CALTHA CAPITAL

Caltha Equity Fund

Quarterly Report

December 2024

Executive Summary

17.59%

per annum. since inception.

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During the December quarter, the ASX200 Accumulation Index declined by 0.80%, while our portfolio retreated by 3.88%.

Macroeconomic and geopolitical factors are contributing to market volatility. Inflation, although nearing central bank targets, remains a concern, and the Reserve Bank of Australia's policy signals are oscillating between a potential rate cut in February or May. Meanwhile, Donald Trump's return to office and China's expanding maritime capabilities introduce additional uncertainty. On the domestic front, Australia's robust employment data and consistent retail spending suggest resilience, though the property market's softening could be signalling early cracks.

Magellan Financial Group emerged as a key outperformer, buoyed by robust global fund performance and favourable revenue projections from Barrenjoey, which indicate at least a 13% year-over-year increase. Conversely, IDP Education was our largest detractor, largely due to its recent inclusion into the portfolio and the typical lag associated with our investment strategy. The company is currently facing policy headwinds with global governments' cap on international student enrolments. Nonetheless, IDP reports rising enquiries from key markets, underscoring its potential for sustained growth despite regulatory hurdles. We remain confident that their fundamentals will validate our strategy over the medium to long term.

In the resources sector, Liontown Resources dispatched its first spodumene concentrate shipment from the Kathleen Valley project, representing a milestone in the company's evolution into a lithium producer. However, responding to declining lithium prices, Liontown prudently scaled back its annual production target from 3 million tonnes to 2.8 million tonnes, prioritising profitability while retaining the option to ramp up once market conditions improve. Despite a sharp price decline, the lithium industry's long-term prospects remain strong, as evidenced by Rio Tinto's 2.5 billion investment in the Rincon project in Argentina, targeting 60,000 tonnes of battery-grade lithium carbonate by 2031 and McKinsey reporting global lithium demand to grow sixfold to 2030, requiring around 4,700 GWh of lithium-ion battery production to meet base case demands.

Performance

"In the short run, the stock market is a voting machine. But in the long run, it is a weighing machine." - Benjamin Graham

While the quarterly performance of the portfolio did not meet our expectations, we remain confident with the positioning of the portfolio and our current holdings over the long term. Given the nature of our strategy, time is essential in allowing each holding's thesis to play out, ignoring short-term volatility and maintaining complete faith in the underlying fundamental research that supports our ideas and allows the market to function as a weighing machine in the long run.

Magellan Financial Group was our largest contributor to performance for the quarter, while IDP Education was our largest detractor. We expect both IDP Education's and Woodside Energy's theses to unfold into FY2025, with accelerated performance into FY2026 as geopolitical landscapes evolve in their respective sectors. A renewed Trump administration would likely be favourable for student immigration, as the U.S and by extension, much of the world, tightens controls on illegal immigration, opening the door for larger intakes of international students.

Oil and gas markets are seeing a steady recovery now that the U.S election is over and fears of a recession dampening demand are swiftly fading. Since quarter end, the Australian Financial Review highlighted the potential for Australia, currently the world's third largest LNG exporter, to begin importing gas by 2026. This development sheds light on the oil and gas supply & demand theme we have pursued with Woodside Energy. Underinvestment over many years, driven by climate activists advocating for peak demand, has led to a long awaited supply deficit.

Track Record	**3 Months**	**3 Year** per annum	**5 Year** per annum	**Since Inception** per annum
Caltha Capital	(3.88%)	9.32%	13.00%	**17.59%**
ASX 200	(0.80%)	7.98%	8.35%	**10.60%**
Out-performance	(3.08%)	1.34%	4.65%	**6.99%**

Returns are net of fees and including franking credits. Part of the track record was before the current structure was established.

Holdings

TOP 3 HOLDINGS

Magellan Financial Group	37%
Woodside Energy	27%
IDP Education	22%

Capturing macro trends and strategic bottom-up investments

Liontown Resources dispatched its inaugural shipment of spodumene concentrate from the Kathleen Valley project. The shipment comprised 10,831 dry metric tonnes of concentrate grading 5.33% Li_2O, marking a pivotal milestone in the company's transition to a lithium producer. In response to declining lithium prices, Liontown announced in November 2024 a strategic decision to scale back production at the Kathleen Valley mine. The company reduced its annual production target from 3 million tonnes to 2.8 million tonnes, focusing on high-margin output to conserve resources and align with market conditions whilst maintaining the ability to ramp up to 4 million tonnes per annum once the spodumene pricing recovers. High-grade lithium deposits are concentrated in Australia, Chile, Argentina, and China, requiring major investments to avoid supply shortages as global lithium demand is expected to grow nearly sixfold by 2030, reaching around 4,700 GWh of lithium-ion battery production.

During the December quarter, Magellan's suite of funds had notably strong performance specifically from their global strategy with strong tailwinds from the U.S. Coupled with good news coming out of Barrenjoey with expectations of increased revenues by at least 13% in the year, shedding some light to the potential value trajectory of the home grown investment bank and uplifting the MFG share price.

The Albanese government announced plans in December to cap international student enrolments at 270,000 for 2025, which raised concerns within the sector. While the policy was intended to address overcrowding in metropolitan universities, it created uncertainty in IDP's growth projections, particularly for placements to Australian universities. We maintain our thesis on IDP Education and view the new student cap as a tailwind for IDP to gain further market share as students seek out the higher quality placement provider. Throughout the quarter, IDP Education reported a surge in student placement inquiries from countries like India, Nepal, and Bangladesh. This increase was attributed to eased travel restrictions and pent-up demand post-pandemic, combined with favourable exchange rates, boosting IDP's revenue streams during the period.

Fund Snapshot

Portfolio Structure

The equity fund is well positioned, with a focused portfolio of five holdings that balances sector and strategy diversification. By combining targeted value investments to leverage inefficiencies in specific companies with macroeconomic growth plays, we have effectively hedged against potential risks and optimised returns in a wide range of scenarios. Though concentrated, each position plays a distinct role, creating a robust and diverse portfolio.

In managing a concentrated portfolio, it's essential to be highly selective about the companies included, as position weights mean individual holdings can significantly influence short term returns. However, each company that enters our portfolio is chosen based on thorough fundamental research, with a focus on long term investment horizons. Whilst short term market fluctuations are inevitable, we believe that true business fundamentals will ultimately prevail over time and are happy to sit through short term pain for long term outperformance.

Unit Price
$1.025

Cash Holding
5.05%

Investments
5

Management Fee
0.00%

Performance Fee
15.00%

Minimum Investment
$500,000

Strategy

Our fundamental objective as fund managers is to generate alpha returns.

High Conviction

A curated portfolio of 5 investments within the ASX200 each with a specific and strategic diversification target.

Positioned the portfolio to generate outsized returns, as top ideas receive more capital allocation

A more focused, in-depth analysis and monitoring, leading to a better understanding of each investment and uncovering unique opportunities.

Long-Term Outlook

Decisions based on company fundamentals, intrinsic value and growth potential, rather than short-term trends.

Maximising benefits from companies management teams, growth and turn around strategies.

Minimising short term market pricing risks, volatility and irrational geopolitical interference.

Style Agnostic

A strategic mixture of bottom-up individually driven investments and top-down macroeconomic driven thesis.

Allowing us to create a portfolio concentrated enough to outperform and sector diverse enough to be safe.

Ability to structure the portfolio investments to hedge risk against each other and macroeconomic influence.

Research Driven

Each investment has been deeply researched, backed by facts, data and sound reasoning, supporting consistent portfolio performance.

Utilise our concentrated focus and time to research investments and uncover insights that are overlooked by the broader market.

Thorough research enables us to identify potential risks early and implement strategies to mitigate them effectively.

Areas of Focus

- Domestic Economic Data
- RBA Rate Outlook
- Global Student Immigration Policies
- Physical Oil & Gas Markets
- Global Geopolitical Tensions

Thank you.

For taking the time to read this report. If you have any questions or would like to discuss our findings further, please don't hesitate to reach out to us.

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