Claremont Global Fund (Hedged)

June 2021 Quarter Report

Performance to 30 June 2021

	Since inception p.a.	5 Years p.a.	3 Years p.a.	1 Year	6 Months	3 Months
Portfolio return (AUD)	14.3%	15.9%	19.8%	36.7%	16.1%	10.1%
MSCI AC World Accum Index ex-Aust (AUD)	11.5%	14.1%	13.0%	35.5%	13.2%	7.0%
Excess return	**2.9%**	**1.8%**	**6.8%**	**1.2%**	**2.8%**	**3.0%**

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 rose 7.0% over the March quarter (all figures are in local currency unless noted otherwise) supported by the accelerating rollout of the COVID-19 vaccines. Locally, the Australian equity market appreciated 8.4% over the same period.

The US equity market performed strongly in the second quarter, appreciating 8.8%. The strength was primarily driven by the pace of the vaccine rollout across the country, bringing hope that the country should be back to a more normalised pre-COVID environment sooner than expected. Growth in consumption was strong in the quarter, as the economy continued to open up from lockdown measures. industrial activity also proved encouraging, with the US composite purchasing manager's index (PMI) registering 63.9, up from 59.7 in March (a reading above 50 indicates expansion). Inflation concerns remained a key market focus, with the core Consumer Price Index (CPI) rising from 3.0% to 3.8% year-on-year, largely attributed to the reopening of the economy and key supply shortages. While there was no explicit change to the Federal Reserve's rate-setting agenda, comments from certain officials suggesting an interest rate rise may occur in 2023 captured the media's attention before being quelled by additional commentary indicating the Federal Reserve would not be tightening monetary policy quickly. The US 10-year yield closed out the month at 1.46%, remaining at accommodative levels. There were large gains in Information Technology, while Utilities and Consumer Staples were the notable laggards for the quarter.

European equity markets also advanced in the June quarter, rising 6.5%. As was the case in North America, markets were supported by the rollout of vaccines across key regions, where many countries began to see COVID-19 infections fall, and allowing governments to subsequently loosen previously imposed restrictions. Further, a strong PMI figure of 59.2 (its highest level since 2006) provided further support to investor confidence. The 800-billion-euro Next Generation EU fund was signed, with Spain and Portugal the first to have their spending plans approved. On a sector level, Consumer Staples, Real Estate, and Information Technology were strong, while Utilities and Energy lagged. UK equities also rose strongly, up 5.8%, driven by more economically sensitive sectors. The month of June proved volatile, however, with some domestically focused businesses caught-up in concerns surrounding the economic impact of the COVID-19 Delta variant.

Emerging market equities were solid through the June quarter, posting a 3.8% return. Markets saw some volatility in May, however, as stronger than anticipated inflation in the US created concerns around potential monetary policy action. The Brazilian equity market was strong, delivering 9.3% growth, as was Russia, rising 10.7%. China A also delivered solid gains, appreciating 4.1% in local currency.

By sector, Information Technology (+10.3%) led the way, rebounding strongly after a relatively quiet March quarter, as investor fears around inflationary pressures abated. Health Care (+9.2%), and Energy (+8.7%) also both delivered healthy gains for the quarter, with the former rebounding following a meagre first quarter and the latter maintaining recent momentum. The Energy sector was driven by a firming oil price, with WTI crude oil rising over 24% across the three months to June, benefiting from the reopening of the global economy. The key laggard was Utilities (down 0.8%), which followed a soft March quarter (+1.9%).

Fund details

Strategy FUM	$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 2021

Top five	Region	Sector
Alphabet	US	Information Technology
Automatic Data Processing	US	Business Services
Lowe's	US	Consumer
Microsoft	US	Information Technology
Nike	US	Consumer

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

Portfolio characteristics – 3 years to June 2021

Standard deviation	17.8%
Realised beta	1.00
Tracking error	4.9%
Upside capture ratio	1.23
Downside capture ratio	0.93

Portfolio performance

The Claremont Global Fund (Hedged) portfolio rose 10.1% during the quarter, outperforming the broader market by 3.0%, 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 **Alphabet** and **Nike**:

Alphabet (GOOGL) – The company reported a very strong set of first quarter results with revenue rising 32% on a constant currency basis to over $55 billion. The trajectory of the company's core advertising business continued to improve (+32%), with broad based strength in advertising spend. YouTube revenue momentum continues, with 49% growth for the quarter, as the benefit of an exceptionally large audience and more effective monetization efforts become evident. Further, the Cloud business also performed well, delivering 46% revenue growth. With respect to profitability, COVID-19 related cost management and scaling of the Cloud helped deliver a notable operating margin improvement of ~10% to ~30%. While no guidance was provided, the company faces some easier compares over the coming quarters, and we remain bullish on the longer-term growth opportunities and competitive position of its key businesses. Alphabet remains a core holding within the portfolio.

Nike (NKE) – Our newest portfolio holding delivered an exceptional fourth quarter result for their 2021 fiscal year. The result came in significantly ahead of expectations, with constant currency sales increasing 88%, as the company cycled some easy compares due to the COVID-19 lockdowns last year. North America was the standout region (+141% and +29% on fourth quarter 2019 numbers) as Nike recaptured delayed sales due to supply chain issues experienced earlier in the year. A key part of the investment thesis was the continued momentum of their digital offering and it was pleasing to see digital sales grow 37%, even as physical stores began to reopen around the globe. Digital sales nearly doubled against 2019 figures and now represent 21% of total Nike brand sales. It was a very solid result for the company, confirming our investment thesis, and we are pleased to have built a sizeable position in the company.

Portfolio changes – Stocks added

Steris (STE-US) – We initiated a position in STE in April. The company provides sterilisation and infection prevention solutions (capital equipment, services, and consumables) to hospitals, medical device and life science drug manufacturers. Steris' products and services enable their customers to meet stringent regulatory requirements set by governing agencies, where the consequence of non-compliance is significant, both in terms of cost and reputation. A high value-to-cost ratio is a key metric we seek in all our companies, and Steris' offering typifies this – providing a sterlisation service that is crucial but comprising only a small part of the overall end product/services total cost, underpinning an attractive investment proposition. Further, recurring revenues (~78%) make up the majority of the business, providing good visibility on future profitability. Whilst the long-serving CEO has just retired, we take comfort from his seasoned internal replacement, and we believe Steris is well-placed to continue the company's solid track record.

Nike (NKE-US) – We have initiated a position in the world's leading sportswear company. Nike is one of the most valuable brands globally and has consistently been at the forefront of innovation, creating an extensive product range that separates the company from its competitors. Nike generates twice the revenue of their nearest competitor, with the scale advantage fueling the company's marketing budget, allowing them to collaborate with the world's top sports teams, athletes, and celebrities, further building brand desirability and consumer engagement. This powerful combination is being enhanced by their best-in-class digital offering, which has helped underpin Nike's strong financial performance, delivering 10-year average sales growth of 9% and earnings per share growth of 13% p.a. respectively.

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%

Portfolio changes – Stocks removed

Equifax (EFX-US) – While Equifax's long-term positioning in the industry has substantially improved since the 2017 data breach, we are concious of the current mortgage refinancing strength, in what has historically been a cyclical market. Given Equifax's relatively high mortgage exposure (more than one-third of revenues), the strength in the company's share price, following the very strong recent results, provided an opportuntity to sell the company and redeploy capital into more attractive risk/return opportunities.

Securities movements for the quarter of June

Bought in	Steris, Nike
Sold out	Equifax
Increased holding	Lowe's
Decreased holding	Broadridge, Sherwin-Williams, Ross Stores

Contribution to portfolio return – Quarter June 2021 (%)

Top Three	%
Alphabet	1.83
Nike	1.54
Microsoft	1.42

Bottom Three	%
Steris	0.10
Ross Stores	0.31
Lowe's Co	0.34

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

Contact Us

Charlie Wapshott
Head of Distribution & Investment Specialist

Andrew Fitzpatrick
Investment Specialist

Telephone: +61 3 9411 4077
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	3-year total return per annum (net)	3-year alpha per annum (net)
2011	10 - 15	+$1B	20.4%	8.3%

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.

Investment Grade
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RECOMMENDED

Signatory of:
PRI Principles for Responsible Investment

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Important information