DNR Capital Australian Equities Income Fund

APIR code: PIM8302AU

Performance Report January 2025

Performance

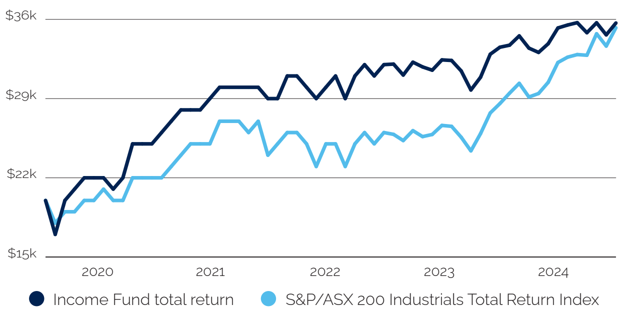
The DNR Capital Australian Equities Income Fund increased 3.04% (net of fees) in January, underperforming the S&P/ASX 200 Industrials Total Return Index by 1.79%.

Net active return as at 31 January 2025

	1mth %	3mth %	6mth %	1yr %	3yr % p.a.	Incep* % p.a.
Income Fund growth return	2.90	1.85	-0.10	3.34	3.99	7.94
Income Fund distribution return[1]	0.14	0.64	1.35	3.06	3.41	4.63
Income Fund total return[2]	**3.04**	**2.48**	**1.25**	**6.40**	**7.39**	**12.56**
S&P/ASX 200 Industrials Total Return Index	4.83	7.42	9.53	23.47	13.06	12.28
Income Fund excess return	**-1.79**	**-4.94**	**-8.28**	**-17.07**	**-5.67**	**0.28**
Income Fund distribution return incl.franking credits	**-**	**-**	**-**	**4.54**	**4.86**	**6.10**

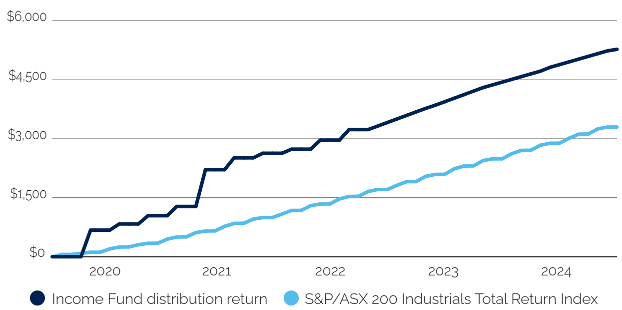
* Inception Date—11 March 2020.
Source: DNR Capital and Apex Fund Services.
[1] Calculation under FSC Guidance Note 46. [2] Total return shown for the DNR Capital Australian Equities Income Fund has been calculated using exit prices after taking into account all of the product's ongoing fees and assuming reinvestment of distributions. Past performance is not an indication of future performance. No allowance has been made for entry/exit fees or taxation.

Growth of $20,000 since inception



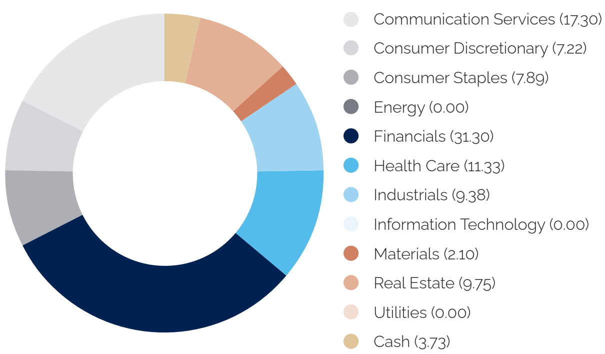
Source: DNR Capital and Apex Fund Services

Accumulated income from $20,000 since inception



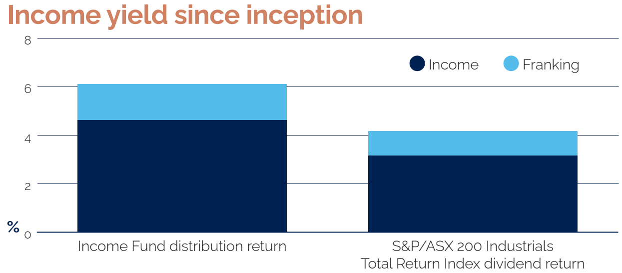
Source: DNR Capital and Apex Fund Services

Sector weightings %



Source: DNR Capital and Apex Fund Services

Income yield since inception



Source: DNR Capital and Apex Fund Services

Portfolio managers

Jamie Nicol
Chief Investment Officer

Tim Bingham
Portfolio Manager

Fund and maket review

Equity markets made a strong start to the year. The ASX 200 Industrials Total Return Index delivered a return of 4.83%, reaching all-time highs. This marks the continuation of the rally that began in November 2023 (15 months ago), which has now produced a total return of 44.6%.

The DNR Capital Australian Equities Income Fund lagged the benchmark this month, delivering 3.04%, weighed down by its more defensive positioning. Our three largest positions - Telstra Group (TLS), CSL (CSL) and The Lottery Corporation (TLC) - all lagged the benchmark, with these stocks likely used as funding for some of the more cyclical and growth-oriented areas of the market that outperformed.

This trend remains evident: defensive and value stocks continue to face significant disinterest, while stocks with strong earnings or price momentum are seeing extremely high valuations. We believe this concentration of positions is driven by a lack of confidence in investing in contrarian, undervalued segments of the market. Given the uncertainty surrounding macroeconomic conditions, we think a catalyst will be necessary to shift investor sentiment.

We don't know what the catalyst will be or when it will arrive, but it always does. As a result, those who are found to be crowding in expensive positions are usually caught out. We saw several potential catalysts in the month, each followed by shifts in market leadership, which resulted in relative performance swinging in our favour. This gives us confidence that we are well-positioned for a narrative shift when it occurs.

The first instance was news out of China, that DeepSeek, an artificial intelligence (AI)-enabled Large Language Model (LLM) is drastically outperforming US counterparts due to higher compute efficiency. The DeepSeek model doesn't require the vast amounts of computing power that the market had assumed were necessary to build, train or run such models. Many businesses exposed to the AI thematic saw significant sell-offs in the days following, highlighting the speculation that exists in some of these names.

Another shift occurred following the latest inflation print in Australia. Trimmed mean inflation, which the Reserve Bank of Australia (RBA) uses as its primary indicator, came in at 3.2%, below the RBA's estimate of 3.4%. While this is still above the target range, it could provide enough evidence to convince the RBA to begin cutting rates. The market reaction was strong, with momentum names giving way to some of the cyclical and value stocks that had been lagging.

Finally, just post month-end, we saw the Trump administration push forward with its tariff plans, which resulted in brief, but sharp market pullback. The market had been somewhat optimistic regarding the new administration, quick to price in the positives but a little complacent about the potential negatives. This shift in narrative again saw new market leaders emerge, with defensive names outperforming at the expense of some of the momentum and growth favourites.

While we watch these developments with interest, we continue to be led by our fundamental, bottom-up approach to stock picking and portfolio management. We are focused on building margins of safety within our positions, through rigorous quality assessments and valuation discipline. While this approach can lead to lagging performance in strong momentum markets, our objectives - preserving client capital and delivering growing dollar income - remain our priority and have served our investors well over the long run.

We made several moves during the month, with the underlying intention of increasing the quality of the portfolio and increasing weights in our higher-conviction ideas. We exited our position in Origin Energy (ORG), following a strong period of outperformance and used the proceeds to fund other purchases within the portfolio, including a new position in CAR Group (CAR).

CAR is a high-quality business, with a range of growth levers and a growing dividend profile. Following its high-calibre acquisitions of Trader Interactive in the US and WebMotors in Brazil, the company has an opportunity to export its excellence in online vehicle classifieds to other parts of the world. It is a name that we are very familiar with at DNR Capital, and we seized the opportunity to add it to the portfolio following a period of underperformance relative to peers.

We also made some smaller adjustments, including trimming outperformers such as Qube Holdings (QUB), Scentre (SCG) and Suncorp Group (SUN). We used the freed-up capital to build larger stakes in Dexus (DXS) and Steadfast (SDF), making them more meaningful, high-conviction positions.

Looking ahead, we move directly in to reporting season. As always, it will give us an opportunity to delve deeper into the operations of our businesses and to gauge how the market and economy are progressing. We will be meeting with the management teams of all the companies we hold and look forward to providing you with key feedback next month.

Top 5 active holdings

Security details
Telstra Group (TLS)
The Lottery Corporation (TLC)
CSL (CSL)
SEEK (SEK)
Macquarie Group (MQG)

Source: DNR Capital and Apex Fund Services

Monthly top contributors and detractors

Top 3 contributors
Macquarie Group (MQG)
Dexus (DXS)
National Australia Bank (NAB)

Top 3 detractors
Telstra Group (TLS)
Treasury Wine Estates (TWE)
CSL (CSL)

Source: DNR Capital and Apex Fund Services

Contributors

- **Macquarie Group (MQG):** outperformed this month, following the release of strong earnings results from US investment banks and the anticipation of pro-business US economic policy initiatives.
- **Dexus (DXS):** outperformed during the period, with strong expectations of a rate cut in February, particularly after the release of a weaker-than-expected inflation print late in the month. There is also growing acceptance of a return-to-office trend, which should see demand for office stabilise and net absorption turn higher.
- **National Australia Bank (NAB):** outperformed this month, aided by falling domestic inflation and increased expectations of interest rate cuts.

Detractors

- **Telstra Group (TLS):** underperformed during the period, with defensive names lagging and concerns regarding increased competition in the space. TPG Telecom (TPG) offered discounts to new customers as part of its deal with Optus to expand its addressable market, which spooked the share price. We don't believe that this is a shift in the competitive dynamic, but rather a short-term marketing tactic.
- **Treasury Wine Estates (TWE):** underperformed the market on weak industry data and peer reporting in the US, although weakness appears concentrated at the commercial end, a subsegment in the market that TWE continues to diversify away from.
- **CSL (CSL):** underperformed over the month on concerns around potential US healthcare reform and softer US Centre for Disease Control and Prevention (CDC) vaccine data.

Fund facts

Inception date: March 2020

Minimum initial investment: $20,000

Risk level: High

Management fee: 0.90% (inclusive GST and RITC)

Performance fee: Nil

Entry/exit fees: Nil

Buy/sell spread: +0.20%/-0.20%

Valuation and unit pricing frequency: Each business day

Distribution frequency: Monthly

Responsible entity: The Trust Company (RE Services) Limited as part of the Perpetual Limited group of companies.

Target Market: The DNR Capital Australian Equities Income Fund is an actively managed fund that offers investors exposure to a concentrated portfolio of high quality, large cap Australian listed equities.

This product is intended for use as a core, minor or satellite allocation for a consumer who is seeking capital growth and a regular income, has a medium to high risk and return profile for that portion of their investment portfolio. It is likely to be consistent with the financial situation and needs of a consumer with a five-year minimum investment timeframe and who is unlikely to need to withdraw their money on less than 5 business days' notice.

About DNR Capital and the Fund

Concentrated: Investing in 15-30 highest conviction, Australian listed equities. Concentrated portfolios of quality companies maximise the opportunity for outperformance.

Style neutral and quality focussed: A disciplined approach to quality and valuation.

Dual investment objective: Acknowledging the value of both income and capital, this strategy focuses on delivering a high level of tax effective income, that grows over time, in addition to growing the investors capital.

A diversified set of opportunities: At DNR Capital, we categorise income generating companies as:

- **Growers:** A company that is delivering below market income in the short-term, however is expected to deliver above market income growth over the long term.
- **Compounders:** A company that is delivering a market level of income, with the potential to deliver above market income growth on a sustainable basis.
- **Cows:** A company with a solid balance sheet and capital management potential that is being under-valued on traditional earnings-based metrics.
- **Yielders:** A company that is delivering sustainable and cash-backed dividends, however with minimal (or no) income growth.

Experienced and aligned team: The portfolio managers have more than 40 years of combined investment experience and are invested alongside our clients.

Proven process: DNR Capital was established in 2001 and a consistent firm-wide investment process has delivered more than 22 years of investment outperformance.

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