Claremont Global Fund (Hedged)

September 2023 Quarter Report

Performance to 30 September 2023

	Since inception p.a.	7 Years p.a.	5 Years p.a.	3 Years p.a.	1 Year	6 Months	3 Months
Portfolio return (AUD)	10.7%	10.0%	9.9%	9.1%	21.5%	2.0%	-4.0%
MSCI AC World Accum Index ex-Aust (AUD)[1]	8.2%	8.4%	5.7%	6.9%	18.1%	3.5%	-2.8%
Excess return	**2.5%**	**1.5%**	**4.2%**	**2.2%**	**3.4%**	**-1.5%**	**-1.3%**

[1]Benchmark is MSCI All Countries World Index Ex-Australia (Net, hedged into AUD). Performance is net of investment management fees. Inception date is 18th February 2014. Numbers may not sum due to rounding. Since inception return is annualized and assumes reinvestment of distributions. Past performance should not be taken as an indication of future performance.

Market commentary

After a strong start, global equity markets declined in September, down 2.5% for the third quarter of 2023 (all figures are in local currency unless noted otherwise). The Australian equity market fell broadly in line with the global market, declining 0.3%.

US equities finished the third quarter down 3.2%. Despite the market's concerns, earlier this year, of a recession, the U.S. economy has proven resilient. Unemployment has remained low, at 3.8% in August, while manufacturing data continues to be solid, with the purchasing manager's index (PMI) remaining above 50, signalling expansion. Confidence the US Federal Reserve (Fed) would guide the economy to a soft landing buoyed sentiment and led the market higher in July (+2.2%) and August (+2.2%). However, this enthusiasm faded in September, with the Fed signaling the prospect of interest rates staying 'higher for longer' and coincided with weaker equity markets. The ten-year U.S. Treasury yield increased from 3.83% at the end of 2Q23, to 4.57% at the end of 3Q23, but interestingly longer-term inflation expectations (as measured by the TIPS market) remained relatively subdued – resulting in higher "real yields". The increase in longer-term U.S. rates reflects the changing supply and demand dynamics with the U.S. Treasury market, including the U.S. Treasury financing increasing deficits through longer-term bond issuance, and the Fed's move to quantitative tightening (shrinking the size of its balance sheet beginning in June) away from quantitative easing/a more neutral policy. This appears to have created a new market anxiety. As always, we will focus our attention on trying to buy (and hold) great companies for less than they are worth, which we believe, for this fund at least, is more productive than forecasting macro outcomes.

Looking at sector performance, Energy (+12.0%) strongly outperformed, driven by higher oil prices with Brent Crude Oil up approximately 21% in the quarter, helped by some oil exporters cutting production. Information Technology fell 5.6%, with some prominent large cap tech names retracing a portion of recent share price gains. Certain businesses tied directly to the consumer also came under pressure, as companies provided additional colour on current consumer sentiment, namely an increased reluctance to make large discretionary purchases.

European equity markets were weaker in the quarter, declining 2.1%, over concerns around the impact of a prolonged period of higher rates and restricted economic growth. Inflation slowed to a two-year low, of 4.3%, in the twelve months to September, down from 5.2% in August, potentially paving the way for a pause to interest rate rises in the region. In contrast, UK equities grew 2.6%, driven by large energy companies, as well as Sterling weakening against a strong US dollar over the quarter.

Fund details

Strategy FUM	$1.4 Billion
Number of Stocks	10-15
Maximum Single Stock Weighting	10%
Maximum Cash Weighting	10%
Minimum Investment	$20,000
Investment Management Fee	1.25%
Performance Fee	Zero

Top five holdings as at 30 September 2023

Top five	Region	Sector
Adobe	US	Information Technology
Agilent Technologies	US	Healthcare
Alphabet	US	Information Technology
CME Group	US	Financial Services
Visa	US	Financial Services

Please note the top five holdings of the portfolio are in alphabetical order.

Portfolio characteristics – 5 years to September 2023

Standard deviation	19.4%
Realised beta	1.09
Tracking error	6.0%
Upside capture ratio	1.44
Downside capture ratio	1.04

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Portfolio performance

The Claremont Global Fund (Hedged) depreciated 4.0% during the quarter, underperforming the broader market by 1.3%, which saw a 2.8% decrease on a net basis (number may not add due to rounding).

Key contributors to performance for the quarter were **Alphabet** and **Automatic Data Processing**:

- **Alphabet (GOOGL-US)** – Alphabet reported strong results, well ahead of expectations. There was an acceleration in both advertising and cloud revenues this quarter. In the 2Q23, Search revenue grew 5% and YouTube advertising revenue was up 4% (compared with +2% and -3%, respectively, in 1Q23). These growth trends - and upcoming easier comparisons, following weakness in the second half last year - continue to support the view that the advertising market has stabilised. Further, GCP (cloud) revenues increased 28%, the fastest of the three largest U.S. cloud providers. Alphabet's reported financials were much cleaner this quarter, following the restructuring charges taken earlier in the year. Impressively, the operating margin was 29.3%, up 140bps (70bps sequentially, on an adjusted basis). We will continue to monitor operating and capital expenditure associated with Artificial Intelligence initiatives, and management's ability to tightly control costs on an ongoing basis. Despite the market's concerns in early 2023, of potential disruption from Microsoft, Alphabet has retained an approximately 90% share of the search market, and has relevance through 15 products that each serve a half a billion people, and six that serve over 2 billion each.
- **ADP (ADP-US)** – the company completed their FY23 in strong fashion with organic revenue growth of 9% in the fourth quarter as retention (~92%) and bookings both came in ahead of expectations. Demand has remained healthy, particularly in mid-market and international segments of the market, while management noted execution and product investment as the key drivers behind the strong performance. The company's margins improved 130bps for the full year, benefiting from higher rates on their funds balance, and we are pleased that management have continued their strategy of reinvesting back into the business, driving product enhancements and, ultimately, retention. Company guidance was solid, with management expecting 6-7% organic growth and margin improvement in FY24, even allowing for a moderation in the macroeconomic backdrop. Management's execution remains strong, and they are confident ADP's technology investments will contribute to bookings growth going forward.

Fund details

APIR Code	ETL0391AU
ARSN	166 708 407
Responsible Entity	Equity Trustees
Administrator	Apex
Custodian	JP Morgan
Currency Exposure	Hedged
Fund Inception	18th February 2014
Buy/Sell Spread	0.10% / 0.10%

Contribution to portfolio return – Quarter September 2023 (%)

Top Three	%
Alphabet	0.97
Automatic Data Processing	0.91
CME Group	0.82

Bottom Three	%
Estee Lauder	-1.37
Equifax	-1.32
Nike	-0.75

Numbers represent contribution in percentages of each stock to the percentage change in portfolio value.

Key detractors to performance for the quarter were **Estee Lauder** and **Equifax**:

- **Estee Lauder (EL-US)** – when reporting their full year results in August, management provided FY24 guidance that was materially weaker than expectations. This was driven by the ongoing weakness in their Travel Retail (duty free) business in Asia where Covid restrictions resulted in excess inventory in the channel. Consequentially, this has limited customers' reordering and resulted in a subdued outlook. We had expected demand to improve gradually during the quarter, but instead conditions deteriorated further due to recently imposed restrictions on the "daigou"/wholesale trade in Hainan which added pressure on the demand for cosmetics. Pleasingly, excluding Travel Retail, Asian sales grew 17% in the fourth quarter showing sequential acceleration, with China returning to solid growth. The Americas region reported flat sales in the fourth quarter. This was disappointing given we saw improving trends in the third quarter when sales grew 6% in the region.

  The normalization of Travel Retail in Asia will take longer than we previously anticipated and we continue to closely monitor developments here as well as business performance in the Americas. The company is confident they have a solid plan to return to healthy growth in the Americas and we would expect to see progress across FY24.

- **Equifax (EFX-US)** – Equifax's second quarter earnings were slightly ahead of expectations, although there was a minor reduction to full year guidance. While FY23 revenue guidance only decreased by half a percent, some in the market interpreted this as indicative of increased competition for Equifax's Workforce Solutions business. Conversations with the company and channel checks led us to believe that, rather than increasing competitive threats to Equifax, the downgrade was attributable to U.S. mortgage market headwinds as interest rates continue to rise. From early 2021 to the end of September 2023, U.S. 30-year mortgage rates have increased from below 3% to over 7%. The U.S. mortgage market is now approximately 45% below historic levels (2015 to 2019). We are reassured by Equifax continuing to outperform the underlying mortgage market, and outside of mortgages (which comprise approximately 21% of revenue), non-mortgage (79% of revenue) continues to do well, with +6% non-mortgage growth in 2Q23. While mortgage market conditions remain tough, we are confident in the long-term positioning and value of Equifax.

Portfolio additions

There were no additions to the portfolio in the quarter.

Portfolio removals

Louis Vuitton Moet Hennessy (MC-FR) – we exited our position in the company on valuation grounds. We remain confident in the quality of the business and its continued strength within its respective industry, however, we believed there were more attractive investment propositions elsewhere.

Securities movements for the quarter of September

Bought in	–
Sold out	LVMH
Increased holding	Nike, Estee Lauder, Agilent, Equifax
Decreased holding	Steris, Microsoft, Adobe, AON

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Strategy Inception	Companies Held	Strategy FUM	5-year total return per annum (net)	5-year alpha per annum (net)
2011	10 - 15	+$1.4bn	9.9%	4.2%

Past performance is not a reliable indicator of future performance. Returns assume reinvestment of distributions and is net of fees.

About Claremont Global

Claremont Global is a boutique fund manager located in Sydney, Australia. We run a high-conviction, fundamental strategy and only invest in international equities. Our evidence based and rigorous bottom-up approach allows us to identify the world's best companies. If these businesses satisfy our specific criteria and strict valuation methodology the team will consider to invest in them for the long term.

Our Philosophy

Our investment philosophy can be described as buying quality growth businesses at a reasonable price. We look to acquire these securities at a discount to our estimate of their intrinsic value. We explicitly exclude specific industries and areas of the market. We invest in companies whose earnings growth drives intrinsic value, whilst their inherent quality (high margins, strong balance sheets and cash flow) will help to protect client capital in difficult markets.

INVEST ONLINE

Recommended
Lonsec Research

Zenith
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Signatory of:

PRI Principles for Responsible Investment

riaa Responsible Investment Association Australasia

Important information