Claremont Global Fund (Hedged)

March 2024 Quarter Report

Performance to 31 March 2024

	Since inception p.a.	10 Years p.a.	7 Years p.a.	5 Years p.a.	3 Years p.a.	1 Year	6 Months	3 Months
Portfolio return (AUD)	11.4%	11.5%	11.1%	11.4%	6.8%	13.7%	11.4%	0.7%
MSCI AC World Accum Index ex-Aust (AUD)	9.7%	9.6%	9.6%	10.0%	7.0%	23.1%	19.0%	9.5%
Excess return	1.7%	1.9%	1.5%	1.4%	-0.1%	-9.5%	-7.6%	-8.7%

Benchmark is MSCI All Countries World Index Ex-Australia (AS). Performance is net of investment management fees. Inception date is 18th February 2014. Numbers may not sum due to rounding. Returns assume reinvestment of distributions and are annualised for periods greater than 1 year. Past performance should not be taken as an indication of future performance.

Market commentary

Global equity markets started the year strongly, appreciating 13.3% during the first quarter (all figures are in AUD unless noted otherwise). The Australian equity market underperformed the global market, growing 5.4%.

The US equity market's strong momentum at the end of fourth quarter continued, finishing up 15.4% for the first quarter (+10.3% in local currency). The Federal Reserve (**Fed**) kept interest rates at a 23-year high of 5.25-5.50% and, while they initially suggested they may be on course to deliver three 25 basis point (bp) cuts by the end of the year, stronger-than-expected economic data has seen the expectations for rate cuts in 2024 decline. Despite the higher rate environment, there is increased market confidence that the economy will avoid a recession, and execute a 'soft landing,' driving strong gains for equities in the quarter.

From a sector standpoint, Information Technology was strongest (+17.0%), driven by AI-related beneficiaries, while sectors sensitive to economic indicators such as Financials (+14.5%), Industrials (+14.2%), and Energy (+14.9%) also performed well. Weakness was seen in Real Estate (+3.0%), as well as Utilities (+6.3%) and Materials (+8.1%). Consumer Staples (+7.3%) also continues to lag other sectors, whilst Healthcare (+12.3%) and Consumer Discretionary (+10.7%) underperformed marginally.

Fund details

Strategy FUM	$1.5Bn
ASX Ticker	CGHE
Number of Stocks	10-15
Maximum Single Stock Weighting	10%
Maximum Cash Weighting	10%
Minimum Investment[1]	$20,000
Investment Management Fee	1.25%
Performance Fee	Zero
APIR Code	ETL0391AU

[1] Does not apply to investments made via the ASX.

Top five holdings as at 31 March 2024

Top five	Region	Sector
Alphabet	US	Information Technology
CME Group	US	Financial Services
Microsoft	US	Information Technology
Visa	US	Financial Services
Zoetis	US	Healthcare

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

Portfolio characteristics – 5 years to Mar 2024

Standard deviation	19.1%
Realised beta	1.10
Tracking error	6.6%
Upside capture ratio	1.26
Downside capture ratio	1.07

For fund investor use only. The views expressed herein are part of a wider portfolio investment strategy and should not be considered in isolation. All figures displayed in AUD.

Portfolio performance

The Claremont Global Fund (hedged) appreciated 0.7% during the quarter, underperforming the broader market by 8.7%, which saw a 9.5% increase on a net basis.

Key contributors to performance for the quarter were **Microsoft** and **Alphabet**:

- **Microsoft (MSFT-US)** – the company released a strong second quarter result, ahead of consensus expectations. . Revenue growth was +18%, and +16% in constant currency (up from 12% sequentially – but the Activision Blizzard acquisition added approximately 3.5%). There was broad based growth across the three segments. Within the fastest growing segment, Intelligent Cloud, Azure grew 28%, in line with the first quarter and comfortably above their 26-27% guide, with a six-point contribution from AI. The monetisation of AI may also become more material within the Office suite as the adoption of Copilot becomes more widespread.

  Microsoft's operating margin Increased almost 500 bps to over 43%, resulting in EPS growth of 33%. While there were positive and negative one-off impacts, overall the significant margin expansion highlighted both expense control and scaling, all while continuing to make substantial investment in a high growth business.

  Looking forward, while the company has not provided full year revenue guidance for FY24, management have raised their operating margin guidance, from flat to +1 to +2%, which is impressive given over 200 basis points dilution from the Activision Blizzard acquisition, and the expected level of investment.

  Management signalled the build-out of their cloud/AI infrastructure will accelerate, with capex expected to increase sequentially from US$11.5bn in the second quarter. We believe this will serve to further enhance Microsoft's product suite and boost their scale advantages, both of which should deepen Microsoft's competitive moat.

- **Alphabet (GOOGL-US)** – while the results were not initially well-received by the market, the company delivered a solid fourth quarter result.

  Revenue growth was +13% (+13% on a constant currency basis) and accelerated from +11% growth in constant currency in the third quarter. Search delivered +13% revenue growth and YouTube revenue growth was +16%. Note Mocrosoft's Search and News revenue growth (ex-TAC) this quarter was +8%, so despite all the market and media noise, we saw market share gains for Google. Cloud revenue growth accelerated to +26% (from last quarter's disappointing +22%). Management mentioned they are seeing Cloud workloads benefit from the strong interest in AI.

  Looking at the adjusted operating margin and backing out depreciation benefits, margins were still up almost 400 bps, with more redundancies and efficiencies/optimisation signalled. It's reassuring to see Alphabet deliver another quarter of revenue growth above expense growth. Cloud margins improved and Other Bets losses narrowed (as signalled by management last quarter).

  As is the case with Microsoft, the capex requirements for cloud/AI infrastructure are going to be large, with the company spending ~US$11bn in Q4, up from US$8bn last quarter. Overall, we come away pleased with the result and expect them to build on this momentum into FY24.

Fund details

ARSN	166 708 407
ISIN	AU60ETL03919
Responsible Entity	Equity Trustees
Administrator	Apex
Market Maker	Nine Mile
Custodian	JP Morgan
Currency Exposure	Unhedged
Fund Inception	18th February 2014
Buy/Sell Spread	0.10% / 0.10%

Contribution to portfolio return – Quarter March 2024 (%)

Top Three	%
Microsoft	1.32
Alphabet	1.19
Equifax	1.15
Bottom Three	**%**
Nike	-0.75
Zoetis	-0.69
Adobe	-0.65

Key detractors to performance for the quarter were **Nike** and **Zoetis**:

- **Nike (NKE-US)** – announced their third quarter earnings in March. Revenue was flat, in-line with guidance (compared to constant currency revenue growth this time last year of 19%), whilst good margin progression from pricing actions and lower freight costs, saw adjusted EPS up 24%.

  Management's forward-looking commentary on sales growth for 1H25 disappointed the market. But more importantly in our view, Nike have shifted their strategy, admitting that they have been overly focused on the shift to direct-to-consumer (DTC) and lost focus on sport and consumer preferences, resulting in limited innovation. Management stepped away from specific targets for DTC sales, providing further scope for growth in a more tightly managed, wholesale channel. While the potential outcome, a lower proportion of DTC sales than previously expected, is on one hand disappointing (given the benefits of direct distribution that we have discussed previously), overall, we see this shift as sensible. It results in the opportunity for better alignment with Nike's underlying consumers – rather than a top-down imposition of a rigid financial target.

  In our view, the company's competitive advantages remain intact. Nike has an enviable position within its core markets, including incredible brand strength and a significant scale advantage (being approximately twice the size of its closest competitor). The company has an enviable track record, over the last decade, organic growth has averaged almost 10% p.a., with a ROIC of 24%. With the revised distribution strategy and renewed innovation, over the medium-term, we believe Nike can regain its former trajectory.

  Whilst we have reduced our valuation, the discount to the current share price remains attractive.

- **Zoetis (ZTS-US)** – the fourth quarter result was mixed. Revenue growth was solid, up 8%, however margins were below expectations, driven by currency exposures and higher operating costs, which led to a 3% earnings miss. The company's Companion Animal results were strong, with 10% revenue growth, while Zoetis's slower growing Livestock division surprised to the upside, rising 5%. Looking forward to FY24, the growth guidance for certain products was softer than expected. Dermatology and Trio product sets were guided to grow mid- to-high-single-digits (a slight step down from the 8-9% growth seen in FY23).

  More recently, a Wall Street Journal article highlighted anecdotal cases where there were potential adverse side-effects associated with Zoetis's Librela, the injectable monoclonal antibody therapy for dogs with osteoarthritis pain. Zoetis maintains the medicines are safe, and many veterinarians and pet owners have reported successful treatments with Librela. However, we do note the potential risks - beyond safety, there are is also headline risk, which could impact adoption/sales regardless of the facts - and continue to monitor developments. We do note that the product was only approved for use in the U.S. last year, however Librela has been available in Europe for almost three years, where there have been relatively low rates of reported adverse events. The company has suggested that adverse effects are within their statistical expectations. In addition, because the product is new to market, the level of first event reporting is high. There have been approximately 11 million doses administered globally, with the potential of adverse effects running at a rate of 2 per 10,000, a frequency that is categorised as 'rare.' The company continues to have very high expectations for Librela's performance in the US after seeing its acceptance in Europe, Australia, and Brazil.

Portfolio additions

- **Jack Henry (JKHY-US)** – we initiated a position in Jack Henry during the March quarter (by the end of March we had established a 2% position).

  The company was founded in 1976 and provides technology solutions for over 7,500 banks and credit unions in the US. They provide core bank processing for over 900 banks and 700 credit union customers, with a focus on institutions with assets less than $50bn. They also provide over 140 complimentary products and services to nearly 6,000 other customers that do not take their core bank processing offering. These complimentary services include areas such as imaging, payments processing, information security, risk management, treasury, online and mobile banking.

  With respect to financials, the business has delivered an average organic revenue growth of 8% over the last ten years, a five-year average EBIT margin of 23% and ROIC of 21%. They have a very strong business model with high recurring revenue (more than 80%), high switching costs, and large barriers to entry (technology, references, regulation). They also benefit from strong industry tailwinds, which include the ongoing move to private cloud, the secular shift from cash-to-card, the rise of e-commerce and the ever-present need for banks/credit unions to improve their efficiency and consumer experience, especially in an increasingly digital world.

  We believe the current valuation looks attractive, particularly relative to the market, trading on ~1.47x the market multiple (forward P/E) compared to its ten-year average of 1.78x.

Portfolio removals

There were no removals from the portfolio in the March quarter.

Securities movements for the quarter

Bought in	Jack Henry
Sold out	-
Increased holding	CME, Adobe, Dassault Systems, Zoetis
Decreased holding	Steris, Visa, Alphabet, Agilent , LVMH, Equifax

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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	$1.5Bn	11.4%	1.4%

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 investing 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 more cyclical or leveraged industries including banks and resources. 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.

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