Claremont Global Fund (Hedged)

September 2022 Quarter Report

Performance to 30 September 2022

	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)	9.5%	11.0%	8.5%	3.6%	-20.1%	-22.5%	-8.3%
MSCI AC World Accum Index ex-Aust (AUD)	7.1%	4.5%	4.5%	3.3%	-18.3%	-19.2%	-5.6%
Excess return	**2.4%**	**6.4%**	**4.0%**	**0.3%**	**-1.8%**	**-3.3%**	**-2.6%**

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 slightly, down 5.6% over the third quarter of 2022 (all figures are in local currency unless noted otherwise) as a July rally was met by a subsequent softening in sentiment across global markets. Australian equity markets also fell 0.3%.

US equities fell 4.8% in the quarter with investor focus centered around the Federal Reserve's (Fed) pace of interest rate rises in a bid to curb inflationary pressures. Any hopes of interest rate cuts in the near-term were dashed at the August summit, when the Fed reaffirmed its hawkish stance and strong commitment to fighting inflation. Rates were raised by 75 basis points (bps) to 3.25% in September, the third consecutive rise of such magnitude. Markets continued to soften, as investors became concerned the central bank's attempt to bring inflation back to its 2-3% long-term target will result in an economic "hard landing."

Conversely, European markets declined 4.1% over the quarter. The ongoing war in Ukraine, and the subsequent energy crisis, amplified concerns around the economic outlook for the Eurozone. With inflation in the region rising to 10.0% in September, from 9.1% in August, the European Central Bank (ECB) increased the refinancing and deposit rates, by 75bps, to 1.25% and 0.75% respectively. The fears around energy supply contributed to a weakness in the euro, falling to a 20-year low against the US dollar.

UK equities saw a 2.9% fall during the quarter. A key focus was the election of Liz Truss as the new Prime Minister. The announcement of a fiscal package that included broad-based tax cuts in a period of high inflation was received poorly by the markets, with the sterling plummeting to an all-time low against the US Dollar and the price of Gilts falling.

By sector, the Energy sector performed best in the third quarter, posting a 1.3% gain. The Consumer discretionary sector held up on a relative basis after a poor second quarter, sliding 1.0%, with consumer demand continuing to hold in and supply chain challenges abating. Communication Services (-12.8%) was the weakest of the sectors, driven by both telecoms and media stocks, closely followed by Real Estate, which saw a 11.2% decline.

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 September 2022

Top five	Region	Sector
Agilent Technologies	US	Healthcare
Alphabet	US	Information Technology
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 September 2022

Standard deviation	18.1%
Realised beta	1.06
Tracking error	5.9%
Upside capture ratio	1.36
Downside capture ratio	1.02

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) fell 8.2% during the quarter, underperforming the broader market by 2.6%, which saw a 5.6% decline on a net basis (numbers may not add due to rounding).

A key contributor to performance for the quarter was **Automatic Data Processing:**

- **Automatic Data Processing (ADP-US)** – the company continues its run of sound execution, posting a solid set of numbers in its most recent fourth quarter result, capping off what was an excellent 12 months for the company. Full year organic growth came in at 10% with some leverage through the middle of the income statement, delivering adjusted earnings per share (EPS) growth of 16% (which was 6% ahead of company guidance). Pleasingly, ADP posted record bookings in the fourth quarter, with a sequential acceleration on Q3, while retention rates finished at over 92%. Management signalled that despite the challenging economic conditions for small and medium businesses, retention should be structurally higher compared to pre-pandemic. Further, bookings grew 15%, ADP's strongest number in approximately 20 years, highlighting the underlying demand strength. Looking forward, the company came out with solid FY23 guidance; high-single-digit revenue growth, healthy margin expansion, and mid-teens adjusted EPS growth.

The key detractors to performance for the quarter were **Steris, Nike,** and **Adobe**:

- **Steris (STE-US)** – the company posted their first quarter result for fiscal 2023 with revenues and EPS coming in slightly behind management guidance. Organic growth was up 6%, however, currency had a negative impact of 3%, driving the bulk of the top and bottom-line miss. While gross margins came under pressure due to higher cost inflation (down 150bps), solid operating expense control saw operating margins come in flat. Overall, most business units look to be operating well. The Healthcare segment has been impacted by a slower rebound in procedural volumes following COVID-19, as well as ongoing staffing challenges in the hospital system (which may take up to 18 months to normalise). While transitory, this weakness was reflected in the full year guide, with organic growth lowered to 10% (from 11%) and adjusted EPS lowered by ~2% at midpoint (noting the negative impact from FX drove two-thirds of this downgrade). We believe these speed bumps are largely out of management's control and we remain confident in the company's competitive position and long-term outlook. The stock remains a core holding in the portfolio.
- **Nike (NKE-US)** – their first quarter result for FY23 saw 10% sales growth in constant currency (a low-single-digit sales beat on management guidance), driven by ongoing strength in the digital channel (+23%), as well as healthy direct sales (+14%). While management highlighted that demand remains strong, supply chain challenges resulted in excess inventory and the company decided to clear inventory, including off season apparel. Full year guidance was hampered by larger-than-expected cost pressures from freight, as well as higher discounting. Product discounting is expected to peak in the second quarter, with the broader marketplace remaining promotional until year end. Importantly, the company's long-term margin targets remain firmly intact. We see nothing to change our underlying thesis on the company.
- **Adobe (ADBE-US)** – announced their 3Q22 result, as well as the acquisition of Figma, a company focused on software to help design and develop web and mobile applications, with unique collaboration capabilities. Adobe's core business delivered results in line with expectations, with 15% constant currency revenue growth, driven by both Digital Media (+16%) and Digital Experience (+15%). Additionally, management slightly increased their full year EPS guidance. We view the Figma asset as a strong strategic fit, with a very highly regarded team and products, which also has the potential to meaningfully accelerate the delivery of Adobe's creative cloud technology on the web. However, the $20 billion price tag for the Figma acquisition certainly raised our eyebrows and was not received well by the market – resulting in underperformance over the quarter. With the underlying Adobe businesses continuing to perform in line with our expectations, we have maintained our holding, but will continue to monitor acquisition developments and the integration closely.

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 September 2022 (%)

Top Three	%
Automatic Data Processing	0.87
Broadridge	0.68
Agilent Technologies	0.59

Bottom Three	%
Nike	-1.10
Steris	-1.07
Adobe	-0.94

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

Portfolio additions

- **Equifax (EFX-US)** – has been reintroduced to the portfolio. We sold this position in second quarter 2021, on evidence that the mortgage business was overearning, given low interest rates and the exceptionally high level of mortgage refinancing. This business has now been substantially rebased, with mortgage market enquiries on track to be down approximately 40% in FY22, and the contributions of mortgages to total revenue now expected to be approximately 20% of group revenue by year end. Importantly, the non-mortgage related businesses are performing well. "Core" organic revenue growth (which excludes the impact of the broader mortgage market) has continued to be strong, with full year guidance at c.+15%. Equifax's valuation has also improved markedly with the shares down 29% year-to-date at the time of purchase, trading at 25x next-twelve-month consensus earnings.

- **Zoetis (ZTS-US)** – is a global leader in the development, manufacture, and commercialisation of animal health medicines and vaccines. The company focuses on both companion animals (~60% of group revenue) and livestock (~40%). This high-quality name boasts gross margins of 70%, operating margins of 38%, return on invested capital (ROIC) of 32%, and a net-debt-to-EBITDA ratio of less than 1x. The share price had retreated 30% from its all-time highs, presenting an opportunity to bring it into our portfolio. We believe the company's industry leading products and strong innovation pipeline will prove to be key drivers of sustainable earnings growth over the long-term.

Portfolio removals

- **Lowe's (LOW-US)** – whilst we have a high degree of confidence in the management team and associated turnaround effort currently in place, we had increasing concerns around the sustainability of revenue growth and in turn, earnings predictability. Lowe's was a large beneficiary of COVID-19 lockdowns - for context consensus FY23 revenues at the time of sale were 36% above pre-Covid-19 levels, well above the longer-term trend. As a result, our confidence in the maintenance of revenue growth above GDP (one of our key investment pillars) over our investment horizon had diminished, with implications for operating margin and EPS growth. More recently, results from peers in Europe have shown a deceleration in do-it-yourself (DIY) spend, due to reduced footfall, as well as inventory destocking. We have sold the entire position and have recycled the capital into more attractive opportunities.

Securities movements for the quarter of September

Bought in	Zoetis, Equifax
Sold out	Lowes
Increased holding	Steris, Nike, Alphabet, Adobe, Agilent Technologies
Decreased holding	LVMH, Automatic Data Processing, Broadridge, AON

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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	+$1.1bn	8.5%	4.0%

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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