Caltha Equity Fund

FY24 Q3 Report

April 2024

Return	3 Months	1 year	FY 2023	Since Inception Per annum
Caltha Equity Fund Net of Fees, Excluding Imputation Credits	4.41%	12.45%	15.58%	13.34%
ASX200 Price Index	4.03%	10.02%	9.67%	11.56%
Out-performance	0.38%	2.43%	5.91%	1.78%

As we navigate through the ever evolving landscape of the financial markets, the Caltha Equity Fund remains resilient in its commitment to generating long-term wealth for our investors. This quarter has been a testament to our strategic foresight and disciplined investment approach, resulting in a fund performance of 4.41% net of all fees, outpacing our benchmark's performance of 4.03%. This achievement has elevated our annualised return since inception to 13.34%, compared to the benchmark's 11.56%, further reinforcing our ability to deliver superior returns.

Strategic Review and Portfolio Adjustments

In alignment with our philosophy of focusing on the long-term horizon, we have made a few adjustments to our portfolio this quarter. Recognising the evolving dynamics within the banking sector, we strategically exited our positions, redirecting our focus towards holdings that exhibit potential for sustained outperformance. This decision, while challenging in the short term, is a reflection of our investment ethos that prioritises long-term value creation over short-term fluctuations.

To mitigate risks associated with our oil and gas exposure, we have further diversified into renewable energy and lithium supply. This not only hedges our portfolio against sector-specific volatilities but also positions us to capitalise on the global transition towards electrification. Despite our anticipation that battery electric vehicles (BEVs) will only serve as an interim solution, we believe in their critical role in facilitating the shift to renewable fuel sources for transportation for the coming quarter century at the least.

Specifically, our investment in Woodside Energy is anchored by their strategic initiatives towards hydrogen energy. Woodside's proactive transition into a leading hydrogen producer, leveraging high cash flows from oil operations to fund projects with a disciplined focus on Return on Invested Capital. Hydrogen's sustainability and its pivotal role in powering heavy machinery, long-haul transportation, shipping, and aviation is the foresight into hydrogen as the 'new oil'. Fortifying our confidence in Woodside's potential for sustainable, long-term outperformance in the evolving energy landscape.

Market Outlook

It's clear the economy is experiencing a slowdown, particularly in the consumer and construction sectors. The February Business Survey highlighted generally acceptable business conditions but revealed stresses, especially weak forward orders in retail, wholesale, and construction, affecting confidence and indicating subdued momentum into Q1 of 2024. Consumer spending faltered again after a brief uptick in January, with business revenue remaining low. Despite an uneven trajectory towards inflation reduction, the labour market remains relatively stable. Unemployment, at 3.75%, is expected to deteriorate moderately, yet seasonal adjustments rather than a fundamental labour market decline explains the recent fluctuations.

The Reserve Bank of Australia's recent communications suggest a cautious approach to rate adjustments, balancing concerns over services inflation and consumer spending against geopolitical uncertainties. Our outlook for the Australian economy anticipates continued slow growth in early 2024, with potential government interventions and tax cuts potentially boosting the economy in the latter half. GDP growth is projected at only 1.7% for the year, insufficient to prevent unemployment from rising to around 4.5% by year-end.

Portfolio Outlook

Oil prices are beginning to rise as anticipated, although the rally has been somewhat delayed. The Brent spot price has returned to $87.65 USD per barrel, and with OPEC+ extending their production cuts into the new quarter, we expect to see oil prices continue on an upward trend for the quarter.

Lithium appears to have reached a turning point, with Spodumene prices climbing back over $1,200 USD per ton, aided by the completion of inventory de-stocking. China has reduced its lithium battery inventory by approximately 100 GWh over the past 12 months, a significant reduction from its peak level of 253 GWh in May 2023.

Whilst we are on the topic of de-stocking, we are beginning to witness the much anticipated reduction in Ansell's inventory, as hospitals start to deplete accumulated COVID-related inventory. Consequently, Ansell's balance sheet levels are gradually returning to normal.

Fund Snapshot

Unit Price	1.1588
Current Holdings	5
Cash Position	7.86%

Top 3 Holdings

Magellan Financial Group MFG.asx	32%
Woodside Energy WDS.asx	29%
Ansell ANN.asx	16%
Total	77%

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