Claremont Global Fund

June 2023 Quarter Report

Performance to 30 June 2023

	Since inception p.a.	7 Years p.a.	5 Years p.a.	3 Years p.a.	1Year	6 Months	3 Months
Portfolio return (AUD)	14.3%	14.5%	16.2%	15.3%	23.2%	19.1%	7.4%
MSCI AC World Accum Index ex-Aust (AUD)	11.4%	11.8%	10.4%	12.2%	20.5%	16.3%	6.9%
Excess return	**3.0%**	**2.7%**	**5.8%**	**3.1%**	**2.7%**	**2.8%**	**0.4%**

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

The global equity market delivered strong performance in the second quarter of 2023, appreciating 6.9% (all figures are in AUD unless noted otherwise). The Australian equity market increased a modest 0.9%.

The US equity market led the gains, increasing 9.3% in the quarter as investors were buoyed by indications that inflation is easing, while the US economy remains resilient, despite higher short-term interest rates. A revised GDP figure showed the US economy grew at a 2% annualised rate in the first quarter. The Fed increased interest rates by 25 basis points in May, however it left rates unchanged in June. Inflation declined marginally in May (-0.1% sequentially) following a 0.4% increase in April. The US unemployment rate increased modestly in May, to 3.7%, however remains historically low. Overall, macro data continues to show the US economy remains in good health.

Following a difficult 2022, the first quarter share price momentum in tech stocks continued, with Information Technology (IT) leading the gains across sectors this quarter. Positive sentiment towards Artificial Intelligence (AI) and the implications for chipmakers and mega-cap tech stocks drove the outperformance. There have been some impressive developments, and there's also a lot of hype. As an aside, while travelling offshore in May and early June, we saw approximately 50 companies, and AI was mentioned in every single meeting (usually not by us). The type of AI utilisation, level of detail, stage of development, potential for near-term monetisation and the quality of discussion was, let's say, highly varied. Although we are happy to see some of our portfolio companies innovating in areas with potential, rest assured; we have made no new investments based on the promise of AI. In other sectors, Consumer Discretionary and Communication Services also had a solid quarter, while Materials and Utilities underperformed.

European equities appreciated 3.4% driven by Financials and IT. Similar to the US, the IT sector was boosted by sentiment around AI, which helped semiconductor names in particular. The European Central Bank (ECB) pushed interest rates higher by 50 basis points during the quarter. While consumer prices decelerated to 5.5% growth in June, compared to 6.1% in May. Core inflation (excluding food and energy) increased modestly to 5.4% from 5.3%.

In the UK, equities rose 2.8% but declined in local currency. Large-cap energy and material names led the declines, as the reopening boost in China fell below short-term expectations. Inflation also weighed on sentiment. Wage growth was stronger than expected and core services inflation also accelerated, resulting in a rapid increase in interest rates by the Bank of England.

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Fund details

Strategy FUM	$1.4 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 2023

Top five	Region	Sector
Adobe	US	Information Technology
Alphabet	US	Information Technology
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 – 5 years to June 2023

Standard deviation	13.9%
Realised beta	1.08
Tracking error	5.7%
Upside capture ratio	1.38
Downside capture ratio	0.97

Composition of Portfolio performance

	Since inception p.a.	7 Years p.a.	5 Years p.a.	3 Years p.a.	1 Year	6 Months	3 Months
Local currency return	12.1%	12.9%	14.2%	14.1%	19.5%	17.0%	6.7%
+/- currency impact on return	2.3%	1.6%	2.0%	1.2%	3.6%	2.1%	0.6%
Portfolio return (AUD)	**14.3%**	**14.5%**	**16.2%**	**15.3%**	**23.2%**	**19.1%**	**7.4%**

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 appreciated 7.4% during the quarter, outperforming the broader market by 0.4%, which saw a 6.9% increase on a net basis.

Key contributors to performance for the quarter were **Adobe, Microsoft** and **Steris**:

- **Adobe (ADBE-US)** – reported their second quarter results in June. Revenue was up 13% in constant currency, and adjusted EPS was up 13%, with both metrics ahead of management's second quarter guidance. This was a similar result to last quarter. Revenue growth was solid in each of Adobe's segments; Digital Media and Digital Experience both saw growth in the low-to-mid-teens. The adjusted operating margin increased, marginally, to 45.3%. Management modestly increased guidance for FY23 revenue growth and EPS (noting strong revenue momentum is expected to continue into the second half, and they expect margin expansion).
  From a share price perspective, the financials were secondary to the introduction of new products utilising advances in AI. Adobe management, and Adobe clients, are excited about Firefly, generative AI for images which, among other things, allows users to create and edit images using text prompts. Adobe will also be able to incorporate the benefits of Firefly into their Digital Experience platform, to help further personalise content at scale. The introduction of Firefly has positive implications for gaining new users, higher retention, higher average revenue per user (ARPU), and ultimately Adobe's revenue growth. Importantly, this is well advanced product, not just a concept. Monetisation will start to show up in Adobe's fourth quarter numbers, but it is expected to play out over several years. While Adobe shares performed very strongly over the quarter (+28% in USD), we note they had been trading at depressed levels since September (at which point we had increased the portfolio position size), and hence we believe Adobe remains at a sufficiently attractive discount-to-value.
- **Microsoft (MSFT-US)** – After a more subdued second quarter, Microsoft delivered a strong set of results for their third quarter. Revenue growth was +7%, and +10% in constant currency (c.4% ahead of management's prior revenue guidance). EPS was +14% in constant currency (+10% reported). There was strong revenue growth in the Intelligent Cloud segment and the Productivity and Business Processes segment. More Personal Computing revenue contracted, but at a slower rate than in the prior quarter – with PC demand better than expected, although still impacted by elevated channel inventories. Good cost management continued. Operating margins were well ahead of expectations (operating margins at 42.3% were more than 200bps better than expected). Management's confidence in their products and positioning came through on the call, with fourth quarter guidance for 9% constant currency revenue growth. Beyond the strong set of results, we saw Microsoft's share price benefit from the broader market enthusiasm for companies that will/may benefit from AI. As we have said we are conscious of much market AI hype. However, we believe Microsoft is well positioned to benefit from the likely significant growth in required compute capacity as a result of AI. Over the medium-term we believe the enhancement of its existing product set and capabilities (including through their investment in OpenAI), and the scale and reach of their cloud business, leave the business well placed to potentially benefit from developments in AI. The immediate monetisation of the technology (albeit small but growing) has helped build our confidence in the financial, as well as the technological, AI proposition.
- **Steris (STE-US)** - reported their 4Q23 result in May. Steris had a strong end to the year with organic sales growth of 16%, which was well ahead of guidance. The Healthcare division was the standout with 21% growth, driven by capital equipment sales as supply chain issues abated. Notably the Healthcare order backlog remains strong. The AST division grew 10% organically, with strong demand from

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%

Contribution to portfolio return – Quarter June 2023 (%)

Top Three	%
Adobe	2.29
Microsoft	1.71
Steris	1.54

Bottom Three	%
Agilent Technologies	-0.90
Nike	-0.81
CME Group	-0.20

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

medical device customers and improving procedure volumes. Life Sciences delivered solid growth (+11%) as lab activity/consumables recovered, following two soft quarters. The company continued to face some margin pressure, with the lagged effect from price increases yet to offset cost inflation. The company guided to 7-8% organic sales growth in FY24. Gross margin is expected to improve modestly, as price increases catch-up with cost pressures. However, higher incentive costs are expected to keep operating margins flat for the year. EPS is expected to grow 4-7% in FY24.

Key detractors to performance for the quarter were **Agilent** and **Nike:**

- **Agilent (A-US)** – the company delivered their 2Q23 results in May. Agilent reported 9.5% core revenue growth, comfortably ahead of guidance. While Agilent delivered well ahead of expectations in the first half, management revised down their full year core revenue growth guidance to 3.0-4.5% from 5.5-6.5%. Most of the revision was driven by a stepdown in pharmaceutical end market demand. The company noted that mid-to-large sized customers are being more cautious on capital spend and while orders are not being cancelled, sales cycles are being elongated. Management revised down their full year EPS guidance marginally (<1%), with slower sales growth partly offset by FX moves and tighter cost control. The company expects 3Q23 to be their weakest quarter, before some improvement in 4Q23. There are some market concerns around the cooling replacement cycle, however Agilent has seen downward swings in replacement cycles before and we believe these are transitory. From an investment thesis perspective, we have no concerns Agilent is facing competitive fade or structural issues within their end markets. Accordingly, following the quarter end, we took the opportunity to add to the portfolio's holding, based on our longer-term outlook and an attractive valuation.

- **Nike (NKE-US)** – The company reported its 4Q23 results in June. Nike delivered constant-currency sales growth of 8% in the fourth quarter, and 16% for the full year, which was slightly ahead of guidance. As had been well signaled, gross margin declined in 4Q23, by 140 basis points. This was largely driven by the transitory headwinds from elevated freight costs and supply-driven promotional activity. For the full year, the group operating margin was down 275 basis points to 11.5% and EPS declined 14%.

  Regionally, North America continued to show strong consumer demand with sales up 8%. Importantly, Nike's inventories have returned to healthy levels following a period of supply congestion due to pandemic-related disruptions. Greater China surprised to the upside with 25% revenue growth in constant currency. Management noted that sport is back, and that consumer confidence is rebounding in China. We are very pleased with Nike's momentum in China particularly given other consumer companies have had mixed results in the region post reopening. Notably, by channel, Nike's own direct-to-consumer (DTC) business grew 18% in constant currency in the quarter, while wholesale grew 2%. Throughout the year higher wholesale growth had raised some market concerns about potential setbacks to Nike's shift to DTC – conversely, we are of the view this was due to one-off factors associated with supply chain and inventory management. Consistent with Nike's DTC strategy, we continue to expect faster DTC growth, which should benefit sales and margins, over the medium to long term.

  The company guided to mid-single-digit sales growth in FY24, this includes c.4% of headwinds from wholesale shipment timing and the lapping of high liquidation activities that boosted sales growth in FY23. Pleasingly, Nike said they are entering the new financial year with strong consumer momentum, a strong product pipeline and healthy inventories. Nike expects gross margin to expand by c.150 basis points (or by c.200 basis points excluding foreign exchange) as the company recovers from transitory headwinds. We expect the margin recovery to continue well into FY25. While short-term concerns weigh on the company's share price, we took the recent share price weakness as an opportunity to add to the position following the quarter end.

Portfolio additions

- **Estée Lauder (EL-US)** – is the second largest beauty company globally and the largest pure play prestige beauty company. EL has a broad, high-quality portfolio of prestige brands that generate loyalty and repeat purchases. Quality, innovation and marketing are crucial in prestige beauty and scale allows the company to leverage its global infrastructure, advertising and distribution to develop and grow emerging and established brands. EL's ability to consistently bring innovative and appealing products to both new and existing customers is evident in their organic revenue growth and gross margin which have averaged ~8% p.a. and ~79% over the last decade. On average, EL has delivered mid-teens EPS growth over the past 10 years.

  The company's earnings and share price have been under pressure over recent quarters as COVID-19 restrictions in China negatively impacted the fast-growing Travel Retail channel in Asia. EL's sales to this channel may take several quarters to recover, as high inventory levels and travel patterns normalise. This situation has resulted in limited visibility on the sales and margin recovery in FY24 and FY25, creating uncertainty in the market. This uncertainty presented us with an opportunity to buy a quality, long-term compounder which we have followed, and admired, for years. We believe that the long-term attractiveness of EL's Travel Retail business and the beauty category has not changed.

Portfolio removals

There were no additions to the portfolio in the quarter.

Securities movements for the quarter of June

Bought in	Estee Lauder
Sold out	–
Increased holding	Automatic Data Processing, Agilent Technologies
Decreased holding	Adobe, AON, Alphabet, LVMH, Microsoft

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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	+$1.4bn	16.2%	5.8%

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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