Claremont Global Fund

December 2020 Quarter Report

Performance to 31 December 2020

	Since inception p.a.	5 Years p.a.	3 Years p.a.	1Year	6 Months	3 Months
Portfolio return (AUD)	13.7%	13.8%	16.1%	3.8%	5.9%	5.0%
MSCI AC World Accum Index ex-Aust (AUD)	11.7%	11.0%	10.7%	6.0%	10.6%	6.4%
Excess return	**2.0%**	**2.8%**	**5.4%**	**-2.2%**	**-4.7%**	**-1.4%**

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 6.4% over the December quarter (all figures are in AUD unless noted otherwise). In local currency terms, the market appreciated 12.8%. The Australian equity market outperformed global equities, appreciating 14.1% over the same period (in AUD).

Across 2020, equity markets increased 6.0%, largely driven by multiple expansion (as opposed to strengthening of the earnings outlook). Over recent months markets have been prepared to look through escalating COVID-19 cases, to a vaccine and the prospects of an economic recovery. While the equity market continues to rise, in part facilitated by exceptionally accommodative monetary and fiscal policy, we note the starting point for valuations in 2021 is historically high, expectations are elevated and there are some hallmarks of speculative excess – of which we wrote about in the September 2020 quarterly, but we saw further examples throughout this quarter. One such example is Bitcoin, an asset that is intrinsically challenging to value, nearly trebled in the three months to 31 December 2020.

Further, in the first eight days of 2021 this cryptocurrency was up over 40%, before sliding over 25%. As one investment bank's strategy group recently commented about Bitcoin, "this blows the doors off prior bubbles". Without mentioning names, we believe equities are also seeing some pockets of excess. In such conditions, at least for those with a longer-term view, a well-defined investment approach coupled with valuation discipline becomes even more important. As you would expect, we have no intention to speculate across a range of newly issued, relatively untested, companies or securities. Buying and holding high quality, strong cashflow generating companies, at fair (or even better, at below fair) prices, will likely serve our investors far better over the long-term.

This quarter, US equities gained 13.0% in local currency terms, with November notably strong as the release of successful COVID-19 vaccine trial results improved the economic outlook for 2021, despite the dramatic increase in COVID-19 cases. The presidential election and the subsequent Democrat win initially stifled markets, however only for a short period.

A $900 billion second stimulus package was announced in late December, while the Federal Reserve continued to provide supportive conditions for financial markets, including ongoing commitments to a Federal Funds Target Rate at historical lows. The US 10-year yield closed 25 basis points higher in the quarter, although still below 1%, at 0.91 basis points. The USD has continued to weaken, with the AUD/USD cross-rate opening the quarter at 0.72 and closing at 0.77.

European equity markets rose sharply (10.3% in local terms). However, in contrast to the strong market performance, many European countries experienced adverse impacts from renewed waves of COVID-19 infections – including restrictions that further stemmed economic activity. A significant 1.8 trillion-euro budget package was approved, including a 750 billion-euro recovery fund. Finally, the EU and UK agreed terms for a Brexit trade deal, which saw the UK officially leave the European Union. UK markets performed strongly, up 10.6% in local currency terms.

Emerging market equities posted very strong returns for the quarter, rising 11.2% (16.0% in local terms) with the US dollar weakness amplifying gains. Brazil was a standout performer, rising 27.3% while Russia also appreciated 13.0%. The broad-based strength was driven by a rally in commodity prices, supporting emerging market exporters. On a relative basis, China underperformed emerging markets, rising 10.7% in local currency terms, as the anti-trust investigation into Alibaba and escalating Sino-US tensions continued to drag on sentiment in the region.

Sector performance was mixed over the quarter, with more economically sensitive sectors strongly outperforming. Financials (+15.2%) and Energy (+15.1%) led the way while Health Care (-0.2%) and Consumer Staples (-0.2%) both lagged. The Energy sector was boosted by the crude oil rally, with the price of a barrel rising to over US$48 (+23% for the quarter) as concerns over increased supply were met by a stronger demand forecast.

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 31 December 2020

Top five	Region	Sector
Alphabet	US	Information Technology
Aon	US	Business Services
Automatic Data Processing	US	Business Services
Equifax	US	Business Services
Visa	US	Financial Services

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

Portfolio characteristics – 3 years to December 2020

Standard deviation	12.4%
Realised beta	0.98
Tracking error	5.2%
Upside capture ratio	1.06
Downside capture ratio	0.68

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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	12.9%	15.6%	16.0%	12.6%	16.5%	12.0%
+/- currency impact on return	0.9%	-1.8%	0.0%	-8.8%	-10.6%	-7.0%
Portfolio return (AUD)	**13.7%**	**13.8%**	**16.1%**	**3.8%**	**5.9%**	**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 portfolio rose 5.0% during the quarter, underperforming the broader market by 1.4%, which saw a 6.4% increase on a net basis (numbers may not add due to rounding).

Key contributors to performance for the quarter were Automatic Data Processing and Equifax:

- **Automatic Data Processing (ADP)** – The company started their financial year strongly with the 1Q21 result significantly exceeding the market's expectations. While revenue declined modestly, tight cost control and efficiency initiatives drove a 120 basis point improvement in the company's operating margin, resulting in EPS growth of 5% (compared with consensus expectations of a 26% decline). Bookings were up 2%, and client retention rates were strong. Both these metrics underpin the value provided by ADP, particularly during the pandemic, as the business continues to help clients navigate through complex regulatory requirements related to government stimulus packages. The stock remains a core holding in our portfolio.

- **Equifax (EFX)** – The company's third quarter results saw EFX deliver revenue growth of 22% (well ahead of the 10-12% guide). Strong momentum was primarily driven by strength in the businesses exposed to the US mortgage refinancing, as well as unemployment claims. Pleasingly, there are also improving trends in the non-mortgage businesses. While we recognize that 20%+ revenue growth is unlikely to be sustainable, we are increasingly confident in EFX's long-term positioning. A strong deal pipeline, improving win-rates and a growing employment record database (increasing monetization potential), provide greater confidence in our investment thesis with the stock remaining a core holding in the portfolio.

Portfolio additions

There were no portfolio additions in the December quarter.

Portfolio removals

- **CDW (CDW)** – We exited this position on valuation grounds. Our view on the quality of the buiness and management team remains unchanged, however, the company's share price rose strongly post-result and was trading at a 21% premium to our estimated valuation. Thus, we believed there were more attractive investment propositions elsewhere.

Securities movements for the quarter of December

Bought in	–
Sold out	CDW
Increased holding	Aon, CME, Equifax, Lowe's
Decreased holding	Alphabet, Automatic Data Processing, Broadridge

Fund details

APIR Code	ETL0390AU
ARSN	166 708 792
Responsible Entity	Equity Trustees
Number of stocks	10 - 15
Maximum cash weighting	10%
Maximum single stock weighting	10%
Currency exposure	Unhedged
Benchmark	MSCI All Countries World Accum Index ex-Australia (AS)
Minimum Investment	$20,000
Distribution frequency	Bi-annually
Investment Management fee	1.25% incl. GST
Buy/Sell Spread	0.10% / 0.10%
Fund Inception	18th February 2014

Contribution to portfolio return – Quarter December 2020 (%)

Top Three	%
Automatic Data Processing	1.66
Equifax	1.30
Ross Stores	1.21

Bottom Three	%
Lowe's	-0.72
Aon	-0.46
Microsoft	-0.13

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

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Strategy Inception	Companies Held	Strategy FUM	Unit trust 3-year performance (net)	Unit trust returns since inception
2011	14	+$1B	20%	188%

Past performance is not a reliable indicator of future performance. Since inception return is annualised and performance returns assumes investment of distributions.

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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Important information