Claremont Global Fund

December 2022 Quarter Report

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)	12.9%	12.8%	13.7%	8.1%	-14.4%	3.5%	5.0%
MSCI AC World Accum Index ex-Aust (AUD)	10.2%	9.2%	8.3%	5.3%	-12.7%	3.6%	4.0%
Excess return	**2.8%**	**3.6%**	**5.4%**	**2.8%**	**-1.7%**	**-0.1%**	**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 saw broad-based gains over the fourth quarter of 2022, appreciating 4.0% (all figures are in AUD 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 13.2%, 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 10.9% 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	13.6%
Realised beta	1.06
Tracking error	5.8%
Upside capture ratio	1.30
Downside capture ratio	0.92

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.

December 2022 Quarter Report

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	10.8%	11.1%	6.8%	-21.4%	1.9%	9.7%
+/- currency impact on return	2.2%	2.6%	1.3%	7.0%	1.6%	-4.7%
Portfolio return (AUD)	**12.9%**	**13.7%**	**8.1%**	**-14.4%**	**3.5%**	**5.0%**

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 rose 5.0% during the quarter, outperforming the broader market by 1.1%, which saw a 4.0% 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.

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).

Fund details

APIR Code	ETL0390AU
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 December 2022 (%)

Top Three	%
Nike	2.32
Agilent Technologies	1.64
LVMH	0.94

Bottom Three	%
Alphabet	-1.09
Zoetis	-0.52
CME Group	-0.43

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

Portfolio performance (cont)

- **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. Vetinerary 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.

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

December 2022 Quarter Report

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	13.7%	5.4%

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

Recommended
Lonsec Research

Zenith
RECOMMENDED

Signatory of:

PRI Principles for Responsible Investment

riaa Responsible Investment Association Australasia

Important information