five years, with significant growth potential. Our investment thesis for Magellan Financial Group (MFG) remains unchanged. MFG's 36% ownership in Barrenjoey will be invaluable as the bank continues to grow and establish itself as one of the most prominent investment banks globally. We will continue to hold Magellan, anticipating the highly awaited Barrenjoey IPO, which we expect to occur within the next five years.

Internally, we value Barrenjoey to be larger than Magellan's current market cap. By the financial year 2028, we project Barrenjoey to produce over $187 million per year in gross profits with a P/E ratio of 20, giving it a $3.75 billion valuation. Consequently, MFG's 36% holding would be worth $1.35 billion, representing 78% of its current market cap. Furthermore, when we account for free cash flow from the years leading up to 2028, Barrenjoey's value equates to 114% of MFG's current market cap. This solidifies our high conviction in the long-term value creation of holding Magellan.

IDP Education is now a valuable addition to our portfolio. While we anticipate a slower start due to current policies in developed countries that are not favourable for student immigration, we have high conviction in IDP Education's ability to capture market share and reduce expenses in the interim. This positions the company strongly for a rebound in both its operations and share price over the next five years as policies change. We are particularly excited about its strong brand recognition and market position in India, a country with the largest population aged between 15 and 24 years.

Woodside Energy is currently navigating a typical commodity cycle, and we are content to hold our position due to its solid dividend yield and successful project developments. Woodside continues to bring new projects online, increasing production year-on-year, and is progressing well on current projects while actively seeking future opportunities. Woodside produces high-demand, globally essential products with annual demand growth and limited future investment to maintain supply. While we may adjust our exposure at favourable prices, we expect to maintain a strong position in Woodside for at least the next five years.

Our other holdings are also well-positioned with ongoing growth projects. Our position in AGL Energy is now our smallest, and we anticipate rolling this investment into a new opportunity in the coming year.

Top 3 Holdings

Woodside Energy WDS.asx	27%
Magellan Financial Group MFG.asx	27%
IDP Education IEL.asx	25%
Total	79%

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Market Outlook

In the last quarter of FY2024, inflationary pressures persisted, with the Consumer Price Index (CPI) projected to rise by 1.0% quarter-on-quarter (q/q) and 4.0% year-on-year (y/y), surpassing the Reserve Bank of Australia's (RBA) forecast of 0.8% q/q. Housing remained a significant contributor to inflation, with rent prices increasing by 0.8% month-on-month (m/m) in May and new dwelling construction costs at 0.4% m/m. This trend was driven by high demand for rental properties and rising costs for labor and materials.

Food prices also saw a notable rise, particularly in grocery items, which experienced a 1.3% q/q increase, significantly contributing to the overall CPI rise. Additionally, international travel costs surged, adding further upward pressure to the headline CPI, although domestic travel costs declined. Inflation in market services remained robust, with insurance costs particularly high, annualising around 15%.

The RBA's current cash rate of 4.35% is considered moderately restrictive, especially for households. We expect the central bank to keep the cash rate steady until mid-2025, with the first potential rate cut anticipated around May 2025. However, significant deviations in the Q2 CPI data could prompt further tightening as early as August 2024.

Economic growth has slowed significantly, with the labor market showing signs of easing. The National Accounts data highlighted a growth slowdown to 0.1% q/q, and the Monthly Business Survey for June 2024 indicated a decrease in business conditions, though confidence showed some improvement. Looking ahead, inflation is expected to gradually moderate towards the mid-point of the RBA's target range through 2025 and 2026, although this trajectory may be uneven.

In summary, while inflationary pressures remain a concern, economic indicators suggest a smooth path towards stabilisation.

Year in Review (continued from Page 1)

Below, you will find a table of our manager's six year track record, which further elucidates our strategy. This table highlights our long term growth focus rather than short term gains, proving invaluable in the grand scheme. It also underscores our recent efforts to smooth the return trajectory with a more balanced portfolio and our approach of waiting for our investment thesis to mature ensures that, despite modest years like 2024, our focus on high quality investments yields superior performance in the medium to long term.

Manager Track Record

		Year Return	Since Inception
FY 2024	Audit in progress	3.92%	17.94%
FY 2023	Audited	18.12%	19.96%
FY 2022*	Unaudited	0.16%	17.29%
FY 2021*	Unaudited	35.55%	22.96%
FY 2020*	Unaudited	(0.72%)	12.30%
FY 2019*	Unaudited	25.50%	25.50%

Returns are Net of Fees and Including Franking Credits

*Returns from FY 2019 - FY 2022 were in a different investment vehicle structure to the Caltha Equity Fund.

*Returns from 2019 - 2022 are not included in the offical Caltha Equity Fund performance.

Fund Snapshot

Unit Price	1.000
Current Holdings	6
Cash Position	(7.96%)

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