Claremont Global Fund

December 2021 Quarter Report

Performance to 31 December 2021

	Since inception p.a.	5 Years p.a.	3 Years p.a.	1 Year	6 Months	3 Months
Portfolio return (AUD)	17.0%	19.3%	27.3%	42.0%	19.0%	11.9%
MSCI AC World Accum Index ex-Aust (AUD)	13.5%	14.4%	19.2%	26.0%	9.1%	6.1%
Excess return	**3.5%**	**4.9%**	**8.1%**	**16.0%**	**9.9%**	**5.8%**

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 6.1% over the quarter (all figures are in AUD unless noted otherwise) off the back of a healthy earnings season, while the Australian equity market lagged, rising 1.4% over the same period.

US equities experienced a strong quarter, appreciating 9.3%, primarily driven by supportive economic conditions and robust corporate earnings. This was despite concerns including inflation, a more hawkish stance from the Federal Reserve – with the announcement of an accelerated tapering of asset purchases and the signalling of interest rate increases – supply chain pressures and the spread of the Omicron variant of COVID-19.

Discussion points for most companies continued to focus on supply chain pressures, the resultant cost inflation, and the fight for talent across the country, with the general consensus being that such pressures will continue to persist well into the new year. GDP growth outpaced expectations, increasing 2.3% on an annualized basis in the quarter (compared to a forecast 2.1%), while the unemployment rate continues to fall, closing at 4.2% (down from 4.6% in October), and the lowest rate since the pandemic began. The strong labour market combined with more persistent, rather than "transitory", inflation – the U.S. Consumer Price Index increased 6.8% year-on-year in November – led to the median Federal Reserve member's expectation of three rate hikes in 2022. From a sector perspective, Information Technology was one of the strongest performers, while the returns of both the Energy and Financial sectors were more moderate. The 10-year US Treasury yield was left relatively unchanged, closing at 1.51%.

European equity markets also had a strong quarter, rising 5.0%. In line with the US market, the focus on strong earnings results and stability across the major European economies offset numerous concerns. The UK market appreciated, broadly in line with its European counterparts, rising 4.9% over the quarter. Sector performance was affected by the differing economic sensitivities to the Omicron variant and associated restrictions, with defensive industries such as diversified consumer staples outperforming. Sectors such as travel and leisure, as well as oil and gas, were relatively subdued and did not make up mid-quarter losses. Supply chain disruptions continued to challenge retailers, with some retailers downgrading earnings forecasts despite healthy end customer demand.

Emerging market equities were again weak, posting a 1.9% fall following a 4.5% decline last quarter. The strength in the US dollar continued to present a headwind, with Turkey the key laggard. Inflation in the country continues to accelerate, to c.21% year-on-year in November, with the government attempting to reduce the use of US dollars through the implementation of a scheme to compensate savers for the weakening lira. The China A equities market rebounded from a sharp decline last quarter, appreciating 2.4%. However, the broader Chinese market was down 6.7%. This broad-based weakness in both China and Hong Kong was against a backdrop of concern about downside risks to the economy. In contrast to some Western central banks, which have either signalled or begun tightening monetary policy, the People's Bank of China has an easing bias.

Across sectors, Information Technology led the way posting a 11.9% rise, as investors took comfort in a stable 10-year Treasury yield, while also benefiting from a rotation back into industries that are less exposed to the economic consequences of lockdowns. Communication Services (down 2.2%) and Energy (+2.4%) lagged most sectors, although the Brent Crude oil price stabilised after a robust September quarter. Financials (+2.4%) also saw muted returns.

Fund details

Strategy FUM	+$1.3 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 2021

Top five	Region	Sector
Alphabet	US	Information Technology
Lowe's	US	Consumer
Microsoft	US	Information Technology
Steris	US	Healthcare
Visa	US	Financial Services

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

Portfolio characteristics – 3 years to December 2021

Standard deviation	13.2%
Realised beta	1.09
Tracking error	5.9%
Upside capture ratio	1.33
Downside capture ratio	0.86

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	15.4%	18.8%	28.2%	35.8%	15.6%	12.5%
+/- currency impact on return	1.6%	0.5%	-0.9%	6.3%	3.4%	-0.6%
Portfolio return (AUD)	**17.0%**	**19.3%**	**27.3%**	**42.0%**	**19.0%**	**11.9%**

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 portfolio rose 11.9% during the quarter, outperforming the broader market by 5.8%, which saw a 6.1% increase on a net basis (numbers may not add due to rounding).

Key contributors to performance for the quarter were **Lowe's** and **Automatic Data Processing**:

Lowe's (LOW) – continued its momentum through the third quarter, delivering same-store sales growth of 2.2% (against 28% in the prior year quarter), which came in ahead of consensus expectations. The professional customer segment grew 16%, with the retail segment posting a 2% decline year-on-year but up sequentially from a 9% decline last quarter. The company highlighted that they are taking share of wallet in both customer segments. While fluctuations in customer spend have been higher than usual, given the stimulus running through the US economy, management continue to execute ahead of their long-term strategy. Consequently full-year guidance was increased, with revenue now expected to grow 3% and the operating margin revised upwards to 12.4%.

Automatic Data Processing (ADP) – delivered a strong 1Q22 result, with organic sales growth of 10%, resulting in Earnings per Share coming in 10% ahead of expectations. The strong top line performance was driven by record first quarter bookings, with retention and Net Promotor Scores also improving, and hitting new records. The operating margin improved by 140 basis points to 17%. Management provided updated guidance, incorporating modest increases to full year revenue and earnings expectations, of 1% and 2% respectively, while also indicating that there is solid momentum in product initiatives across the board. They highlighted positive trends regarding workers getting back into the labour force, noting that a tight labour market is a net positive for the company. Finally, they provided new medium-term financial targets of organic sales growth of 7-8% and earnings growth of 11-13%, which was well-received by the market.

The key detractor to performance for the quarter was **Visa**:

Visa (Visa) – the quarter was volatile not only the company, but the payments space as a whole. Visa reported their fourth quarter result for FY21 and provided a lower-than-expected guide for both FY22 revenue (low-teens growth) and earnings (mid-teens growth). This was primarily a result of a slower than expected recovery in the key cross-border business. A lot of market noise centered around the potential for disruption from Buy Now Pay Later, Open Banking, and the growing presence of FinTechs. Our view is that the market has overreacted to these fears and that the pandemic has reinforced the company's competitive advantage through accelerated debit use (+44% since 2019), cash displacement, tap-to-pay, ecommerce, and increased use of value-added services. We remain bullish on the company's long-term prospects and used the recent share price weakness to add to the portfolio's position.

Contribution to portfolio return – Quarter December 2021 (%)

Top Three	%
Lowe's	2.29
Automatic Data Processing	1.83
Microsoft	1.74

Bottom Three	%
Ross Stores	-0.33
CME Group	0.08
Nike	0.27

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

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%

Portfolio changes – Stocks added

There were no additions to the portfolio in the quarter.

Portfolio changes – Stocks removed

There were no removals from the portfolio in the quarter.

Securities movements for the quarter of December

Bought in	–
Sold out	–
Increased holding	Agilent Technologies, Visa
Decreased holding	Automatic Data Processing, Lowe's, Microsoft

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Strategy Inception	Companies Held	Strategy FUM	3-year total return per annum (net)	3-year alpha per annum (net)
2011	10 - 15	+$1.3bn	27.3%	8.1%

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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Zenith
RECOMMENDED

Signatory of:
PRI Principles for Responsible Investment

Superior
SQM RESEARCH

Important information

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