

Performance to 31 December 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)	10.4%	11.3%	9.3%	4.7%	-22.0%	0.5%	9.6%
MSCI AC World Accum Index ex-Aust (AUD)	7.7%	7.7%	4.8%	3.1%	-18.0%	1.0%	7.0%
Excess return	2.7%	3.6%	4.5%	1.5%	-3.9%	-0.5%	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 saw broad-based gains over the fourth quarter of 2022, appreciating 7.0% (all figures are in local currency unless noted otherwise). Australian equity markets experienced strong growth, up 9.7%.

US equity markets delivered solid gains in local currency terms, gaining 7.0% for the fourth quarter. The Australian dollar/US dollar exchange rate appreciated by 6.4% over the quarter, which did restrain the strong U.S. equity performance (when measured in Australian dollars). Investors were buoyed by indications from the Federal Reserve (Fed) that the pace of interest rate tightening would slow on the back of signs that inflation may have peaked. The Fed appears to have seen sufficient evidence to pare back its final rate hike of the year to 50 basis points (bps) following four consecutive 75bps hikes. From the end of the September quarter, the U.S. Federal Funds Target Rate increased 1.25% (at the mid-point, from 3.125% to 4.375%). Expectations for the most recent rate increases had already been priced in and longer rates closed the quarter largely unchanged (despite intra-quarter volatility) – with the U.S. two-year government bond rate at 4.43% (+15 bps) and the 10-year rate at 3.88% (+5 bps).

Overall, U.S. economic data remained healthy, with US Gross Domestic Product (GDP) data confirming an annualized third quarter growth rate of 3.2%, accelerating from 2.9% growth in Q2, while unemployment remained low at 3.7%. Most sectors saw gains across the quarter. One exemption was Consumer Discretionary, which continues to be saddled with elevated supply chain costs (such as freight and logistics), higher wage levels, and excess inventory – as many retailers failed to accurately forecast demand trends and also experienced inconsistent delivery timing, as Covid-19 disruptions recede. This has led to significant discounting across hard-to-move product lines.

European equities appreciated 10.4%, also driven by hopes that inflation is cooling and the expectation of slowing rate hikes by the European Central Bank (ECB). Annual inflation in the eurozone fell to 10.1% in November from 10.6% the prior month. The ECB increased rates by 50bps, down from their prior 75bp hike. In contrast to healthy and rising annualised US GDP growth data in Q3, the eurozone economy grew by a paltry 0.3%, down from 0.8% growth in Q2. UK equities followed their European counterparts, posting gains of 8.6% in Q4. The previously announced fiscal stimulus package was reversed under new Prime Minister, Rishi Sunak, stabilising gilt yields and interest rate expectations. Sector gains across the eurozone and the UK were tied to those sectors that are more economically sensitive such as Energy, Financials, and Industrials, while more defensive sectors such as Consumer Staples lagged.

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 December 2022

Top five	Region	Sector
Adobe	US	Information Technology
Microsoft	US	Information Technology
Nike	US	Consumer
Steris	US	Healthcare
Visa	US	Healthcare

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

Portfolio characteristics – 5 years to December 2022

Standard deviation	18.5%
Realised beta	1.06
Tracking error	5.9%
Upside capture ratio	1.37
Downside capture ratio	1.02

Portfolio performance

The Claremont Global Fund (Hedged) rose 9.6% during the quarter, outperforming the broader market by 2.6%, which saw a 7.0% increase on a net basis (numbers may not add due to rounding).

Key contributors to performance for the quarter were **Nike** and **Agilent**:

- **Nike (NKE-US)** – while it has been a turbulent few months for the global leader in sports apparel, the company posted a strong second quarter sales beat with constant currency sales growth accelerating to 28% from 10% in the first quarter. Management highlighted the company's strong price realisation in footwear and its key franchises. The average selling price increased across all regions despite some discounting (due to inventory management). Whilst gross margins declined 300bps, this was better than what management and consensus anticipated (a decline of 350-400bps). Sales growth guidance was increased to the low-teens (in constant currency) while gross margin guidance was unchanged. Management continued to point to margin headwinds (of 350bps) as transitory, and we believe there are a number of structural drivers supporting higher levels of profitability over the long-term. The stock remains a core holding in our portfolio.
- **Agilent (A-US)** – had a nice finish to what was a strong year for the company, with revenue and earnings per share (EPS) coming in 5% and 11% ahead of consensus expectations. They delivered 18% organic growth in the fourth quarter with their two largest end markets, pharmaceuticals and chemical & applied markets, posting 20% and 27% growth respectively. A strong replacement cycle, as well as continued expansion of their installed base, were key contributors to this exceptional performance, with instrument growth up 24% for the quarter (on a year-on-year basis), while services and consumables both grew in the mid-teens. Impressively, the company has managed to mitigate cost pressures throughout the year through volume leverage, pricing, and ongoing operational efficiencies – helped by their investments in digital over the last few years and allowing adjusted operating margin improvement of 160bps to ~27%. Another key piece of our investment thesis, an improving service attach rate on their installed base of instruments, crossed over 30% during the quarter, which will help the company continue to drive operating margin improvement going forward.

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

- **Alphabet (GOOGL-US)** – the company delivered their third quarter result, which saw constant currency revenue increase 11%. This represented a deceleration from 16% growth in the previous quarter, although it was against demanding comparable sales growth in the prior year, at 39%. While management had previously signalled that last year's strong margins were, in part, due to delayed investment, the third quarter operating margin, at 24.8%, was underwhelming. While their intention is to moderate hiring and operating expense growth, management also stressed their focus on delivering durable long-term results, and that investors should not expect costs to be cut at the expense of long-term revenue opportunities. We are strong proponents of investing for the long-term but recent employee growth (as at the end of the third quarter, up 19% year-to-date) and cost growth, have meaningfully exceeded revenue growth, resulting in margin deterioration. A sensible balance between short-term profitability and long-term growth needs to be struck. We expect to see evidence of improved cost efficiency over the coming year, as well as operating leverage within the Cloud business, which is continuing to grow rapidly. We also note that Alphabet is currently trading at a historically low PE multiple (below 18x in early January).
- **Zoetis (ZTS-US)** – it was a disappointing quarterly result from the company, falling short of consensus expectations and leading them to revise down their full year constant currency revenue growth guidance, to 7%-8% from 9.5%-10.5%. The downgrade reflected a rare execution misstep from a high-quality operator. Supply constraints have been an ongoing issue for the industry over recent quarters, although Zoetis had navigated the choppy waters well. In the third quarter however, the company experienced significant disruption to the supply of parasiticides, impacting the Trio and Revolution product lines, leading to delays in securing third-party capacity, with product arriving too late in the quarter. Veterinary visits (due to capacity constraints) were also called out as a headwind, impacting their diagnostics and dermatology businesses. Finally, delays in the approval and launch of Librela in the US (from 1H23 to late 2023) capped off a disappointing quarter. That said, we believe these challenges are largely transitory in nature and we remain positive on the company's competitive position in the market and the long-term growth opportunity.

Fund details

APIR Code	ETLO391AU
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 December 2022 (%)

Top Three	%
Nike	2.40
Agilent Technologies	1.73
LVMH	0.98
Bottom Three	%
Alphabet	-1.09
Zoetis	-0.56
CME Group	-0.42

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



Portfolio additions

There were no additions to the portfolio in the quarter.

Portfolio removals

- **Broadridge (BR-US)** – while the company had proven relatively resilient through a turbulent market, we saw more attractive opportunities elsewhere, both in terms of quality (growth, margins, and ROIC) as well as valuation. The return on capital related to Broadridge's ongoing significant investments in their wealth management platform was also a consideration.

Securities movements for the quarter of December

Bought in	–
Sold out	Broadridge
Increased holding	Steris, CME Group, Microsoft, Adobe, Alphabet, Equifax
Decreased holding	AON, Agilent Technologies

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	+\$1.2bn	9.3%	4.5%

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 2022, 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.