Claremont Global Fund (Hedged)

June 2022 Quarter Report

Performance to 30 June 2022

	Since inception p.a.	5 Years p.a.	3 Years p.a.	1 Year	6 Months	3 Months
Portfolio return (AUD)	11.0%	10.3%	8.0%	-10.8%	-22.4%	-15.5%
MSCI AC World Accum Index ex-Aust (AUD)	8.1%	6.7%	5.6%	-13.8%	-18.9%	-14.4%
Excess return	**2.9%**	**3.6%**	**2.4%**	**3.0%**	**-3.5%**	**-1.1%**

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 14.4% over the second quarter of 2022 (all figures are in local currency unless noted otherwise), as investors looked to price in further interest rate rises and the increasing risk of a recession. Australian equity markets fell 10.6% after rising 3.8% in the previous quarter.

US equities saw a 16.9% decline in the quarter (down 9.2% in AUD). Inflation unexpectedly accelerated to 8.6% in May (market forecasts of 8.3%) and the prospect of further rate hikes and tighter financial conditions, weighed on market sentiment. The Fed emphasised its priority to return inflation to its 2-3% target range, despite the associated risks of inducing a recession. The 10-year Treasury yield rose 115 basis points in the quarter, to close at 2.98%, its highest level since December 2018, placing pressure on share prices, as investors began to recalibrate valuations, particularly for technology companies with long-dated earnings profiles. Declines were broad-based across most sectors of the economy however, Energy, Utilities, Consumer Staples, and Health Care were the most resilient, all posting modest gains.

European markets also fell in the quarter, depreciating 6.6% (down 8.7% in AUD), as the war in Ukraine continued, leading to fresh concerns over energy supply in the region. The supply chain pressures fueled inflation concerns, with the European Central Bank (ECB) signalling an intention to raise rates by 0.25% at their meeting in July, with a larger increase to be considered in September, if the inflation outlook persists or deteriorates. The ongoing inflationary pressures placed further concerns around the higher cost of living, with consumer confidence falling to its lowest level since the early stages of the pandemic. Germany moved to phase two of its emergency energy plan, one that would involve rationing gas to industrial users (and potentially households) as questions begin to be raised regarding possible supply shortages through the winter months.

UK equities were relatively resilient in the quarter, down 2.2% (down 2.9% in AUD). Recessionary fears saw economically sensitive sectors perform poorly, with larger companies generally faring better than small to mid-cap businesses. The Bank of England raised rates for a fifth straight meeting (by 0.25%), sending a strong message to the market that further rate hikes are imminent if inflation cannot be curtailed. The most recent hike brings its base rate to 1.25%.

Emerging market equities were again mixed in the quarter, posting a relatively modest 3.3% decline (down 8.1% in AUD) on an aggregated basis. Brazil (down 17.4%), as well as other Latin American markets, felt the pressures of rising recession concerns, policy uncertainty, and currency headwinds due to a strong US dollar. China A (+13.6%) posted a strong quarterly gain, as the lockdown measures implemented across the region had begun to be relaxed. While geopolitical tensions remain, investor sentiment was buoyed by improving General Manufacturing PMI data, rising to 51.7 in June (from 48.1 in May) - indicating that factory activity has returned to growth. The reading marked the first expansion in factory activity since February.

With Energy prices up ~35% (gasoline up 49%) in the US in May, it is unsurprising that the Energy sector (down 2.6%) experienced the softest fall. Also holding up was Consumer Staples (down 3.4%), Utilities (down 4.9%), and Health Care (down 5.4%). On the other hand, sectors such as Information Technology (down 20.7%) and Consumer Discretionary (down 18.4%) declined sharply. As highlighted, the former felt the impact of investors re-valuing businesses with longer-dated earnings profiles while the latter was impacted by concerns over an escalating cost of living and lower discretionary spend, the increasing probability of a recession and China-related risks.

Fund details

Strategy FUM	+$1.1 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 June 2022

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

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

Portfolio characteristics – 3 years to June 2022

Standard deviation	16.6%
Realised beta	1.02
Tracking error	5.8%
Upside capture ratio	1.24
Downside capture ratio	0.99

Portfolio performance

The Claremont Global Fund (Hedged) fell 15.5% during the quarter, underperforming the broader market by 1.1%, which saw an 14.4% decline on a net basis (numbers may not add due to rounding).

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

- **Automatic Data Processing (ADP-US)** – the company reported their third quarter result delivering a solid beat and raise, driven by better-than-expected margin (earnings per share (EPS), coming in 6% ahead of consensus estimates). The top line performance was strong with an acceleration to 11% growth, supported by healthy bookings and customer retention rates (~92%). With respect to their product offerings, they highlighted they have received overwhelmingly positive feedback from the new WorkForce interface (ultimately bolstering client retention). Client funds interest contributed to growth for the first time since the pandemic (as the yield drag began to ease partnered with higher balances). They stated they expect to see very strong funds growth next year with a 'double whammy' from wage inflation (helping balances) and rising rates. The company's operating margin increased 50 basis points (bps), noting they expected a decline, due to a combination of leverage as well as high margin revenue outperformance (this was all despite investments in headcount and compensation). Management subsequently upgraded revenue and EPS guidance by 1% and 3% respectively, with the group's margin now expected to expand by 75-100bps (compared to the previous guide of 50-75bps). We are pleased with the company's execution in what has been a rather turbulent operating environment with the stock remaining a core holding in the portfolio.

- **Broadridge (BR-US)** – the business announced solid third quarter results, with revenue growth of 10%, adjusted operating profit growth of 10%, stable margins (at 20.4%), and adjusted EPS growth of 10%. Cash flow realisation improved, a trend expected to continue, as investments in the wealth management platform taper, following several elevated years. The Itiviti acquisition is performing ahead of expectations both in terms of growth and product cross-sell, as well as benefiting from market share gains. As confidence in delivering a strong 2022 result increased, management raised the bottom end of their full-year EPS growth guide, from 11-15% to 13-15%. Longer-term, management continue to see the company benefiting from increased investor participation and engagement, as well as modernisation/digitalisation of financial systems technology.

The key detractors to performance for the quarter were **Nike** and **Alphabet**:

- **Nike (NKE-US)** – the company delivered their 4Q22 result. Demand has exceeded supply in North America, Europe, and Latin America in the last three quarters, however, China was under pressure as lockdowns impacted 60% of Nike's business in the region. Management called out the need to 'recalibrate supply and demand' in China, leading to an inventory charge of 200bps to gross margin, which was down 80bps for the quarter.

  The prevailing supply chain environment is affecting operations, particularly with respect to freight/logistics as well as inventory. A more conservative view on China, freight costs, as well as a sizeable hit from FX have negatively impacted the outlook for FY23. We expect Nike's Chinese operations to recover from the most recent lockdowns, and believe the company is exceptionally well positioned within that market. Overall, the current headwinds are viewed as transitory, although management indicated it may take some time to resolve freight issues.

- **Alphabet (GOOGL-US)** – the company delivered a healthy first quarter result for FY22 with revenue up 26% in constant currency, driven by Search (+24%) and Cloud (+44%). YouTube disappointed the market (+14% revenue growth) however, it is important to note that YouTube was against tough comps in the prior corresponding period, as they lapped exceptional direct response adverting in 1Q21. EPS declined 6% to $24.62, despite operating income growth of 22%, held back by a one-off, the large swing (to a loss) in equity investments. Capex is expected to escalate meaningfully this year as investments are made in technical infrastructure, however, expense control remains significantly tighter than several years ago. We are comforted that management's capital allocation remains 'shareholder friendly' as they most recently repurchased $13bn of shares in the quarter and have a $70bn buyback authorisation in place. The investment thesis remains unchanged with strong long-term growth still expected partnered with ongoing evidence of improved expense control in recent years. The company maintains a large weighting within the portfolio.

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 June 2022 (%)

Top Three	%
Automatic Data Processing	0.08
Broadridge	0.06
LVMH	-0.06

Bottom Three	%
Nike	-1.31
Alphabet	-1.22
Ross Stores	-1.11

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

Portfolio additions

There were no stocks added to the portfolio in the quarter.

Portfolio removals

- **Ross Stores (ROST-US)** – we exited our position in May. The recent inflationary challenges (largely wages and freight) have placed significant pressure on the company's margins, and our view is that persistent inflation may also impact their sales to a greater degree than what was initially anticipated – as Ross Store's core consumer demographic sees discretionary income squeezed by a substantially higher cost of living, through higher food and gas prices. Sales growth and pricing power in this environment is less certain, and the thesis appeared increasingly dependent on a favourable macroeconomic outcome (easing inflation pressure) that the company could not control (nor could we predict). Given the breadth of opportunity in the market, we recycled the capital into other portfolio companies without trading away any valuation support.

Securities movements for the quarter of June

Bought in	–
Sold out	Ross Stores
Increased holding	Adobe, Alphabet, LVMH, Nike
Decreased holding	Visa

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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	+$1.1 Bn	10.3%	3.6%

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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Important information