Claremont Global Fund (Hedged)

September 2021 Quarter Report

Performance to 30 September 2021

	Since inception p.a.	5 Years p.a.	3 Years p.a.	1 Year	6 Months	3 Months
Portfolio return (AUD)	14.2%	14.9%	18.2%	33.8%	12.7%	2.4%
MSCI AC World Accum Index ex-Aust (AUD)	11.0%	12.8%	11.1%	26.5%	6.5%	-0.4%
Excess return	**3.2%**	**2.1%**	**7.2%**	**7.3%**	**6.2%**	**2.9%**

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 were down slightly (-0.4%) over the quarter (all figures are in local currency unless noted otherwise). The Australian equity market rose slightly (+0.8%) over the same period.

The US equity market was flattish on a local currency basis in the second quarter (+0.3%), with the reported 4.3% appreciation largely driven by the strength of the USD versus the AUD. US company earnings delivered well ahead of expectations however, growth and inflation concerns late in the quarter erased earlier share price gains. The Federal Reserve stated that inflation would remain elevated before moderating and signaled that tapering of bond and mortgage purchases is likely in November or December. However, the Federal Reserve remained hesitant to tighten policy too fast, given the path of economic recovery remains somewhat dependent on the coronavirus. Forecast real GDP growth for 2021 was revised down to 5.9% (from the June projection of 7.0%) with annual inflation expectations rising to 4.2% (from 3.4%). The September sell-off affected most sectors and was led by consumer and materials which both had negative returns over the quarter.

European equity markets also came in flattish for the quarter, rising just 0.5%. As was the case in North America, the continued economic recovery, as well as strong earnings delivery, saw early advances across the region, before concerns around the impact of inflation saw a late turn in sentiment. Annual inflation estimates for the region in September were estimated at 3.4%, up from 3.0% in August and 2.2% in July. On a sector level, consumer discretionary stocks were sold down, with investors fearing luxury goods companies may come under pressure as China looks to "common prosperity", which may impact high-end demand. UK equities came in ahead of other developed markets, appreciating 2.2%, driven largely by strength in the energy sector (rising crude oil prices) and financials (rising interest rates).

Emerging market equities were weak over the quarter, posting a 6.7% fall. Areas of concern across many emerging economies remained largely focused on supply chain disruptions and the second order effects of higher food and energy prices through these economies. US bond yields also rose through September, placing further pressure on regions with large exposure to USD-denominated debt. The China A equities market saw a sharp decline of 10.9% as the regulatory environment continues to evolve and from the fall-out from Evergrande. Brazil (-13.3%) was the weakest among the large emerging economies as higher-than-expected inflation continued to pressure the central bank to further hike interest rates.

Looking across sectors, Energy (+4.0%) led the way, benefiting from a strong rebound in gas and crude oil prices through September, with Crude Oil (WTI) appreciating 9.4% in the month. Financials (+2.9%) benefited from higher interest rates, with the US 10-year treasury yield rising from 1.24% at the beginning of August to 1.53% by the end of the quarter. Consumer Discretionary (-4.6%) and Materials (-3.4%) were the two laggards, with the former impacted by factors including growth concerns and ongoing inflation associated with supply chain disruptions

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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 September 2021

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

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

Portfolio characteristics – 3 years to September 2021

Standard deviation	18.2%
Realised beta	1.01
Tracking error	5.4%
Upside capture ratio	1.27
Downside capture ratio	0.95

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Portfolio performance

The Claremont Global Fund (Hedged) portfolio rose 2.4% during the quarter, outperforming the broader market by 2.9%, which saw a 0.4% decrease on a net basis (numbers may not add due to rounding).

Key contributors to performance for the quarter were **Aon** and **Alphabet**:

Aon PLC (Aon) – The company posted a solid second quarter result with organic growth of 11% (or +8% for the first half of the year). While margins were under pressure, as expenses came back online post-COVID, margin expansion should return to its usual long-term cadence. The merger between Aon and Willis Towers Watson was called off during the quarter. Aon indicated that the divestments, which were required by regulators, reduced the rationale for the merger and the subsequent disruption would have dragged well into 2022. Interestingly, the detailed evaluation of both businesses throughout the diligence process identified greater revenue and expense opportunities within Aon, enhancing the company's standalone return potential. A key tenant of the investment thesis has been improving free cash flow generation and, pleasingly, the company saw free cash flow up 13% year-to-date. Overall, as investors we are pleased management can resume focus on the core business, including the continuous improvement of their value proposition to their customers.

Alphabet (GOOGL) – Alphabet reported a notably strong result, with second quarter revenues up 57% on a constant currency basis, which was 10% ahead of consensus estimates, and an acceleration from the first quarter's growth rate of 32%. It must be noted that the growth rate was off a low, COVID-19 affected, base however, adjusting for this the company was still able to deliver a two-year cumulative average growth rate of 26%. Strength was driven by the core Search advertising business, as well as YouTube (+84% growth). The company's operating margin increased to 31.3%, in part driven by a dramatic improvement in the Cloud business's margin, as it continues to scale. Alphabet remains a core holding within the portfolio.

Key detractor to performance for the quarter was **Ross Stores**:

Ross Stores (ROST) – the company reported a solid second quarter result with comparable store sales up 15% relative to 2019, where management had previously guided to 5-7%. This was complimented by healthy comparable sales leverage, allowing them to raise their full year earnings guidance by 6%. However, the market remained wary of management commentary about cost pressures, which are expected to increase in the second half of the financial year (largely driven by freight costs), as well as ongoing uncertainty around the consumer discretionary environment. We are of the view that these factors are more short-term in nature, management guidance has typically proven conservative, the long-term business model and investment thesis remains intact, and the current share price is relatively attractive.

Portfolio changes – Stocks added

There were no portfolio additions in the September quarter.

Portfolio changes – Stocks removed

There were no portfolio removals in the September quarter.

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%

Securities movements for the quarter of September

Bought in	–
Sold out	–
Increased holding	CME, Ross Stores, Steris, Visa
Decreased holding	Agilent, Alphabet, Aon, Diageo

Contribution to portfolio return – Quarter September 2021 (%)

Top Three	%
Aon	1.44
Alphabet	1.35
Agilent Technologies	1.11

Bottom Three	%
Ross Stores	-0.40
CME Group	-0.17
Steris	0.00

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

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(Hedged)

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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	+$1.1B	18.2%	7.2%

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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RECOMMENDED

Signatory of:
PRI Principles for Responsible Investment

Superior
SQM RESEARCH

Important information

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