Claremont Global Fund (Hedged)

March 2022 Quarter Report

Performance to 31 March 2022

	Since inception p.a.	5 Years p.a.	3 Years p.a.	1 Year	6 Months	3 Months
Portfolio return (AUD)	13.7%	14.7%	17.9%	16.1%	3.0%	-8.2%
MSCI AC World Accum Index ex-Aust (AUD)	10.4%	10.8%	12.3%	7.7%	1.1%	-5.2%
Excess return	**3.2%**	**3.9%**	**5.5%**	**8.4%**	**1.9%**	**-2.9%**

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. 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 equity markets fell 5.2% over the quarter (all figures are in local currency unless noted otherwise), driven lower by Russia's invasion of Ukraine, an associated oil price shock, higher than expected inflation and a marked increase in short-term interest rates. However, Australia's large exposure to energy stocks saw local markets benefit from rising commodity prices, rising 3.8% over the same period.

US equities saw a 5.3% decline in the quarter, with the impact from the war, including further inflationary pressures rippling through the economy, most notably at the gas pump. The annual US inflation rate hit 7.9% in February. However, the economy remained robust with unemployment at 3.8%. Being caught between the risk to growth from geopolitical uncertainty and the risk of inflation, the Federal Reserve lent towards addressing inflation. The Fed increased its Target Rate by 0.25% and signaled ongoing rate hikes over the short-to-medium-term. These expectations were reflected in the large move in the US 2-year Treasury yield, from 0.73% at the end of December, to 2.33% at the end of March. The US 10-year Treasury yield closed the quarter at 2.34%, up from 1.51% in early January, placing further pressure on equity markets, particularly among technology stocks with longer-dated earnings profiles. The flattening of the yield curve, often a signal of a weaking growth environment, highlighted economic risks in the medium term. Unsurprisingly, energy and utilities companies were among the best performers.

European markets felt a sharper impact from the shock of the war within the region, falling 5.4%. There was a strong focus on the region's reliance on Russian oil and gas. With higher energy prices weighing on business and consumer sentiment. The largest impacts were seen across the consumer discretionary and information technology sectors, with supply chain disruptions also leading to lower parts availability. The European Central Bank suggested that rate hikes could come in the back of the year but stressed that it would be some time after asset purchases had concluded in September.

Despite the prevailing war in Ukraine, economic statistics, including labour market metrics, remain strong in Europe.

UK equities were resilient in the March quarter, holding up well, posting a 4.7% rise. The markets were led by energy and banking stocks, with the strength in the latter driven by expectations around rising interest rates. The Bank of England increased rates by 50 basis points, comprised of two 25 basis point hikes. These hikes were implemented in a bid to curb the inflationary pressures in the region, with the inflation rate expected to hit almost 9% this year.

Emerging market equities were mixed in the quarter, varying greatly by country exposure, but posted a 6.1% decline on an aggregated basis. The war in Ukraine saw geopolitical tensions rise, energy prices surge, and general inflationary pressures continue to persist. The Latin American markets, however, witnessed strong gains given their large exposure to commodities, led by Brazil (+16.0%). The China A equities market fell sharply, down 14.7%, as the country succumbed to a large spike in COVID-19 cases. Given the government's strict zero-COVID policy, fears escalated that targeted lockdowns would become much more widespread across the country, severely impacting economic activity. Russia was removed from the MSCI Emerging Markets Index in March.

Unsurprisingly, Energy was posted the strongest gains in the quarter, rising 22.8%. Commodity prices rose strongly across the board, notably in oil and gas, but also in key agriculture components such as wheat and corn (Russia and Ukraine account for roughly 30% of the world's wheat exports). Consumer Discretionary (down 10.7%) and Information Technology (down 9.8%) were among the largest detractors as consumer confidence declined and interest rates began to rise in a bid to combat persistent inflationary pressures across the globe..

Fund details

Strategy FUM	+$1.2 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 March 2022

Top five	Region	Sector
Agilent Technologies	US	Healthcare
Alphabet	US	Information Technology
Microsoft	US	Information Technology
Steris	US	Healthcare
Visa	US	Financial Services

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

Portfolio characteristics – 3 years to March 2022

Standard deviation	15.7%
Realised beta	1.03
Tracking error	5.6%
Upside capture ratio	1.23
Downside capture ratio	0.98

Portfolio performance

The Claremont Global Fund (Hedged) fell 8.2% during the quarter, underperforming the broader market by 2.9%, which saw a 5.2% decrease on a net basis (numbers may not add due to rounding).

There were two notable headwinds for our "quality" portfolio during the quarter: 1) As described above, the Oil and Gas sector was strong, where we have consistently had zero exposure (due to the inherent cyclicality); and 2) during the first part of the quarter there was a rotation to "value" stocks. As might be expected in more difficult environments, the portfolio outperformed its benchmark in the last six weeks of the quarter, as uncertainty and volatility increased.

The portfolio's strong organic revenue growth, pricing power (the portfolio's weighted average gross margin is c.55%, compared with the market at c.35%), limited company debt and capital light businesses, provide us confidence the portfolio can weather an ongoing inflationary environment, if that does eventuate, but regardless will hold the portfolio in good stead across a wide range of economic conditions.

Key contributors to performance for the quarter were Aon and LVMH:

- **Aon (AON-US)** – the company delivered a healthy Q4 and FY21 result, delivering 10% organic growth for the quarter and 9% across the full year. They were able to drive 160 basis points of margin expansion and 15% growth in free cash flow (excluding the termination fee for the proposed merger). Pleasingly, management indicated that employee engagement scores were at all-time highs, signalling the disruption surrounding the merger is well behind them. They confirmed medium-term guidance of mid-single digit organic growth and double-digit free cash flow growth. AON is a beneficiary of asset price inflation and well positioned in the current inflationary environment.

- **LVMH (MC-FR)** – was a recent addition to the portfolio, with a stake acquired at the mid-March share price lows, and the share price recovered into the quarter end. The company posted a strong FY21 result during the quarter, delivering organic growth of 36% (+14% over FY19), which was driven by a robust result from the Fashion & Leather division. This business makes up 75% of the company's operating profit and revenue was up 47% year-on-year, while posting a record margin of approximately 42%. Management indicated that momentum is expected to continue. Towards the end of the quarter management implemented mid-single-digit price increases for Louis Vuitton, again demonstrating the pricing power within the group.

The key detractor to performance for the quarter was Lowe's:

- **Lowe's (LOW-US)** – the company posted their Q4 result with comparable sales up 5% in the quarter and 7% for the full year. It has been hard to fault management's execution over the last 24 months and their continued confidence in the company, and the industry backdrop, led to a guidance upgrade for FY22. Management now expects low-single-digit top line growth (previously flat) and 8-13% earnings per share growth. The share price has been weaker due to concerns around the economic environment, notably rising interest rates and the withdrawal of stimulus payments made to US consumers. However, we remain confident in the company's ability to continue to execute on its strategy, driving margin and improving efficiency across its business.

Fund details

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

Contribution to portfolio return – Quarter March 2022 (%)

Top Three	%
Aon	0.55
LVMH Moet	0.28
Adobe	0.18

Bottom Three	%
Lowe's	-1.97
Nike	-1.91
Agilent Technologies	-1.54

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

Portfolio additions

Louis Vuitton Moet Hennessy (MC-FR) – recent share price weakness, related primarily to geopolitical concerns, provided an opportunity to bring the company back into the portfolio (which had been previously sold on relative valuation grounds). We remain impressed by management's consistent execution and are attracted to the growth and margin opportuntity within the Fashion and Leather segement, including that associated with the company's Dior franchise. As a global leader in the luxury goods market, over the long-term, we expect the company to continue to build on its strong market positioning and have confidence in the high quality, experienced, management team.

Adobe (ADBE-US) – we also initiated a position in Adobe during the quarter, a global leader in the creative and digital media industry. For many creatives, Adobe is as essential as Microsoft Office is for knowledge workers. The company's dominant position within creative media is evident in their leading position over the last three decades, with the company boasting greater than 90% subscription revenue and very high incremental margins. Adobe's high value-to-cost ratio (indicating it adds a lot of value to users), has enabled the company to significantly grow its user base, with the rise of digital media consumption fueling growth. The quality of the business is highlighted when looking at the company's historical performance over the five years to the end of 2021, with 22% revenue growth, 36% adjusted earnings per share, and 28% free cash flow growth per annum.

Portfolio removals

Sherwin-Williams (SHW-US) – 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.

Diageo (DGE-LON) – we exited our position in the company as we looked to fund the purchase of LVMH. With both companies trading at similar valuations, we believe the quality of the LVMH business is higher in terms of brand heritage, organic growth, and pricing power.

Securities movements for the quarter of March

Bought in	Adobe, LVMH
Sold out	Diageo, Sherwin-Williams
Increased holding	Agilent, Nike, Microsoft, Google, Broadridge, Ross Stores, Aon
Decreased holding	Steris, Automatic Data Processing, CME, Lowe's

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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	+$1.2bn	14.7%	3.9%

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.

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Recommended
Lonsec Research

Zenith
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Signatory of:

PRI Principles for Responsible Investment

riaa Responsible Investment Association Australasia

Important information