Claremont Global Fund (Hedged)

March 2023 Quarter Report

Performance to 31 March 2023

	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)	11.1%	11.7%	12.1%	17.1%	-7.7%	19.1%	8.7%
MSCI AC World Accum Index ex-Aust (AUD)	8.3%	9.0%	6.6%	13.9%	-7.8%	14.2%	6.7%
Excess return	**2.8%**	**2.7%**	**5.5%**	**3.2%**	**0.1%**	**4.9%**	**2.0%**

Benchmark is MSCI All Countries World Index Ex-Australia (AS, Hedged). 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

The global equity market delivered strong gains in the first quarter of 2023, appreciating 6.7% (all figures are in local currency unless noted otherwise). The Australian equity market was also strong, up 4.1%.

It was an eventful, and volatile quarter, including several U.S. bank failures. Despite this, the US equity market gained 7.6% over the March quarter. While the U.S. labour market remained robust, inflation grew at a slower rate for the 8th consecutive month (February CPI was 6% year-on-year). The Federal Reserve increased rates 25 basis points (bps) in both February and March.

The most prominent U.S. bank failure was Silicon Valley Bank (SVB) – which suffered from a concentrated depositor and loan book, as well as unrealised losses on its Government Bond investments following the rapid rise in interest rates over the last year. Initial market concerns around systemic financial stress quickly transformed into a market view that higher interest rates had begun to "break things", and combined with the ongoing deceleration in inflation, that the current tightening cycle was likely approaching an end. This led to some dramatic repricing within the fixed income market, with the two-year yield declining from 4.82% at the end of February to 4.02% at the end of March.

European equities appreciated 8.6%. Credit Suisse, an almost 170-year-old institution and Switzerland's second largest bank, with over half a trillion Swiss francs in assets, was taken over by UBS for just CHF 3 billion. The bank's issues pre-dated the March banking stress, however, those events combined with disclosure of material weaknesses in financial reporting, saw investor confidence in the company disappear and the acquisition hastily brokered by Swiss authorities. We may be accused of confirmation bias, but the recent bank failures highlight some of the reasons why we chose to avoid investing in the banking sector – high leverage, lack of transparency, government regulation/intervention, and the speed at which a reversal of fortunes can occur.

As was the case in the US, the European Central Bank (ECB) saw the problems as contained and pushed rates 50bps higher in both February and March, in a bid to continue to combat inflation. While consumer prices pulled back to 6.9% growth in March, compared to 8.5% in February, core inflation (excluding food and energy) rose to 5.7% from 5.6%.

In the UK, equities rose 3.2% as investors pinned hopes on central bank rate cuts as we exit this calendar year. Expectations of a deep recession in the region, as was initially predicted by the central bank, have abated, driven in part by the avoidance of an energy crisis, which was expected over the European winter.

The declines in longer-term interest rates provided notable support to the share prices of Information Technology companies, which rebounded strongly following a lackluster 2022, while Consumer Discretionary names saw strong gains as excess inventory was reduced (and lower discounting), as well as indicating that key input costs such as freight are normalising. Energy, Health Care, and, unsurprisingly, Financials lagged the pack.

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 March 2023

Top five	Region	Sector
Adobe	US	Information Technology
Alphabet	US	Information Technology
Microsoft	US	Information Technology
Nike	US	Consumer
Visa	US	Financial Services

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

Portfolio characteristics – 5 years to March 2023

Standard deviation	19.0%
Realised beta	1.08
Tracking error	6.0%
Upside capture ratio	1.51
Downside capture ratio	1.04

Portfolio performance

The Claremont Global Fund (Hedged) rose 8.7% during the quarter, outperforming the broader market by 2.0%, which saw a 6.7% increase on a net basis (numbers may not add due to rounding).

Key contributors to performance for the quarter were **Microsoft** and **LVMH**:

- **Microsoft (MSFT-US)** – posted their second quarter result with numbers falling in line with expectations. Constant currency (cc) growth came in at the midpoint of Q2 guidance at 7%, driven by Intelligent Cloud which grew +24% cc (Azure +38% cc). While management highlighted a changing environment as customers turn more cautious in their spending, they also spoke to tech spend as a percentage of GDP continuing to grow over the long-term, reassuring investors that this is a transient phenomenon. Taking the spotlight in the quarter, however, was AI, with the company's CEO, Satya Nadella, announcing the incorporation of AI into Bing. This caused a stir in the investment world, as the market contemplated the upside for Microsoft capturing additional share in search, off a small base. While we will continue to monitor developments closely, our expectations are tempered for Bing, given Google has comparable technology and significant competitive advantages.

- **LVMH (MC-FR)** – delivered their fourth quarter result with organic sales growth of 9%, to complete what was a very strong year for the company. Underlying momentum was solid in most regions except Asia, which was down 8% and reflected the timing of the mass lockdowns in China. On a segment level, growth was driven by Fashion & Leather, which grew 15% in the second half with outstanding performance from some of their larger brands such as Louis Vuitton, Dior, and Celine. Operating profit grew 17% for the full year as they maintained the record operating margins achieved in FY21. Looking forward to FY23, investor focus will centre around China and the rebound in store traffic in the region, while management have indicated that Chinese travel may take a little longer to recover.

Key detractors to performance for the quarter were **Agilent** and **Automatic Data Processing**:

- **Agilent (A-US)** – announced their first quarter result, with 10% organic growth, which was ahead of both their guidance (~7.5% organic growth) and market expectations. Growth continues to be broad-based with core instruments up 16% and services up 13%, while from a geographic perspective, Europe and China both outperformed expectations, with 10% and 13% growth, respectively. Management noted the strong momentum in the lab funding cycle will inevitably cool and return to a more normalised mid-single-digit growth cadence, guiding to ~6% growth for the full year. We believe there may be some hesitance from the market with respect to where instrument demand normalises however, we are confident in the company delivering on their guide. They are a prudent management team, and their guidance is consistent with booked growth.

- **Automatic Data Processing (ADP-US)** – organic growth for the company's second quarter result was solid at 10%, driven by both Employment Services (+10%) and their Professional Employer Organisation business or PEO (+11%). While PEO growth was slightly below expectations, they spoke to an expected reacceleration in PEO bookings in 2H23, as demand remains healthy. Retention is at near record levels with 'out-of-business' rates pulling back to normalised bankruptcy levels. The weakness in the share price over the quarter is likely a reflection of the market's perception that ADP's positive earnings cycle has peaked. However, while job growth has slowed, management are yet to see a broad-based softening in the labour market, with unemployment applications at record lows. We believe there is opportunity for the company to deliver healthy returns over the medium to long-term.

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%

Contribution to portfolio return – Quarter March 2023 (%)

Top Three	%
Microsoft	1.80
LVMH	1.62
Alphabet	1.49

Bottom Three	%
Agilent Technologies	-0.31
Automatic Data Processing	-0.04
Aon	0.34

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

Portfolio additions

There were no additions to the portfolio in the quarter.

Portfolio removals

There were no removals from the portfolio in the quarter.

Securities movements for the quarter of March

Bought in	–
Sold out	–
Increased holding	Alphabet, Automatic Data Processing, CME Group
Decreased holding	Equifax, LVMH, Nike, Visa

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	+$1.3bn	12.1%	5.5%

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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riaa Responsible Investment Association Australasia

Important information