



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)	13.3%	13.9%	10.6%	-1.5%	-17.3%	-7.2%
MSCI AC World Accum Index ex-Aust (AUD)	10.3%	9.4%	7.0%	-8.1%	-15.8%	-7.8%
Excess return	3.0%	4.4%	3.5%	6.6%	-1.5%	0.6%

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 7.8% over the second quarter of 2022 (all figures are in AUD 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 9.2% decline in the quarter, 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%, 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%. 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 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 (+3.5%) led sector performance over the quarter. Also holding up well was Consumer Staples (+2.4%), Utilities (+1.4%), and Health Care (+1.3%). On the other hand, sectors such as Information Technology (-14.5%) and Consumer Discretionary (-12.9%) 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	12.7%
Realised beta	1.04
Tracking error	5.9%
Upside capture ratio	1.21
Downside capture ratio	0.90



Composition of Portfolio performance

	Since inception p.a.	5 Years p.a.	3 Years p.a.	1 Year	6 Months	3 Months
Local currency return	11.2%	11.6%	9.9%	-10.5%	-22.7%	-16.1%
+/- currency impact on return	2.1%	2.2%	0.7%	9.0%	5.4%	8.9%
Portfolio return (AUD)	13.3%	13.9%	10.6%	-1.5%	-17.3%	-7.2%

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.

Portfolio performance

The Claremont Global Fund fell 7.2% during the quarter, outperforming the broader market by 0.6%, which saw an 7.8% 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.

Fund details

APIR Code	ETLO390AU
ARSN	166 708 792
Responsible Entity	Equity Trustees
Administrator	Mainstream
Custodian	JP Morgan
Currency Exposure	Unhedged
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	0.04
LVMH	-0.06
Bottom Three	%
Nike	-1.36
Alphabet	-1.31
Ross Stores	-1.10

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



Portfolio performance (cont)

- **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 advertising 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.

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

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	+\$1.1 Bn	13.9%	4.4%

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 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



Signatory of:



Important information

This report has been prepared by Claremont Funds Management Pty Ltd (Investment Manager) (ACN 649 280 142, ABN 38 649 280 142, CAR No. 001289207), as investment manager for the Claremont Global Fund (ARSN 166 708 792) and Claremont Global Fund (Hedged) (ARSN 166 708 407), which are together referred to as the 'Funds'. Equity Trustees Limited (ACN 004 031 298, AFSL 240957) ("Equity Trustees") is the Responsible Entity of the Funds. For further information on the Funds please refer to each Fund's PDS which is available at www.claremontglobal.com.au. The Target Market Determination for the product is available at www.claremontglobal.com.au. A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed. This report may contain general advice. Any general advice provided has been prepared without taking into account your objectives, financial situation or needs. Before acting on the advice, you should consider the appropriateness of the advice with regard to your objectives, financial situation and needs. Past performance is not a reliable indicator of future performance. Future performance and return of capital is not guaranteed. The information may be confidential and is intended solely for the addressee. If you are not the intended recipient, any use, disclosure or copying of this information is unauthorised and prohibited. If you receive this e-mail in error please notify the sender and delete the e-mail (and attachments). This report may contain statements, opinions, projections, forecasts and other material (forward-looking statements), based on various assumptions. Those assumptions may or may not prove to be correct. The Investment Manager and its advisers (including all of their respective directors, consultants and/or employees, related bodies corporate and the directors, shareholders, managers, employees or agents of them) (Parties) do not make any representation as to the accuracy or likelihood of fulfilment of the forward-looking statements or any of the assumptions upon which they are based. Claremont Funds Management Pty Ltd is a wholly owned subsidiary of E&P Financial Group Limited (ABN 54 609 913 457), a signatory to the United Nations Principles for Responsible Investment (UNPRI). Actual results, performance or achievements may vary materially from any projections and forward-looking statements and the assumptions on which those statements are based. Readers are cautioned not to place undue reliance on forward-looking statements and the Parties assume no obligation to update that information. The Parties give no warranty, representation or guarantee as to the accuracy, completeness or reliability of the information contained in this report. The Parties do not accept, except to the extent permitted by law, responsibility for any loss, claim, damages, costs or expenses arising out of, or in connection with, the information contained in this report. Any recipient of this report should independently satisfy themselves as to the accuracy of all information contained in this report. MSCI indices source: MSCI. Neither MSCI nor any other party involved in or related to compiling, computing or creating the MSCI data makes any express or implied warranties or representation with respect to such data (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to any such data. Without limiting any of the foregoing, in no event shall MSCI, any of its affiliates or any third party involved in or related to compiling, computing or creating the data have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages. No further distribution or dissemination of the MSCI data is permitted without MSCI's express written consent. Annualised performance as at December 2021, FUM figures in AUD.

[Research ratings disclaimer](#)

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.