

# WaveStone Dynamic Australian Equity Fund

## Quarterly Fund Report - September 2023

### Portfolio returns

The Fund delivered a total return of -0.5% for the September quarter after all fees and expenses. The S&P/ASX 300 Accumulation Index returned -0.8% over the same period. The Fund size was \$153.5m and the unit price was \$1.4781 as at 30 September 2023.

Performance	Quarter %	FYTD %	1 year %	3 years % p.a	5 years % p.a	10 years % p.a <sup>4</sup>	Inception % p.a <sup>1,4</sup>
Fund return (including franking credits)	-0.1	-0.1	11.6	13.2	7.9	9.1	10.6
Less: Franking credits <sup>2</sup>	0.4	0.4	1.2	1.3	1.6	1.5	1.5
<b>Total Return<sup>3</sup></b>	<b>-0.5</b>	<b>-0.5</b>	<b>10.3</b>	<b>11.9</b>	<b>6.2</b>	<b>7.6</b>	<b>9.1</b>
S&P/ASX 300 Accumulation Index <sup>4</sup>	-0.8	-0.8	12.9	10.8	6.6	7.4	8.7
<b>Active return<sup>3</sup></b>	<b>0.3</b>	<b>0.3</b>	<b>-2.6</b>	<b>1.1</b>	<b>-0.4</b>	<b>0.2</b>	<b>0.3</b>
Average Daily Net Equity Exposure	81	81	81	81	80	79	81

Past performance is not a reliable indicator of future performance. Numbers may not add due to rounding. Data source: Fidante Partners, 30 September 2023.

<sup>1</sup>The Fund's inception date is 02 July 2009.

<sup>2</sup>Franking credits accrued as received by the Fund.

<sup>3</sup>After all fees and expenses and assumes all distributions are reinvested.

<sup>4</sup>From 1 January 2014, the benchmark of the Fund changed to the S&P/ASX 300 Accumulation Index. Prior to this, the benchmark of the Fund was the RBA Cash Rate.

### Portfolio analysis as at 30 September 2023

Exposure analysis	
Position	% of net invested capital
Long Stocks (37)	103.4
Short Stocks (9)	-6.6
Gross Exposure	110.0
Net Physical Long	96.8
Index Futures/Puts	-17.3
<b>Net effective equity exposure</b>	<b>79.5</b>
<b>Cash/(Borrowings)</b>	<b>3.2</b>

Largest stock holdings	
Stock net exposure analysis	% of net invested capital
BHP Group Limited	9.1
CSL Limited	8.4
National Australia Bank Limited	5.7
Commonwealth Bank Of Australia	5.2
ANZ Group Holdings Limited	4.9
<b>Top 10</b>	<b>53.1</b>

### Quarter in review

The September-23 quarter was a weak period for Australian equity markets, with the ASX300 Accumulation Index down 0.8% amidst surging bond yields prompting caution from investors. This included FY23 reporting season across August which signalled a largely resilient Australian economy but broad-based downgrades for future earnings given risks around labour cost inflation and increasing interest rates.

**Global Markets:** Locally, small caps fared worse, with the Small Ordinaries index down 1.9%. US markets fared worse as a response to more severe upward moves in bond yields, with the S&P500 down 3.3% and the NASDAQ down 3.9%.

1 WaveStone Dynamic Australian Equity Fund

**Sector Performance:** There was high variability between sectors during the quarter. The best performing sectors were Energy (+12.8%), Consumer Discretionary (+6.1%) and Financials (+2.7%). Energy stocks outperformed in line with the strength in oil prices, while Consumer Discretionary was helped by less bad than feared trading updates during reporting season. Financials were mostly led by the banks in response to strong employment outcomes implying a more benign credit cycle, as well as marginal restoration of industry rationality with CBA removing mortgage cashbacks. The worst performing sectors were Healthcare (-8.9%), Consumer Staples (-5.2%) and IT (-4.8%). Healthcare was dragged down by sector concentration in CSL and Resmed. Consumer Staples



weakness was partly explained by a reversal in the crowding in "defensive" grocery stocks and increased El Nino fears on the agricultural exposures in the sector. IT stocks were impacted by their long duration sensitivity to rising bond yields.

**Rate and Yields:** The quarter saw significant rises in bond yields as markets gravitated to a "higher for longer" stance as a response to better than feared economic activity and associative impacts on prices, notably energy. The AUS 10-Yr lifted 46bps to 449bps, reaching its strongest levels since October 2011 and most major bank economists are now pushing out rates cut to August 2024. The US 10-Yr lifted 73bps to 457bps, with the Federal Reserve reiterating their hawkish tone over their meetings this quarter. In terms of central bank actions, the RBA paused all 3 months during the quarter, with September accommodating the transition of RBA Governor to Michelle Bullock from Phil Lowe. In contrast, the FOMC hiked rates by another 26bps in their July meeting. The AUD fell further by 3.4% to 64c against the USD in response to the widening central bank rate differentials.

**Commodities:** Commodity trends were broadly strong, notably seen in the surge of oil prices during the quarter, with Brent Crude up 27.3%. This was a function of lower supply with drawn global inventories and a material depletion in the US SPP, further exacerbated by controlled OPEC curtailments. Meanwhile, demand forces were lifted by a more resilient US economy. Iron Ore prices rose 7.1%, mainly due to solid crude steel production data in China.

**Corporate News:** There was little corporate activity during the quarter in part due to seasonality given reporting blackout, as well as weak ECM markets. The start of the quarter saw the IPO of Redox, a diversified chemicals distributor, which thus far trades below its IPO price of \$2.55ps. In August, packaging company Orora announced an acquisition for French luxury glassmaker SaverGlass at 7.7x cash multiple.

## Fund Performance Summary

The Fund delivered a return of -0.5% for the September quarter after fees and expenses, outperforming the broader ASX300 accumulation index which returned -0.8% over the same period. Top performers over this period included our holdings in Carsales and Treasury Wine, and our short in Illuka Resources. Top detractors included our holdings in Resmed, Transurban, and being underweight Goodman Group.

Fund's best performing investments			
Longs	bps	Shorts	bps
carsales.com Ltd	+45	Illuka Resources Limited	+34
Treasury Wine Estates Ltd	+26	Nanosonics Ltd	+10
National Australia Bank Limited	+23		

## Major Contributors

### Carsales

Carsales (**CAR**) was up 18% for the quarter after delivering a solid FY23 result in August and providing first time FY24 guidance for 'good' EBITDA growth on FY23 pro-forma EBITDA. This appears conservative given the number of technological capabilities that CAR is exporting from Australia to its international markets such as dynamic pricing, premium-select & media platform. Domestically, dealer margins are still elevated and whilst used car prices are coming down, they're still 20-30% above pre-covid levels - giving CAR flexibility to pull price in the near future. In private, CAR continues to win market share from Gumtree who has pivoted the strategy away from a freemium model to paid model - we believe CAR has picked up an incremental 30% share in listings since the change and now has 80% of the market. In our view, this material positive structural change has driven the re-rating in CAR's earnings multiple. In September, CAR also held a 2-day investor roadshow in San Francisco & Sao Paulo for Trader Interactive and Webmotors respectively which has increased investor confidence in the short and medium term earnings growth prospects through the cycle. It remains a core holding in the Fund; however, we have trimmed our position on valuation grounds.

### Iluka Resources

Iluka Resources (**ILU**) (short) was weaker over the quarter (-31%) as mineral sands' end-markets & pricing continued to weaken. China Zircon prices declined by c.12% since May highs, reflecting weaker China property (key end market is ceramics/tiles). However, we closed our short position in August at \$8 as we believed we were coming towards the end of the negative catalyst cycle for mineral sands & China policy would become more pro-active to minimise downside risks to growth. Since then, we have seen various housing policies relaxed/removed, including in Tier 1/2 cities, which could ultimately limit downside for commodity prices, including mineral sands.

### Treasury Wine Estates Ltd

Treasury Wine (**TWE**) outperformed during the quarter as Australia and China continued to edge closer to an agreement on the repeal of wine tariffs. Prior to the implementation of tariffs, China accounted for over 30% of TWE's EBIT via its Penfolds brand, and, while management has done an excellent job reallocating Penfolds volumes to other markets, the reopening of that profit pool would be a significant boost to earnings. The US remains a challenging market for TWE, but innovation in other parts of the business, notably Penfolds, should help drive performance over the medium term.

Fund's least performing investments			
Longs	bps	Shorts	bps
Resmed Inc	-83	Super Retail Group	-11
CSL Limited	-37	Accent Group Ltd	-11
Transurban Group Stapled	-33		



## Major Detractors

### Resmed

Resmed (**RMD**) underperformed over the quarter following a disappointing 4Q result amid uncertainty regarding the impact of the GLP-1 class of weight loss drugs on long term demand for Resmed's devices. The GLP-1 class of drugs were initially indicated for diabetes over a decade ago, but innovation has resulted in greater weight loss over time. Studies suggest weight loss of around 20% can be achieved which could be significant for the c.70-80% of sleep apnea sufferers that are overweight/obese with their weight contributing to the severity of their condition. Estimating the impact of GLP-1's on Obstructive Sleep Apnea is difficult given the limited availability of real world data. Clinical trials provide some guide to potential outcomes but as they were designed in conjunction with a strict dietary and exercise regime, real world outcomes may differ. Adherence to weight loss treatment will be a factor with side effects an issue and study participants generally regaining their lost weight once off the drugs. Drug availability and cost will limit the impact to RMD near term. In the longer term adherence to weight loss treatment will be a key factor with side effects an issue and study participants generally regaining their lost weight once off the drugs. We continue to monitor the developments closely but note that RMD's 21x FY24 PE is undemanding given it remains the industry leader with a track record of success in a relatively underpenetrated market. We expect margin improvement to flow in the 2H of FY24, supported by an improved device/mask sales mix, increased sales of the new Airsense 11 into higher margin markets outside of the US and as lower transport and component costs work their way through inventory. Longer term, the shift to a single device product line will be margin supportive as will further growth in the connected care product lines.

### Goodman Group

The Fund was underweight Goodman Group (**GMG**) heading into its FY23 result, where it reported a solid FY23 result, posting 16% EPS growth which met consensus expectations, and was slightly ahead of management's own guidance. The result was high quality, with no performance fees booked in 2H23, while the funds management platform continued to draw capital interest with ~\$1bn of equity commitments. Most importantly, GMG unveiled a material opportunity to capitalise on growing data centre demand. With ~3GW of power capacity on hand, data centres now contribute to ~30% of GMG's workbook. We had previously recognised GMG as a quality company, however our reservations centred around overearning within its industrial development division (~50% of group earnings), especially in context of a full multiple. Subsequent to the results, we have greater confidence in the sustainability of medium term earnings, as such the Fund initiated a position in Goodman Group post results.

### Transurban Group Stapled

Transurban (**TCL**) underperformed over the quarter following a FY23 result that was broadly in line with EBITDA and cashflow expectations but lower in terms of the FY24 distribution guidance. As we outlined earlier in this report rising yields have been a headwind over the quarter for stocks with duration, from which TCL is not immune. At the headline level, the guidance for a 62¢ distribution versus consensus of 63¢ is not a large

miss, however with TCL including in its guidance a 3-4¢/sh cash release from WCX not in the markets estimates, the differential becomes much wider. Our conversations with management and the board suggest to us there is a level of conservatism in the guidance designed to allow for potential traffic weakness in Sydney with the significant roadworks taking place through the network and also to give Michelle Jablko some room in her new role as CEO. We see revenue and earnings as being well supported by inflation, strong population growth and an ongoing gradual return to work and recovery in airport volumes. The Group remains well positioned to deliver growth projects, particularly in the domestic market where its existing footprint and track record of delivery provides it with a strong market position. The Group remains well positioned to deliver growth projects, particularly in the domestic market where its existing footprint and track record of delivery provides it with a strong market position.

## Fund Activity

New Stocks Added	Stocks Exited
<ul style="list-style-type: none"> <li>Goodman Group</li> <li>IDP Education</li> </ul>	
Increases	Decreases
<ul style="list-style-type: none"> <li>Charter Hall</li> </ul>	<ul style="list-style-type: none"> <li>carsales.com</li> <li>Kelsian Group</li> <li>Resmed</li> </ul>

## Key additions

**Goodman Group:** The Fund initiated a position in Goodman Group (**GMG**) post the company's FY23 results. We have been admirers of the company management, strategy and competitive advantage in a structurally growing industrial market - however had been reserved on the sidelines on the basis of valuation. Our thesis changed as GMG unveiled a material opportunity (~30% of WIP) towards data centres, where the company is favourably positioned to repurpose its industrial sites to powered shells (ie. GMG has the land assets on low cost basis, and expertise in planning and connection to power). The value latency is high under the incumbent developer model - costing 2x the capital but 3-4x the rents, underpinned by high revenue visibility given 15-20 year lease terms. With multiple options to exploit across growing long term markets in logistics and data, our fundamental valuation for GMG has increased such that we were willing to initiate a position at current levels.



**IDP Education:** The Fund started a position in IDP Education (IEL) during September. IEL is a global service provider in the higher education space, primarily exposed through its Student Placements (provides counselling services to aspiring students for overseas study) and IELTS (distributes and administers the IELTS test) divisions. The business possesses lucrative network effects, given the depth and breadth of its relationships on both sides of the ledger with the student and the institution. We have previously owned the company but sold on the basis of valuation. The stock has fallen ~20% YTD given fears around the IELTS business losing share post the opening of Canada to alternative testing providers. Moreover, sentiment has soured on recent geopolitical disputes between India and Canada, which serves as the primary source to destination route for IEL. Despite this, we believe the fundamental drivers of the company remain intact, with IEL continuing to invest (we visited their R&D hub in Chennai in September) and strengthening its network over the long term. With the multiple derated back to pre-covid levels and the stock trading at its lowest premium relative to the market since 2018, we think this is an attractive entry point.

#### **Notable increases**

**Charter Hall:** The Fund increased its position on Charter Hall (CHC) over the quarter. Despite industry headwinds on muted transaction markets and net investor flows, we think this is well understood and more than reflected in the current share price. In an out of favour office environment, we believe CHC's possesses a stand-out office portfolio, with occupancy and leasing momentum performing above expectations, reflective of its young, well located and low capex characteristics. This should also soften the quantum of devaluation for CHC's asset portfolio. With little leverage at the headstock level and management intention to de-lever the troubled fund vehicles, and the likely peaking of cash rates, we await a reset event to get the funds platform rolling and a share price rerate.

#### **Notable portfolio exits and reduction**

**Carsales, Resmed & Kelsian:** Given the strong share price performance and our strong focus on valuation discipline, the Fund reduced its holding in both Carsales and Kelsian in the September quarter. CAR and ResMed remain core positions within the Fund. ResMed see above commentary in major detractors.



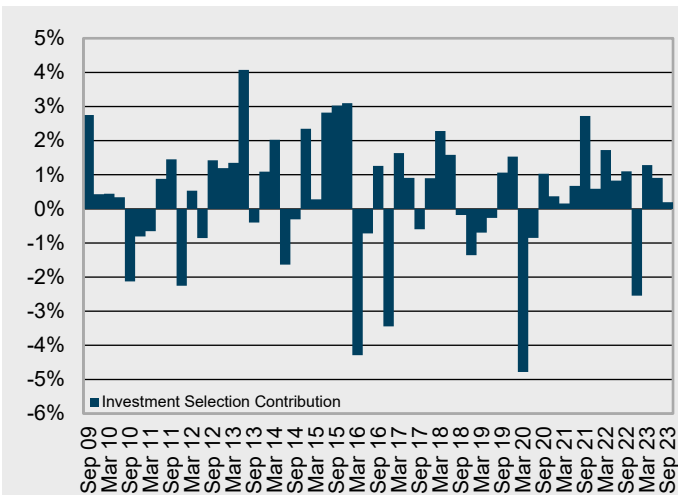
## Fund Statistics

<b>Best month <sup>1</sup></b>	10.5%	<b>Worst month <sup>1</sup></b>	-20.0%	<b>Fund volatility</b>	11.5%
<b>Sharpe Ratio</b>	0.6%	<b>Positive months</b>	68%	<b>S&amp;P/ASX300 volatility</b>	13.7%

<sup>1</sup> Based on monthly returns since inception. After all fees and expenses and assumes all distributions are reinvested.

## Quarterly investment selection contribution

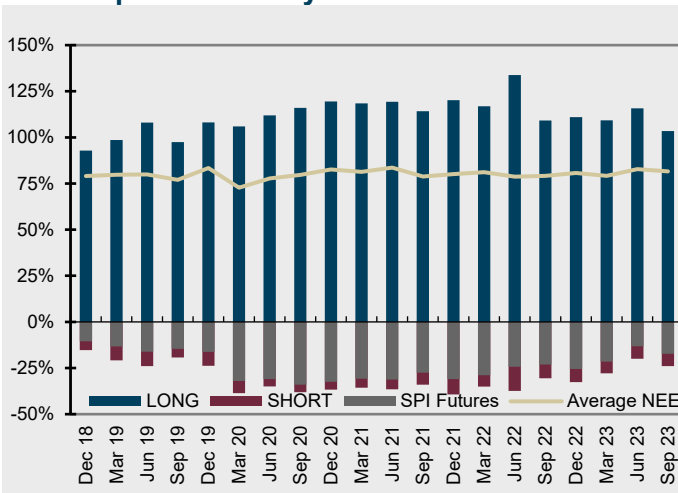
Market return x NEE = Mkt Contribution + Investment Selection Contribution = Total Return				
Market return	x NEE	= Market contribution	+ Investment Selection contribution	= Total return
-0.8	81.4	-0.7	0.2	-0.5



### Past performance is not indicative of future performance

This table represents the part of the Fund's Quarterly Total Return (after all fees and expenses and assumes all distributions are reinvested) that is attributable to WaveStone investment selections. Investment selection contribution is defined as Total Return (after all fees and expenses and assumes all distributions are reinvested) less market benchmark adjusted by the Funds Average Net Equity Exposure (NEE).

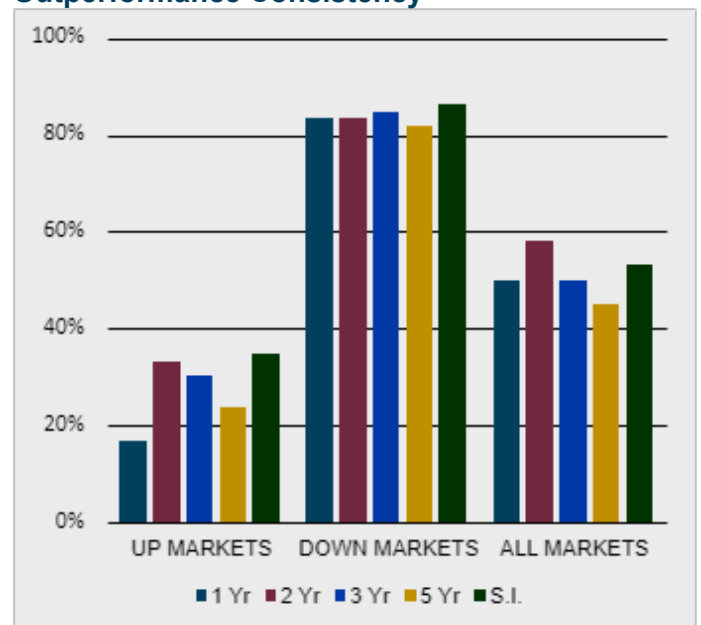
## Fund exposure history



## Sector exposure analysis as at 30 September 2023

	Long	Short	Net	Index	Diff
Consumer Discretionary	9.4	-3.7	5.7	7.0	-1.4
Consumer Staples	6.8	-0.8	6.0	4.5	1.4
Health Care	15.4	-2.5	12.9	9.0	4.0
Energy	5.7	-1.1	4.5	6.6	-2.1
Utilities	0.0	-0.3	-0.3	1.5	-1.8
Industrials	7.8	-1.1	6.7	6.7	0.0
Materials ex Metals & Mining	2.0	-1.9	0.0	2.5	-2.5
Metals & Mining	19.9	-3.7	16.2	21.6	-5.4
Non-bank Financials	6.9	-2.4	4.5	8.0	-3.5
Banks	18.6	-3.7	14.9	19.7	-4.8
Property Trusts	5.9	-1.5	4.3	6.0	-1.7
Telecoms	3.0	-0.7	2.3	4.0	-1.7
Information Technology	2.1	-0.4	1.6	2.9	-1.2
<b>Total Exposure</b>	<b>103.4</b>	<b>-23.9</b>	<b>79.5</b>	<b>100.0</b>	<b>20.5</b>

## Outperformance Consistency



### Past performance is not indicative of future performance

After all fees and expenses and assumes all distributions are invested. The Fund's inception date is 02 July 2009. From 1 January 2014, the benchmarks of the fund changed to the S&P/ASX 300 Accumulation Index. Prior to this, the benchmark of the fund was the RBA cash rate.



## Outlook & Strategy

Global growth continues to be resilient despite the sharp increase in interest rates across the developed world. Whilst headline inflation rates have peaked, higher oil prices more recently as a result of announced OPEC production cuts coupled with stronger demand has raised renewed worries on the persistence of higher inflation. We worry that the market is being complacent on the implications of the Israel-Hamas catastrophe spreading to war in the Middle East especially on top of the Russian Ukraine conflict and going into winter, oil price volatility is a key risk. There are elections in Taiwan, India and finally the US in 2024 – we therefore expect geopolitics to keep centre stage for the foreseeable future in a multi-polar world.

The US economy remains extremely strong despite the sharp increase in interest rates, with the Fed forecasting that interest rates will have to stay higher for longer. Third quarter GDP in the US is forecast to grow at 3.8% and recent data on employment remains strong, with nonfarm payrolls at 336,000 in September 2023. Recent inflation data has also surprised to the upside, resulting in further volatility in short and long interest rates.

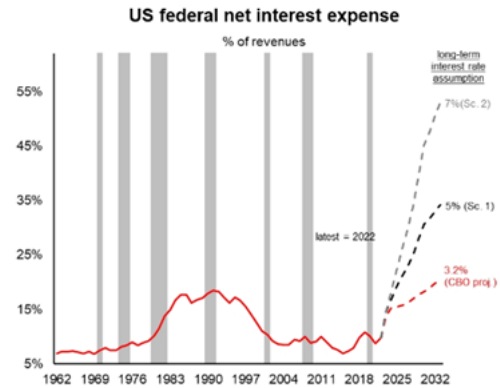
**Payrolls growth was strong at +336k in September – upwards revision to July and August amounted to +119k**



Source: Macrobond, Macquarie Macro Strategy

Despite the strong economy, the Federal deficit is high and net interest expense as a share of Federal revenues is expected to climb steeply if we experience a "higher for longer" interest rate regime.

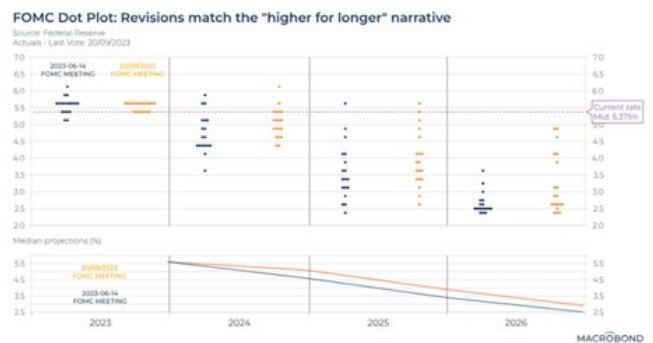
**Share of Federal Government revenue dedicated to net interest expense is poised to rise and could do so significantly in a higher for longer regime**



Source: Macrobond, Macquarie Macro Strategy

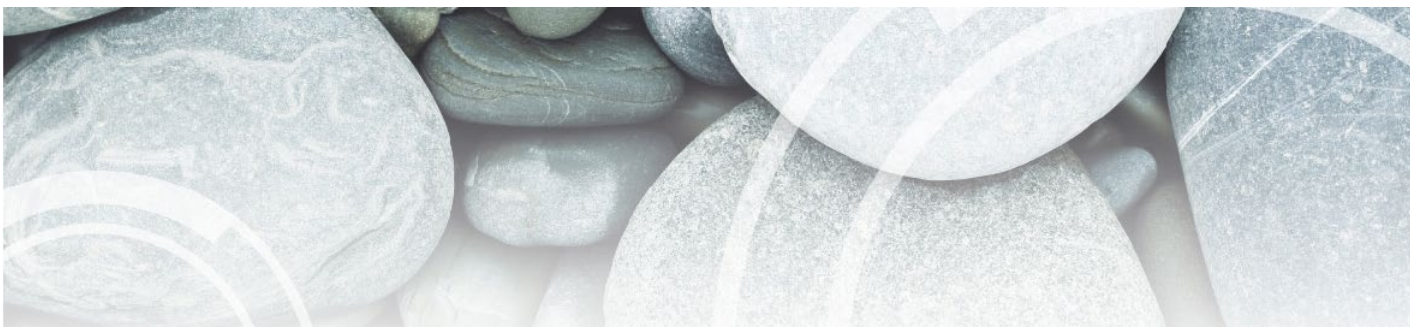
The more hawkish approach taken by the Fed has led to expectations of "higher for longer" rates, with FOMC participants in effect more confident in a soft landing and not needing to lower interest rates despite inflation coming down over CY24. *It is important to remember that Fed Chair Jerome Powell's second term expires in May 2026 and assuming this is his last term, he has just over 2.5 years to get inflation close to the 2% target – and therefore cannot afford another false start in his quest to not be remembered as the next Arthur Burns.*

**FOMC Dot Plot: Revisions match the "higher for longer" narrative**

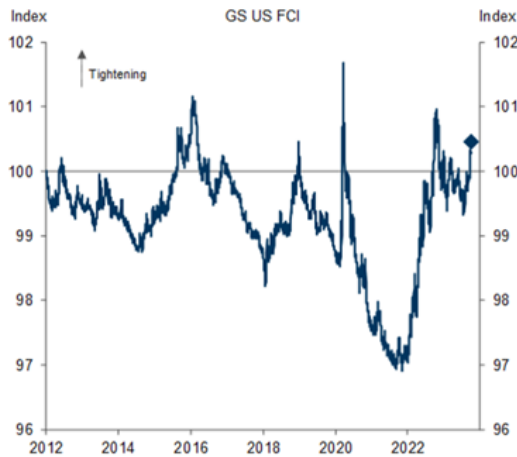


Source: Federal Reserve, Macrobond

The interest rate volatility following the September Fed meeting has definitely had the impact of tightening financial conditions considerably, impacting all asset markets.



**Goldman Sachs US Financial Conditions Index**



Source: Goldman Sachs

The repricing of US government bonds is happening at a time when China is reducing its Treasury holdings and markets are questioning Japan's commitment to Yield Curve Control (YCC) policy.

Over the past decade, China's US Treasury holdings have been trending down, while Japan's holdings have been broadly stable

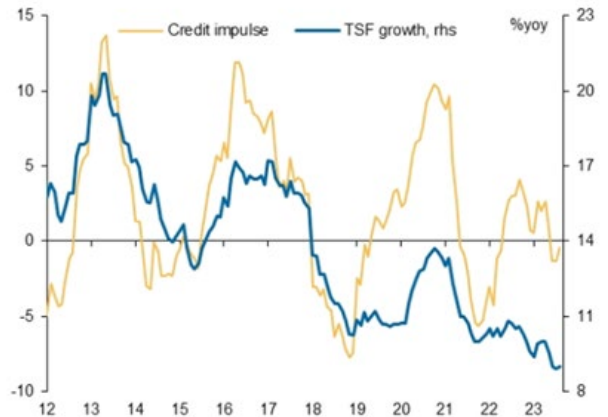


Source: Macrobond, Macquarie Global Strategy

Recent data point to stabilisation in Chinese growth. The collapse of Evergrande and problems with other high profile property developers such as Country Garden has meant that the new home market remains weak. The lack of confidence in the new construction market is reflected in new home sales (30 cities) which was down 25% yoy in September-23 compared to existing home sales, up 11% (14 cities) for the same period.

Credit growth and credit impulse both rebounded in August, after a weak July. Policy support continued with PBOC cutting rates twice in two months since the July Politburo meeting. We continue to expect the government to achieve its 5% GDP growth target for the year. Longer term headwinds of weak productivity coupled with poor capital allocation will mean that growth will be more muted.

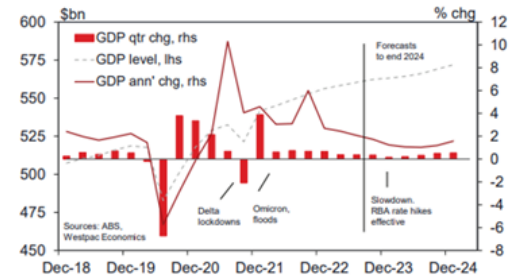
**Credit growth and credit impulse**



Source: PBOC, WIND, Macquarie Macro Strategy

The Australian economy has slowed considerably as can be seen from the chart below. Westpac and most economists continue to forecast a weak outlook for the foreseeable future.

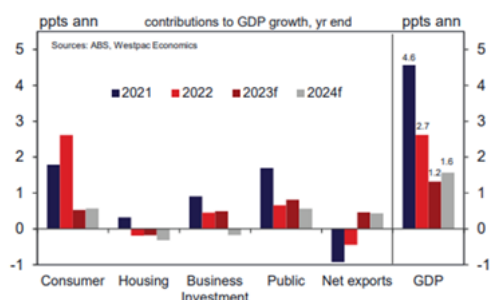
**Australian economy: sharp slowdown underway**



Source: ABS, Westpac Economics

Given the multitude of pressures on the Australian household, consumer spending which comprises over 50% of GDP is expected to remain subdued – with per capita GDP likely to remain negative until the end of this fiscal year. The chart below shows composition of GDP growth for four years. Note the post covid consumer recovery in 2021/22 followed by the sharp slowdown in 2023 despite strong immigration.

**Australia: the growth mix**

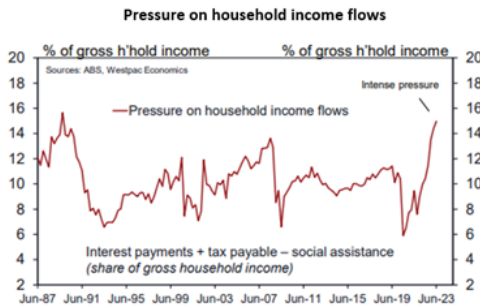


Source: ABS, Westpac Economics

The chart below shows the impact of higher interest rates and tax payable as a share of gross household income – hitting

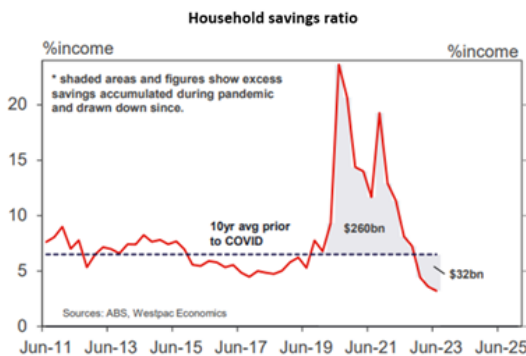


highs from the late 80s when nominal interest rates were in the mid-teens.



Source: ABS, Westpac Economics

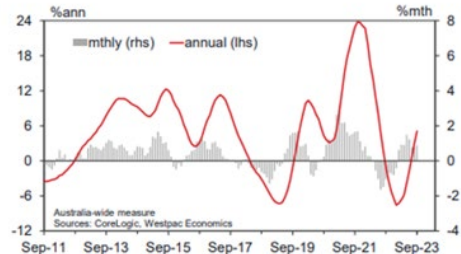
Wage inflation (up 3.7% yoy as measured by the Wage Price Index) so far hasn't picked up given the lag from EBAs and FWC determinations. The ~6% average increase in awards/minimum wages will hit the September quarter and when combined with the 15% increase in the awards for aged care workers and removal of wage caps in NSW public sector, we expect to see higher wage growth into the second half of the year. This will no doubt put further pressure on the RBA to increase interest rates.



Source: ABS, Westpac Economics

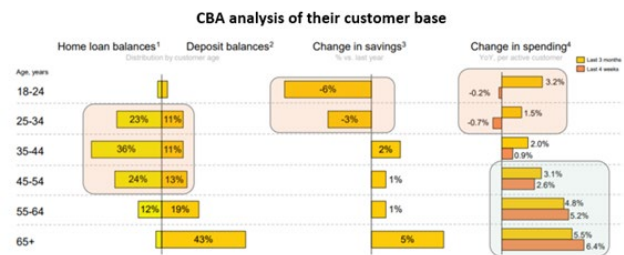
Despite the negative impact on household income, spending has remained quite resilient but as can be seen from the chart above, there is a drawdown from the pandemic savings bucket estimated to be around \$32B in the last 3 quarters. There remains a significant chunk (~\$230B) still – there is much debate whether that amount gets spent or permanently saved – which will ultimately determine how resilient consumer spending will be in CY24. Home prices in the main metros have resumed their upward journey and that is a significant positive factor (wealth effect) for indebted households as well as for the resilience of the banking sector. The CoreLogic home value index, covering eight capital cities, rose 0.9% in September, or 5.1% yoy.

**Australian dwelling prices**



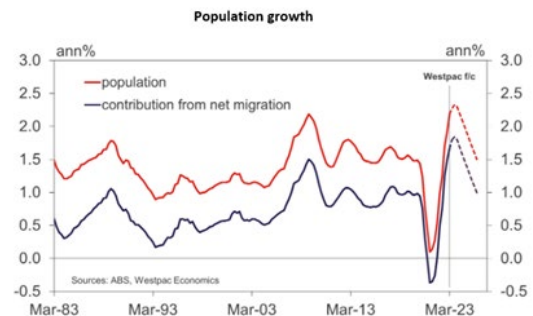
Source: CoreLogic, Westpac Economics

An analysis in the recent CBA result of their customer base also showed the impact of the higher interest rates across the Australian household from a demographic perspective:



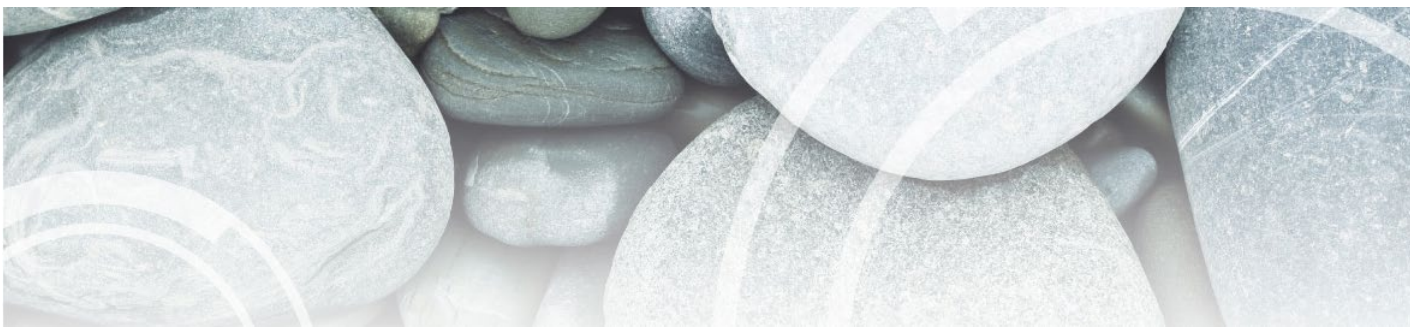
The last column shows the changing spending patterns in recent weeks (July-23) – with older households (55+) who are beneficiaries of the higher rate environment (interest income) spending more whilst the younger cohort are experiencing the most stress due to higher cost of living expenses – energy costs, higher rent or mortgage expenses and higher insurance costs.

Strong population growth has been the other big factor in the last few quarters which has meant that overall spend has been more resilient. This has been reflected for instance in car sales in September which was up 18% yoy.

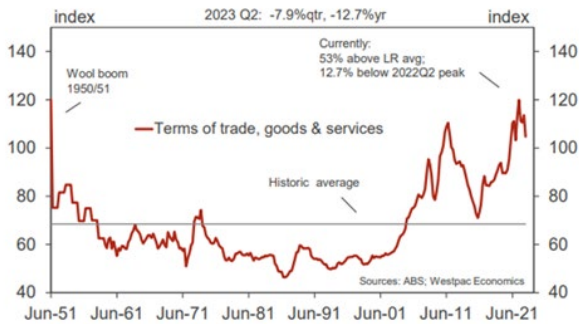


Source: ABS, Westpac Economics

The offset to this period of consumer weakness is that the budget position particularly at the Federal level is significantly better than expected. Australia's terms of trade remain at very high levels despite it retreating somewhat, helping government revenues. In FY25, Stage 3 tax cuts – at ~\$20B will be a support to consumption.



**Terms of trade, recedes from record high**



Sources: ABS, Westpac Economics

The August reporting season didn't have too many surprises – nominal revenue growth remained strong given the inflationary backdrop. Despite the consumer being under pressure, strong employment (higher hours worked) has allowed corporates to pass through cost increases, with little sign of competitive power eroding pricing power. Companies were cautious on their outlook for FY24. There were significant downgrades below the operating EBIT line, mainly linked to higher interest costs.

This is the first reporting season in a while where better managed corporates in the same industry have managed to deliver good results compared to the average. We worry that corporates are not adjusting quickly to the higher inflationary environment as not many senior managers have operated in these conditions. We have used our engagement with Boards through the AGM season to heavily discuss these issues – especially for companies that are more capital intensive and therefore dependent on capital markets and debt.

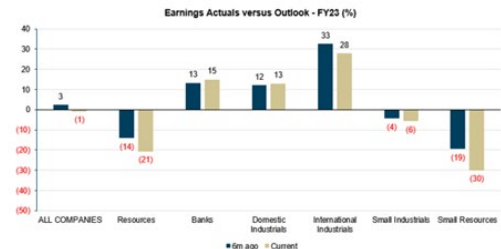
The earnings outlook for FY24 remains subdued at an overall level, given the uncertain operating environment. This is mainly because of the lower price forecasts for commodities which see frequent revisions based on sentiment on China.

Market and sector EPS growth (%) (pro-rated to June)	FY23E	FY24E	FY25E	Current 1 yr fwd	Forecast 2 yr Fwd
All Companies	(0.9)	(3.8)	9.1	(4.0)	10.1
Banks	14.7	(6.8)	(2.1)	(8.4)	(1.8)
Property Trusts	2.3	3.6	8.3	3.7	8.7
Resources	(20.5)	(13.0)	16.0	(12.4)	18.2
Industrials (All Cos ex Res, LPTs, Banks)	19.6	8.9	10.0	8.1	10.1
S&P/ASX 100	0.3	(5.3)	8.0	(5.7)	9.0
Small Companies	(14.8)	14.4	19.5	16.6	19.8
Small Industrials	(7.6)	(2.9)	14.1	(2.5)	15.5
Small Resources	(30.4)	66.9	28.8	74.3	25.8
Domestic Industrials	12.5	6.7	10.5	6.2	10.8
International Industrials	27.6	11.0	9.6	9.8	9.5

Source: Macquarie

As can be seen from the chart below, international industrials were the standout sector whilst domestic industrials did well – street expectations have been low for these companies given the macroeconomic outlook, but most companies have positively surprised.

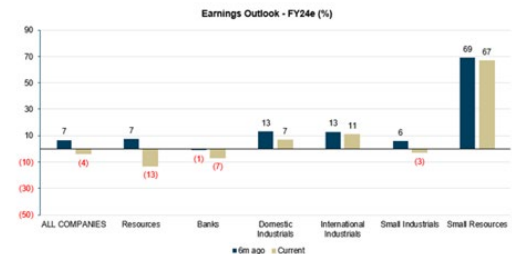
**MARKET FY23 EPS ACTUALS LOWER DESPITE BANKS DOING BETTER**



Source: Macquarie

For FY24, the big downgrades have been in resources – with expectations of a fall in the iron ore price mainly. Given the resilience of the iron ore price in recent weeks, we expect some of that to reverse. The high inflationary environment and stabilisation in China has meant that analysts are forecasting higher nominal long run prices now and that is particularly beneficial for the big miners who are at the lower end of the cost curve.

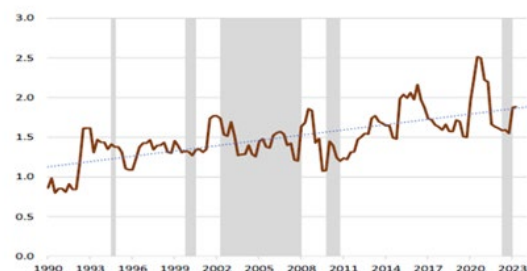
**RESOURCES SEEING CUTS WHILST LARGE INDUSTRIALS FARING BETTER**



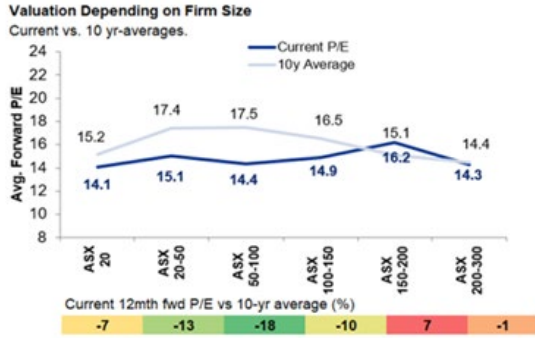
Source: Macquarie

We understand that there is considerable dry powder with private market participants - M&A activity is picking up, especially in the mid cap industrial space. Leverage in the listed corporate sector is low – allowing for companies to tide through the next 12 months of volatile trading. Given the inflationary environment, we expect companies to think carefully in making "buy or build" decisions as existing stock gets a valuation uplift because of the higher replacement cost.

**Leverage: ASX non-fins ex-resources**



Source: Refinitiv, UBS



**We consider bottom-up stock picking as the key ingredient to long term portfolio outperformance.** WaveStone follows its defined investment approach to identify high quality business franchises that have built and demonstrated a Sustainable Competitive Advantage (SCA). We continue to focus on companies offering valuation upside with effective capital allocation.

### ESG Activity

Our most recent report on ESG activity can be found here: [WaveStone ESG report](#)

Source: Goldman Sachs



## ASIC Periodic Reporting Requirements

The WaveStone Dynamic Australian Equity Fund (Fund) is classified as a hedge fund in accordance with the Australian Securities and Investments Commission Regulatory Guide 240 *Hedge funds: Improving disclosure*. We are required to provide this additional information to you on a quarterly basis.

## Asset Allocation (as at 30 September 2023)

Exposure analysis	
Position	% of net invested capital
Australian listed equities	96.8
International listed equities	-
Exchange traded derivatives	(17.3)
Over-the-counter derivatives	-
Cash equivalent investments	3.2
Net equity exposure	79.5
Gross equity exposure	127.3

## Liquidity profile

The table below demonstrates the liquidity profile of the Fund as at 30 September 2023.

In summary, 100% of the Fund's assets can be liquidated within 10 days.

Time to liquidate	% of assets
Within 1-10 days	99.85%
>10 to 21 days	100%
> 21 days	100%

## Maturity profile

As at 30 September 2023, the Fund does not have any material liabilities.

## Derivative counterparties engaged

The derivative counterparties engaged for the period 1 July 2023 to 30 September 2023 are provided in the table below.

Derivatives counterparty
UBS AG, Australia Branch

## Leverage ratio

WaveStone uses leverage to increase the exposure of the Fund to investment markets. Leverage can be obtained by either of the following methods:

- Using derivative instruments to increase the Fund's investment exposure beyond the net asset value of the Fund; or
- Borrowing a share to sell on the market (short selling); or
- Borrowing cash to invest.

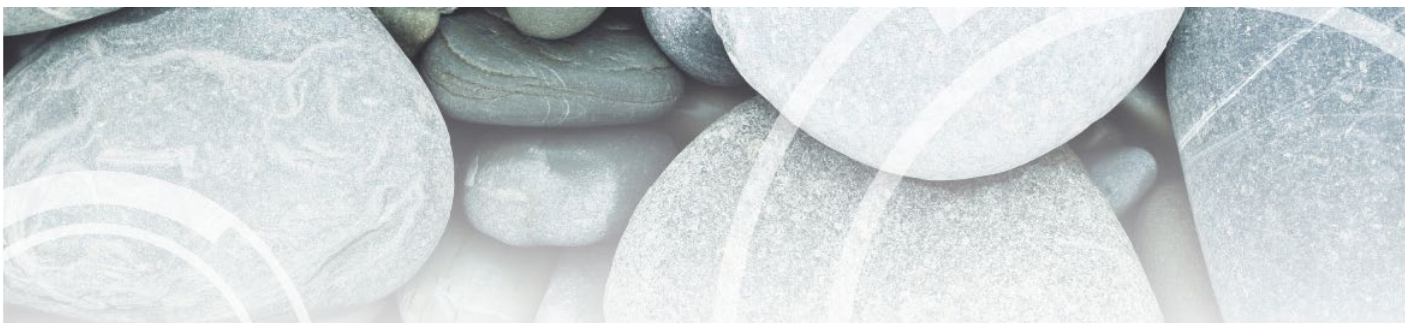
WaveStone will use leverage as an investment strategy predominantly through short selling and using derivatives.

Short positions are taken on particular stocks where WaveStone believes a security is overvalued and it is expected that these stocks will fall in price, or for hedging purposes. Short selling will also increase the Fund's total gross effective exposure to the share market above 100% of its net asset value.

The Fund may have gross exposure of up to 250% of net asset value (NAV), including up to 100% in short positions and 150% total in long positions.

The Fund has the ability to borrow up to a maximum of 50% of the Fund's net asset value. The level of borrowings employed by the Fund have historically been and is anticipated to continue to be around 0-20% of the net asset value of the Fund. Borrowings undertaken by the Fund may be undertaken through the prime broking relationship with UBS AG, Australian Branch. The Fund must provide collateral to secure its obligations under the relevant Customer Documents.

As at 30 September 2023, the Fund is long 103.4% and short 6.6%; gross leverage is 110.0% and net leverage is 79.5%.



## Fund Facts as at 30 September 2023

<b>APIR Code</b>	HOW0053AU
<b>Inception date</b>	02 July 2009
<b>Management fee + (Performance Fee)</b>	0.99% p.a. + (15% of the Fund's daily return (after fees and expenses and after adding back any distributions paid) above the Fund's Performance Benchmark.) <sup>1</sup>
<b>Buy/sell spread</b>	+0.20% / -0.20%
<b>Fund size</b>	\$153.5M
<b>Exit price</b>	\$1.4781

Data source: Fidante Partners.

<sup>1</sup>The performance fee is applied on the outperformance over the benchmark after deduction of fees and expenses and after adding back any distributions paid.

During the period there have been no changes to key service providers for the Fund including any changes to any related party arrangement. Additionally, there have been no material changes in the Fund's investment team, risk profile, or strategy, nor to the individuals who play a key role in the investment decisions for the Fund.

### Contact us

For more information, please contact Fidante Partners Adviser Services on 1800 195 853 or Fidante Partners Investor Services on 13 51 53, or visit [www.wavestonecapital.com](http://www.wavestonecapital.com)

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