Claremont Global Fund (Hedged)

December 2023 Quarter Report

Performance to 31 December 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)	11.6%	11.8%	14.3%	8.5%	22.6%	6.2%	10.6%
MSCI AC World Accum Index ex-Aust (AUD)[1]	8.9%	9.1%	10.6%	5.8%	20.0%	5.7%	8.7%
Excess return	**2.7%**	**2.7%**	**3.8%**	**2.7%**	**2.6%**	**0.5%**	**1.9%**

[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

Global markets capped off a strong year for equities, appreciating 8.7% during the fourth quarter of 2023 (all figures are in local currency unless noted otherwise) and 20.0% for the full year. The Australian equity market outperformed in the fourth quarter, growing 8.4%, to be up 12.4% for the full year.

After a period of correction between July and October, the US market saw a strong rebound, finishing up 11.8% for the quarter. Better-than-expected inflation data as well as a more dovish stance from the Federal Reserve (Fed) saw sentiment turn bullish. Inflation has fallen from a peak of 9.1% in June 2022, to 3.1% in November 2023 (and from 6.5% at the beginning of 2023). With corporate earnings at near-record levels and a very low unemployment rate of 3.7%, there are incrementally encouraging signs that the Fed can tame inflation while not sending the economy into a deep recession. This was a reversal of 3Q23 sentiment, when a rapid increase in the U.S. ten-year treasury yield, and market anxiety about the Fed signaling the prospect of interest rates staying 'higher for longer' resulted in yields increasing and a sell-off in equity markets. At the time we wrote that we would 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. And as you would expect, despite the dramatic market rally into year end, our approach remains unchanged.

European equity markets appreciated 5.6% in the fourth quarter. Inflation fell at a faster pace than the US this year, from 10.4% at the beginning of the year to 3.1% in November. However, GDP growth remains muted with expectations for 0.6% growth for the year compared to 2.4% growth in the US. UK GDP growth expectations also remain low for the year (+0.5% forecast) and UK equity markets closed out the year with a modest 2.3% appreciation. While core inflation rates do remain elevated, the general softening of economic data, such as GDP growth, do strengthen the case for central banks rate cuts.

From a sector standpoint, results were mixed with Information Technology leading the way (+16.5%), while Real Estate showed some signs of a recovery (+14.5%). Energy was the notable laggard (-4.4%) with Consumer Staples also muted (+3.3%) as large consumer goods companies are expected to see a more moderate benefit from price increases, as inflation cools across the globe, but weighs on top-line growth.

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 31 December 2023

Top five	Region	Sector
Agilent Technologies	US	Healthcare
Alphabet	US	Information Technology
Equifax	US	Financial Services
Nike	US	Consumer
Visa	US	Financial Services

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

Portfolio characteristics – 5 years to December 2023

Standard deviation	19.2%
Realised beta	1.11
Tracking error	6.0%
Upside capture ratio	1.43
Downside capture ratio	1.07

Portfolio performance

The Claremont Global Fund (Hedged) (**Fund**) appreciated 10.6% during the quarter, outperforming the broader market by 1.9%, which saw a 8.7% increase on a net basis (number may not add due to rounding).

Key contributors to performance for the quarter were **Equifax** and **Agilent**:

- **Equifax (EFX-US)** – from early 2021 to the end of September 2023, U.S. 30-year mortgage rates have increased from below 3% to almost 8%. As a result, the U.S. mortgage market is approximately 45% below more normalised pre-Covid levels. These mortgage market headwinds directly impact Equifax, as diminished mortgage financings/refinancing in a higher rate environment impact Equifax's sale of data about potential borrowers.

  We have had no concerns about the quality of either Equifax's non-mortgage, or mortgage, businesses during this period. However, the share price fall (and subsequent appreciation) does highlight the market's keen focus on short-term earnings and the rapid re-evaluation of market values. Today the mortgage business makes up less than 20% of Equifax's revenue, and our estimate of intrinsic value has only changed marginally over the last six months. Our longer-term value focus saw us add to our holding of Equifax in the third quarter, and early in the fourth quarter, as 30-year mortgage rates were hovering near 8%. The company was trading at a substantial discount to our through-the-cycle valuation. In the fourth quarter, we saw U.S. 30-year mortgage rates decline, with the increasing prospect of Fed easing in 2024, to just over 7%, and Equifax's share price increased 35%. While our recent purchase timing was somewhat fortuitous, we continue to believe our long-term investment horizon is beneficial, allowing opportunistic purchases of quality companies at depressed prices when out of market favour.

- **Agilent (A-US)** – after a turbulent nine-months for many of the analytical tool companies in the life sciences space, the market has begun to get more positive on a rebound in capital spend across the industry. Normalising demand from pharma companies post-COVID, as well as ongoing disruption in China, led to a faster-than-anticipated drop-off in spend in the second half of last year, which had been well-priced in. Agilent, and many of their peers, are a replacement cycle business, supplying pharma, industrial, and academic/government customers with a broad range of analytical instruments to analyse and separate various materials and compounds to better understand their chemical make-up. Demand was very strong through the pandemic as customers were well-funded, rejuvenating and expanding their installed base of instruments in laboratories around the globe.

  The industry subsequently saw a broad-based normalisation of this spend, however, Agilent recently called out their book-to-bill heading above one, both globally and in China, that is, order volumes were larger than recognised revenue. The market interpreted this as a sign the market is stabilising, and a potential inflection point in instrument demand. The underlying investment thesis is unchanged, and we remain confident in the company's ability to not only return to a normal replacement cycle but also continue to improve their service attach rates on their installed base of instruments, which should lead to long-term improvement in the group's profitability.

Key detractors to performance for the quarter were **Estee Lauder** and **Automatic Data Processing**:

- **Estee Lauder (EL-US)** – the company posted another poor result in the quarter, downgrading FY24 earnings guidance by 35%. Travel retail continued to deteriorate, falling 51% year-on-year, due to ongoing restrictions in the country's Hainan province and a slow recovery in travel in the region. It is becoming evident that management have underinvested in key brands and regions, resulting in ongoing market share losses in both the US and, more recently, China. Given the poor sales results, management called out a "profit recovery plan," however, there were limited details around the plan with management mentioning there would be more to come on their next earnings call. This was not the first-time management has backed away from guidance with commentary around travel retail not returning to its previous levels further reducing our confidence in the long-term earnings power of the business. For more information, please see Portfolio Removals section below.

- **Automatic Data Processing (ADP-US)** – the quarterly result fell in line with company expectations and full year guidance was reaffirmed. However, the result was mixed with Employment Solutions posting record bookings volumes, while PEO Services saw lower than expected growth in clients' employee additions, driven by an unwinding in hiring in the technology and professional services industries. In our view, this unwind is not necessarily reflective of the broader economy as these particular sectors went through a hiring spree during COVID and are now rightsizing. We believe the market extrapolated the softer employment growth, which weighed on the share price. We believe ADP's value proposition to clients remains strong as they continue to see solid customer demand and retention remains near record levels. The stock remains a core position in the portfolio.

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 December 2023 (%)

Top Three	%
Equifax	2.04
Agilent Technologies	1.40
Adobe	1.23

Bottom Three	%
Estee Lauder	-1.16
Automatic Data Processing	-0.65
Steris	-0.39

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

Portfolio additions

- **LVMH (MC-FR)** – following our prior exit on valuation grounds earlier in the year, we re-initiated a portfolio position on share price weakness, due to China concerns and a general slowdown in luxury goods demand. We have confidence in the longevity of the company's competitive position within the industry, which supports the sustained earnings power of the business over the long-term. At the time of purchase, the company traded at 21x consensus NTM earnings, versus a ten-year average of 23x.

- **Dassault Systemes (DSY-FR)** – we initiated a 4% position in the company in November.

  Dassault are an industry-leader in the engineering software design industry, with expertise in computer-aided design (CAD) and product lifecycle management (PLM). CAD technology has been developed and refined over several decades, to move away from manual and 2D drafting, towards integrated 3D design. The industry has also moved to PLM, which maps the complete journey of a product from initial ideation to design, manufacturing, and disposal.

  The company has strong, long-tenured customer relationships, particularly in their core automotive, aerospace, and defence markets. Their largest customers include the likes of Boeing, Renault and Toyota. Their software is deeply embedded in customer workflows and the time (and cost) to switch vendors can often be years and requires a material transfer of data and models from existing workflows. This also comes with substantial retraining costs, disruption to operations and potential loss of legacy data that is specified into product designs.

  On top of the high switching costs, R&D is typically the last cost line to be cut. As such, they benefit from very stable end customer demand, and this is shown in the resilience of the company through economic downturns.

  The company boasts over 80% recurring revenues, is well-diversified geographically, and their largest customer makes up only ~2% of group revenue. Over the last decade, they have delivered 6% organic growth and 13% earnings growth with gross margins in the mid-80s and EBIT margins in the low to mid-30s.

  The company traded on 31x NTM consensus earnings at initiation compared to a ten-year average of 33x.

Portfolio removals

- **Aon (AON-US)** – while a strong perfomer for the Fund, we exited the Aon position to reallocate capital to better value opportunities (outlined above). At the time of sale, the shares traded for c.21x NTM earnings compared to the 10-year average of 18x.

- **Estee Lauder (EL-US)** – we exited the ~4% position of EL. This was one of the Fund's most disappointing investments in recent years. The initial thesis was built on favourable end market exposure, strong brand equity across the portfolio, solid historical financials, and a stable, well-tenured management team. However, recent performance and communications have been poor with new information coming to light and little evidence that some of the prevailing issues have been fixed. Notably, management backed away from prior guidance that the travel retail business will return to its previous level, a key part of the underlying thesis, lowering our conviction in the long-term earnings power of the business. Further, ongoing market share losses in the US and, more recently, in China, have led to more cause for concern. We ultimtaely lost confidence in the management team and their respective credibility in taking the business forward with potential underinvestment in key brands slowing innovation across the portfolio.

  As such, we did not feel comfortable with the initial investment thesis playing out over our time horizon and we exited the position and allocated the capital freed up to LVMH, where our conviction levels are higher and valuations remain attractive.

Securities movements for the quarter of December

Bought in	Dassault Systems, LVMH
Sold out	AON, Estee Lauder
Increased holding	Nike, Equifax
Decreased holding	CME, Microsoft, Adobe

Claremont Global Fund
(Hedged)

December 2023 Quarter Report

Contact Us

Charlie Wapshott
Head of Distribution &
Investment Specialist

Andrew Fitzpatrick
Investment Specialist

Telephone: 1300 684 537
Email: contact@claremontglobal.com.au
Address: Level 32, 1 O'Connell Street, Sydney NSW 2000 | Level 7, 171 Collins Street, Melbourne VIC 3000
Web: claremontglobal.com.au

Strategy Inception	Companies Held	Strategy FUM	5-year total return per annum (net)	5-year alpha per annum (net)
2011	10 - 15	+$1.4bn	14.3%	3.8%

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
RECOMMENDED

Signatory of:

PRI Principles for Responsible Investment

riaa Responsible Investment Association Australasia

Important information