Ryder Capital

Shareholder Letter

March Quarter End 2023

Dear Fellow Shareholders,

This is the first of a series of bi-annual Ryder Capital Limited (Ryder or RYD) Shareholder letters covering the March and September quarters, supplementing the half year and full year reports, written with the aim of providing additional disclosure to all Shareholders.

These letters will be far less prescriptive than our statutory accounts and will provide you with insights from us, as stewards of your capital, on how we are seeing the investment environment, opportunities, threats and any other matters of note.

We have met with many Shareholders over the last month and the common thread has been the desire for more insights through more frequent communication beyond the monthly NTA. Key areas of investor engagement have been around Portfolio and recent share price performance, the widening discount to NTA and low liquidity. We agree with the majority of concerns raised by Shareholders and feel that it would be valuable for all Shareholders to hear our thoughts, as well as to address some of your concerns and/or provide answers to some of your questions.

For those who are unfamiliar with Ryder, below is an overview of our history, structure and how we are different.

Who Are We

We are value investors first and foremost. We are currently invested in a concentrated portfolio of ~30 ASX small/micro cap businesses. With every investment we make we seek to grow our capital through detailed fundamental investment analysis while assessing and limiting downside risk.

Ryder was founded in 2015 by us, your portfolio managers Peter Constable and David Bottomley, who together own roughly 20% of Ryder. When Ryder performs, we all share in its successes. Conversely when Ryder underperforms, we share in the losses. Significant ownership results in alignment of our own personal wealth with the interests of the broader Shareholder base. We believe this alignment should instil confidence in our Shareholders that we make decisions that will benefit the Ryder share price in the long run.

Additionally, we would like to highlight the small investment team your capital is entrusted with. When determining a new investment, a small team gives us the depth and diversity to challenge ideas whilst limiting bureaucracy that slows down how quickly we can act on ideas. Our small team gives us a real advantage.

Our Structure

When we established Ryder, the type of entity we chose was very important. At the time, the two main options were to create an open-ended trust structure or a close-ended fund that is a listed investment company (LIC). There are both advantages and disadvantages for choosing either structure.

Unlike an open-ended fund the main advantage of creating a LIC is to have a stable capital base. This advantage is illustrated by the pitfall in open-ended trust structures (such as unit trusts and ETF's) where when times are good, unitholders pile into these funds causing the funds' assets to balloon. And of course, what is once popular can become unpopular when times are not so good, at which point unitholders who have lost confidence withdraw their money in droves, often at a low point in the market and/or a manager's performance.

For a fund manager, the impermanence of capital makes for a much more difficult framework in which to create long term value. Not only do managers have to determine what companies to invest in but they must do this while calculating how many unitholders may redeem their capital in any given week. Redemptions may result in the manager being forced to sell quality investments purely to generate liquidity or face a lack of cash to invest in opportunities, in either case inevitably creating a drag on performance. In our minds, the distraction of managing fund flows especially during times of market volatility can come at a significant cost to long term returns.

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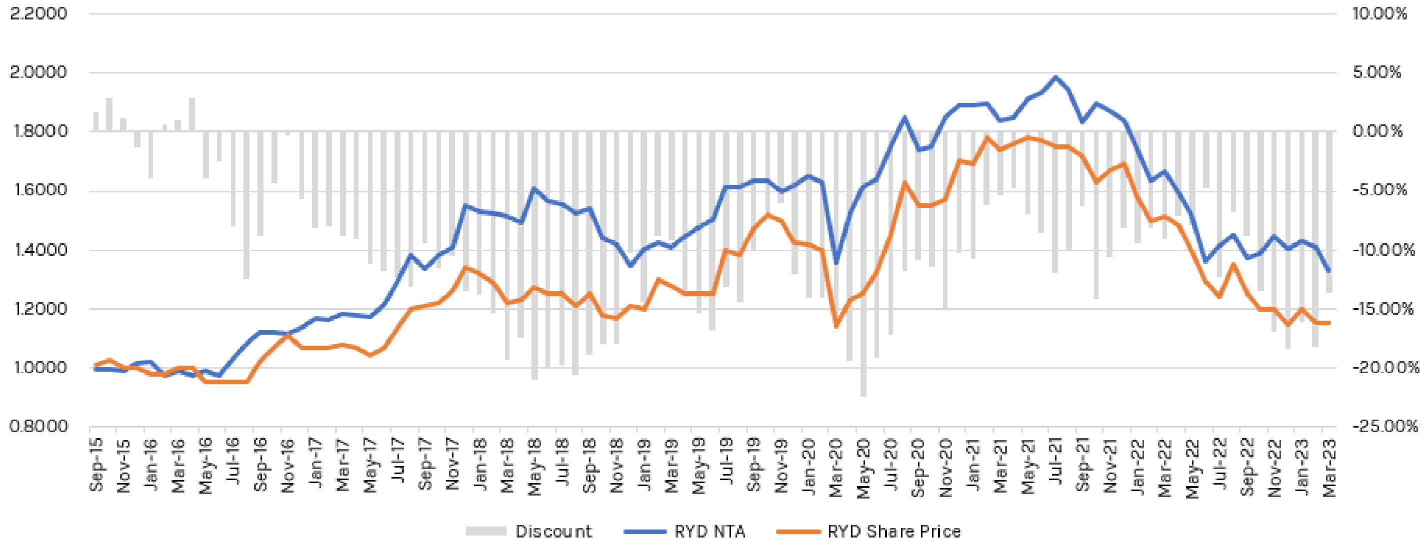
In comparison, having a stable capital base through the LIC structure has given us the advantage to spend our time making decisions that will increase Shareholders' wealth over the long term. We can deploy capital with confidence into businesses selling at discounted valuations (sometimes extreme). If our analysis is correct, these are the decisions that will generate substantial wealth for our Shareholders over time.

However, this structure is not perfect. LIC's can and do trade at material premiums and discounts to their current net tangible assets (NTA). We understand this variance is of utmost importance to Shareholders as their wealth is (other than in the event of a wind-up) tied to the share price and not to the NTA per share. As the portfolio managers and the major Shareholders we share the pain when Ryder's shares trade at a deep discount to NTA.

RYD's month end share price, Pre-tax NTA and the resulting premium/(discount) between the two is presented below, followed by some key observations we would like to make.

Ryder Share Price Premium/(Discount) to NTA Since Inception



We acknowledge that RYD is trading at a historically deep discount to NTA, (13.6%) as at the end of March 2023. Over the life of the fund, RYD has traded at an average discount of (~11%), with the discount expanding during times of market stress and narrowing as market sentiment improves. It goes without saying that if you buy a LIC at a discount or premium and the spread remains unchanged, then your return will equal the NTA return for the length of your investment. Unfortunately, where there is a widening of the NTA discount it can exaggerate the volatility in the share price (which can be positive or negative). Clearly the extremes at either end are undesirable - an extreme discount reduces Shareholder wealth, while extreme premiums may benefit existing Shareholders looking to sell but presents poor value for incoming Shareholders.

We, like yourselves, do not like this discount and are working on a plan to lessen the discount to NTA. However, it will take time, for the primary reason that we need to demonstrate improved performance. We are aiming for RYD to trade closer to its NTA and are working on various strategies that will assist in closing the discount over time.

Generally, when a company's share sells at a discount directors will implement a share buyback. We are of course no different and have an ongoing share buyback, however, the practical issue we face with our buyback is that while it creates short term liquidity, it is at the expense of longer-term liquidity, unless we expand our investor base at a greater pace.

As at 31 March 2023, we had 585 Shareholders who have entrusted us with their capital. For context, some larger LIC's with far greater liquidity than us have 10,000 plus shareholders. This narrow shareholder base makes it difficult for Ryder Shareholders who want to buy and sell shares in the market at prices close to NTA. Conversely the company buyback is attempting to buyback shares at the greatest discount to ensure it is strongly accretive to NTA per share and on the proviso of representing a superior allocation of capital than investing (either in or outside of the Portfolio). Poor liquidity may also result in a larger discount to NTA, and we acknowledge it is paramount that we improve this too.

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Our Discount to NTA and Liquidity Plan

Part of the reason for writing this letter is to not only provide additional communication for Shareholders but to provide more information to prospective investors regarding Ryder. With such a small shareholder base the vast majority of the investing public have not heard of us. Our first step is to provide more regular, meaningful information to our Shareholders through this bi-annual Shareholder letter so that both current and potential shareholders understand the value we are working to create within the fund. The next step is to increase interest in Ryder shares via improved performance - our primary goal when listing was to be one of the best performing domestic small cap managers and we need to regain that status.

Be assured, we have no intention of becoming a marketing machine at the expense of our focus on investing - we absolutely and almost only care about performance. If we find measurable evidence that marketing will lead to an improvement in our discount to NTA and liquidity, then we will look to increase such efforts.

Our Goal

When looking at how we plan to improve the Ryder share price performance, our number one goal is to improve absolute NTA per share over the medium to longer term. Our other primary goals are:

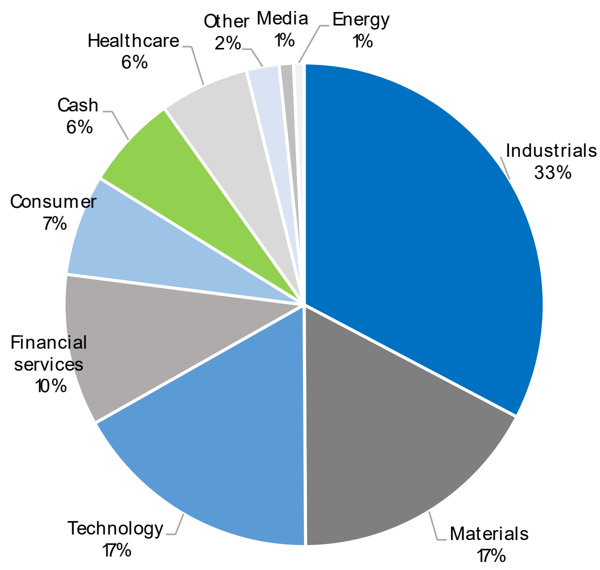
1. closing the share price discount to NTA;
2. paying a steady to increasing fully franked dividend;
3. buying back our shares at accretive values, and
4. more regular communications directed at existing and prospective investors.

Balancing the benefits of buying back shares at a ~20% discount to NTA (as we did in February) is great for the short term, but we must continually weigh this strategy against what investments we could have otherwise made with that capital to generate even higher returns over the longer term.

What You Own

Investing as a high conviction manager, we take considerable interest in the businesses we choose to own. The businesses are carefully chosen by our portfolio managers who believe that the businesses are selling at prices well below their intrinsic worth. With our top 10 positions accounting for almost 70% of our Portfolio, we believe it is important for Shareholders to know what our key businesses do, so in this letter we will provide an overview of the Portfolio's key holdings as at 31 March 2023:

Name	Ticker	Value	Total %
SRG Global Ltd	SRG	$16,153,826	14.4%
Updater Inc. (unlisted)		$10,135,240	9.1%
Austin Engineering Ltd	ANG	$9,294,231	8.3%
BCI Minerals Ltd	BCI	$7,535,301	6.7%
Cash Converters International Ltd	CCV	$6,878,449	6.1%
Macmahon Holdings Ltd	MAH	$6,497,412	5.8%
Janison Education Group Ltd	JAN	$5,847,786	5.2%
3P Learning Ltd	3PL	$5,204,213	4.6%
Aurelia Metals Ltd	AMI	$4,883,474	4.4%
Capitol Holdings Ltd	CAJ	$4,723,883	4.2%
Holdings 11-20		$23,888,724	21.3%
Other holds		$3,867,307	3.5%
TOTAL EQUITIES		$104,909,844	93.7%
CASH AND CASH EQUIVALENTS		$7,078,808	6.3%
TOTAL GROSS PORTFOLIO VALUE		$111,988,652	100.0%



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Beginning with SRG Global, this is our largest position in the Portfolio and it has been a story of transformation. After performing well post initiation of the position in 2019, SRG entered a period of difficulty following the GCS acquisition and interruptions to contract delivery due to Covid during 2020. Seeing these issues as temporary, Ryder viewed the business as materially undervalued with a clear pathway to restore earnings growth and a high-quality management team – adding to the position well below cost. Today the business currently sits on a substantial book of work in hand, with a healthy opportunity pipeline that supports a strong recurring revenue base. SRG is continuing to grow well above the industry average announcing $960m worth of contract wins since the beginning of FY23 and has recently completed the acquisition of ALS Asset Care. We continue to see upside in the name supported by earnings growth and a prospective valuation multiple expansion on the back of index inclusion over the coming quarters.

Austin Engineering, our second largest listed position, is another story where we have increased conviction since initiating the position in early 2022. The Company has delivered meaningful EBITDA growth following its cost out and manufacturing efficiency program, laying the foundations for further margin expansion. Austin's order book is growing strongly into FY24 supported by 'blue chip' mining clients and is looking to target the much larger Americas market with the recently acquired Mainetec business – the domestic leader in mining buckets. We believe we will see strong revenue growth ahead and a corresponding translation into earnings and value for shareholders.

The final name we would like to callout is BCI Minerals where we have a strategic stake and are working closely with the company as they finalise a revised cost to complete and associated funding solution for the Mardie Salt and Sulphate Project. We see this as an ultra long duration project with very attractive unit economics once operational in 2026/27. The project (provided it is successfully funded, built, and commissioned) will generate very large and attractive equity free cash flows as well as benefitting from several macroeconomic tailwinds for both salt and sulphate of potash.

With regard to our unlisted position in Updater Inc, the company is currently working through a capital raising process to complete the delivery of the material Homesafe Alliance contract and bridge the business to forecast profitability in 2024. We will be providing Shareholders with a specific update on this investment as details materialise over the coming weeks.

Our Performance

Our performance for the month and quarter end March 2023 is reported in our NTA announcement that is released alongside this letter. Our historical NTA's can be found on the ASX website and on our website.

The performance summary as at 31 March 2023 is as follows:

	3 Months (%)	6 Months (%)	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)	Since Inception [3] (% p.a.)
RYD - Gross Portfolio Performance	-2.47	0.05	-15.37	13.14	9.43	13.92
RYD - Pre-tax Undiluted NTA Return [1]	-2.81	-0.70	-16.70	8.97	5.98	9.95
RYD - Pre-tax NTA Return [2]	-2.88	-0.74	-15.92	3.50	1.14	6.57
S&P ASX All Ordinaries Accumulation Index	3.61	12.70	-1.06	17.27	8.80	9.20
S&P ASX Small Ordinaries Accumulation Index	1.88	9.55	-13.19	13.15	3.89	8.02
RBA Cash Rate	0.84	1.56	2.14	0.81	0.97	1.20
RYD Hurdle - RBA Cash Rate + 4.25%	1.81	3.58	6.31	5.03	5.21	5.44

Source: Bloomberg and Apex
1. Adjusted for the dilution of the exercised 26.7m RYDO options and 26.5m RYDOA options. Calculation of pre-tax NTA is prior to the provision and payment of tax.
2. Fully diluted for all options exercised since inception.
3. Inception Date is 22 September 2015.

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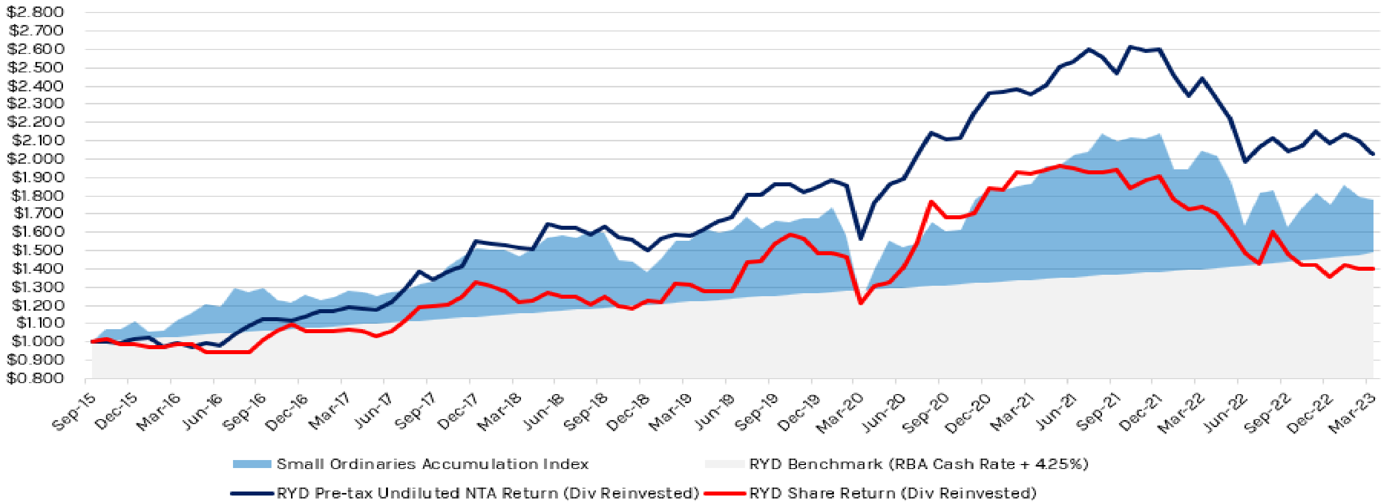
Suffice to say we are deeply unhappy with our recent underperformance (as reported) compared to our benchmark of the RBA cash rate plus 4.5%. However, if you asked us in mid-2021 how we were performing, our answer would have been "acceptable" and on track with a 15%+ Pre-Tax NTA return (net of fees and expenses) since inception being at or near the top of our peers.

For the first 6 years since listing, we exceeded our benchmark and the returns of comparable peers based on our preferred measure of performance being pre-tax undiluted NTA return (with dividends reinvested) – see chart below. By way of background, options were issued to those who invested at the IPO - depending on when an investor bought RYD shares, option dilution may impact their NTA returns, and will be a function of whether or not they exercised their options. For this reason we present our returns on an undiluted basis to allow for performance comparison.

Ryder vs Benchmark & ASX Small Ords - Total Return Since Inception



Today, it is a different story. Since late 2021, we have performed poorly alongside many smaller capitalised stocks that have been sold down in a broad risk-off environment. Mistakes of our own have amplified the poor performance which we address in detail below.

Given the material underperformance of the small capitalisation end of the market (ASX Small Ordinaries vs ASX 200) over the past 18 months to 31 March 2023 of (16.1%), we see valuation discrepancies emerging across the market. Amongst the mess and rubble of small and micro capitalised ASX stocks, the price to value disconnect provides an opportunity for us as a patient, well-researched investor to buy businesses selling at increasingly attractive prices, setting us up for future outperformance that should allow for lost Shareholder wealth to be recouped, and then some.

Confessions to Poor Decisions

It's important for us to be candid with our Shareholders about where investing mistakes have been made. Whilst not new for us to be candid, it is no less painful to reflect on where we went wrong and what we could do better. It is also important for you, our Shareholders, who have entrusted us with your capital to understand what is driving the recent underperformance. These call outs cover more than just the last quarter. We feel it is important to set a base from which to report on moving forward so that we can measure and be judged on our improvement in not only our performance but how we generate it.

Our errors fall into three categories. The first and somewhat narrow area to call out is around Portfolio management. Referring to our position in Janison Education, the position was initially a great investment contributing 9.81% of our total 19.27% gross return for the 12 months to November 2021. However, when our target price was not only met but meaningfully exceeded we suffered from a number of biases and only trimmed <10% of the holding. As a result, we gave up substantial gains and in the past 12 months Janison has cost the fund (5.88%) of absolute negative performance out of the total (15.37%) gross negative return. With revenue supported by online learning tailwinds and demand for assessments, we see material upside from Janison's current price with operating leverage transforming into cash profits. Looking forward, we believe we are reaching an important inflection point where the business will begin to generate free cash flow from FY23 onwards.

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The next area of poor performance was backing investment theses without a sufficient discount or margin of safety, resulting in excessive downside price outcomes where our financial forecasts proved to be overly optimistic. Positions to highlight include Service Stream, and Macmahon Holdings, both of which have cost us substantial mark-to-market performance. We call out mark-to-market because whilst having suffered a large drawn down in share price to date, we have revisited each investment thesis on its current and near-term fundamentals which supports each position and, in some cases, an increased investment in expectation that some if not all of the underperformance will revert from here. We see our ability to reassess and on occasion notionally double down on an investment at its low in order to make outsized returns as a distinct advantage.

The final area to call out are inexcusable errors where we got it wrong backing a business we should not have invested in, or where we did not have sufficient conviction or experience to assess the investment risks in the business. On review these errors have occurred due to a weakness in process including an over reliance on management representations compounded by our own lack of industry knowledge, research, and experience. While limited to just a few recently, including Lumos Diagnostics and Adore Beauty, their collective impact has been unacceptably high.

In an investing environment where our strategy and asset class (small/micro cap equities) has materially underperformed the broader market, our errors have been amplified with limited positive ballast from our good investment decisions. In working through these mistakes we have recalibrated and improved our investment process to ensure better portfolio and market risk management and see an opportunity to make back much, if not all the underperformance over time.

Outlook

We have gone through a short and sharp small cap bear market (defined by a 20% decline from the highs), a banking crisis (ongoing) induced by record rising interest rates and a period of strong and persistent inflation. Conversely the NASDAQ officially entered a bull market earlier this month (defined by a 20% increase from the lows). With this kind of volatility, it highlights to us the need to proceed with caution, prudence and flexibility given the short term volatility.

Our approach to investing remains consistent, albeit enhanced by recent experiences. Your capital is invested in a broad mix of cash generative businesses with strong and ethical management, and sound balance sheets at what we consider attractive discounts to their intrinsic worth. Often, management will have a meaningful personal investment alongside our interests in these companies.

The Portfolio is well positioned with a number of our larger core holdings trading materially below their intrinsic worth that should in time lead to improved performance.

Ryder's share price may rise or fall in the short term, however over the long term, if we are able to invest in businesses trading well below their intrinsic worth, avoid or materially limit making mistakes and remain patient, then NTA growth will follow along with an increased Ryder share price and the ability to continue to pay steady to increased fully franked dividends.

Yours sincerely,

Peter Constable and David Bottomley

Portfolio Managers

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