Claremont Global

Investor Manual

Own the world's best businesses.*

* The Claremont Global strategy invests in some of the world's best businesses, following our disciplined and time-tested investment process. For full details refer to https://www.claremontglobal.com.au/. Performance of these investments are not guaranteed.

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Table of contents

About our Investor Manual 3

Executive summary 4

1. People 5

2. Process 8

3 Portfolio 11

4. Partners 14

5 Performance 15

6 Fund details 16

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About our Investor Manual

As a dedicated team of global investment experts, we apply our focused investment process to build a resilient portfolio designed to deliver in a wide range of economic conditions.

We have written this manual to give our investors a clear understanding of what drives Claremont Global, and the experience they can expect to receive from us — both as an investor, but more importantly as a valued client.

It is our experience that if our clients understand our process, and the quality of the companies they own, they will stick with their investment for years — and hopefully decades — giving them the best chance to achieve a superior financial outcome.

Our Investor Manual is based on our five Ps i.e. people, process, portfolio, partners, and performance — and has been written in a clear manner, free from the financial jargon that sometimes confuses more than it explains.

We hope you find it useful — and if so, we look forward to hearing from you.

Bob Desmond, CFA
Head of Claremont Global

Claremont Global

Executive summary

There are over 18,000[1] managed funds globally. These are staffed by some of the brightest people in the finance industry – and, for the most part – by hard working diligent people. And yet, for all the effort and expense incurred, the investor experience is decidedly subpar.

Consider the following:

- Over a 15-year period from 1998, Vanguard found that only 18 per cent of domestic equity fund managers beat their benchmarks.[2]
- A 20-year study by Dalbar Associates from 2000-2020 showed that on average a US equity fund investor received a return that was 1.5 per cent worse than the S&P 500 and 2.3 per cent worse than a globally diversified index.[3]

Given the power of compounding, over 20 years a 2 per cent lower return can make a very big difference.

Consider an investment of $100,000 made in 2000. Over 20 years at 8 per cent per annum that investment would be worth $466,096. However, a 2 per cent better return results in a final sum of $672,750 – an improvement of 44 per cent.

We believe this subpar experience for an investor is a direct result of two main factors:

- ***The average fund simply holds too many stocks.***

  In 2008, a study on security concentration in active funds showed that the average mutual fund manager owned a portfolio of 90 stocks and the 20 per cent of fund managers with the most diversified portfolios owned an average of 228 stocks.[4] The high number of stocks, combined with active fees and trading costs, make it very difficult for a fund manager to beat a benchmark.

- ***As investors, human nature makes us our own worst enemies.***

  Behaviour such as “buy high, sell low”, investing based on hard-to-predict future events, chasing the latest investor fads or overreaction in times of uncertainty, are some of the human biases that are detrimental to a client’s financial outcome.

At Claremont Global, we attempt to combat these two negative factors through the following:

- ***By mandate, our portfolio can only hold 10-15 companies.*** We attempt to reduce risk not through diversification but by only investing in the highest-quality global companies. Our clients pay us an active manager fee and we are truly active – our portfolios have an active share over 90 per cent. Our businesses have proven themselves over decades and the average heritage of our companies is over 80 years. Their business models have been tested over time, so when the inevitable adversity of recessions and bear markets appear, we are confident that the decline in their earnings (and value) is very likely to be temporary, thereby allowing our clients to stay the course.
- ***We stay close to our clients, especially in difficult markets.*** We make sure they understand our process and the quality of the companies they own. With a simple, time-tested and intuitive process, we believe we are well placed to do this. And if our clients understand what they own and more importantly trust the people, process and portfolio – they become our partners, with the result being satisfactory performance. These are the five Ps we strive for.

To date, we believe we have achieved our goals. The Claremont Global strategy currently has funds under management of more than $1 billion and the Claremont Global Fund has delivered a return of 14.0 per cent per annum[5] since inception in 2014 (performance net of fees and assumed reinvestment of distributions).

We have done this by owning some of the world’s best businesses. We invite you to do the same.

Notes:

1. https://citywireselector.com/
2. Vanguard, Wimmer, Chhabra & Wallick, December 2013.
3. Dalbar 2020 QAIB study, Morningstar Inc.
4. Security Concentration and Active Fund Management by Travis Sapp and Xuemin Yan, 2008.
5. As at 31 December 2023

1. People

Everything starts with our people. To paraphrase Jim Collins in his excellent book "Good to Great":

> *"First who, then what – get the right people on the bus. To build a great organization, make sure you have the right people on the bus, before figuring out where to drive the bus."*

Our analysts always put the process and portfolio first

We want our analysts to be curious, patient, process driven and team players. Whilst financial acumen is a given, character is a must.

We will often research companies for years before making an investment, so a patient temperament is required.

We think about businesses, not stocks – and so our analysts are more interested in what has made a business special over decades, than what the US Federal Reserve will be saying next week.

We also look for analysts who leave their ego at the door and who put the process and the portfolio first, rather than just championing their own ideas. They should hold the conviction to back their research, but the humility to admit when things do not go as well.

A tight, focused team works to our advantage

Firstly, we need to ensure we have the right people. But not too many. With a highly focused research effort, we do not need an army of analysts, but we do need a highly collaborative approach.

Have you ever noticed that people are far more vocal in a small face-to-face meeting than in a large room? It's the same with our research effort – we want to listen to every voice. A small team allows for more efficient and effective sharing of information, analysis, and ultimately better decision-making.

Natural systems usually have an optimum size. Ex-SAS soldier and now author Martin Murphy makes the point in his book "From Missionaries to Mercenaries":

> *"I noticed when standing on the skids of helicopters skimming the top of the jungle canopy, that trees never grow past a certain point. People can operate at the upper end of their performance in a particular size of group.*
>
> *Experience will show you the optimum size of group you should work with. Hierarchy has a habit of being shunned in the Special Forces and for good reason, ego gets involved. Working in small four or five-member, self-managing teams has usually worked best."*

We think independently and do our own work

Our work is our own and we do not rely on broker research. Our research process starts with reading numerous annual reports and company transcripts. We will then speak with ex-employees, competitors, industry experts as well as company management to understand what makes a company special. We then build our own financial and valuation models.

We are generalists, not specialists

Every analyst in the investment team is a generalist. We do not allocate specific sector coverage or claim to be specialists in a particular area. Simply, if as a team we cannot understand a company, we will take a pass, rather than outsourcing that responsibility to a third party – such as a broker.

We like to invest in simple businesses that do not require us to be specialists in a very narrow field.

To quote Mark Twain:

> *"To a man with a hammer, everything looks like a nail."*

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1. People (cont'd)

Our team

Bob Desmond, CFA

Head of Claremont Global, Portfolio Manager

Bob is a seasoned investor in global markets and has been refining his quality growth process for more than 29 years.

Zimbabwean born, Bob has lived and worked in Africa, the UK and Australia. He started his career with Anglo American and Fleming Martin in Africa, before joining Seilern Investment Management in London in 2002 as a Portfolio Manager and Head of Research.

He joined the strategy in 2012 as Senior Research Analyst and in 2017 was appointed Head of Claremont Global and co-Portfolio Manager.

Bob leads Claremont with an egalitarian approach, empowering the team to individually play to their strengths within a highly collaborative environment.

He holds a BA in Politics and Economics from the University of West Australia and is a CFA Charterholder.

Adam Chandler

Portfolio Manager

Adam has more than 25 years' experience in financial markets, having previously worked as an analyst and Portfolio Manager with UBS's Fundamental Investment Group and at a London-based, absolute return fund. In the earlier stages of his career, Adam worked in investment banking at Credit Suisse First Boston, and at UBS in Sydney and London, advising on mergers and acquisitions, and capital raisings.

Adam joined Claremont Global in 2017, as co-Portfolio Manager with Bob Desmond.

He has a Bachelor of Commerce, majoring in Finance (Honours) from The University of Melbourne.

Chris Hernandez

Investment Analyst

Chris is Mexican born and has more than 14 years' experience in equity research. He joined Evans & Partners in 2011 as Investment Analyst where he covered Australian equities.

Chris joined Claremont Global in 2018.

He holds a Bachelor of Finance from La Trobe University and a Master of Applied Finance from Monash University.

1. People (cont'd)

Luke Davrain, CFA

Investment Analyst

Luke joined the Claremont Global team in 2017 and has over 6 years' experience investing in global markets.

He has completed a Bachelor of Engineering (Honours) majoring in Civil Engineering and a Bachelor of Commerce majoring in Finance from Monash University. He is a CFA Charterholder.

Charlie Wapshott, CIMA®

Head of Distribution & Investment Specialist

Charlie has more than 10 years of experience in both London and Melbourne, where he played an integral role in investor relations teams for a number of highly regarded finance and fund management companies, including Financial Express, Morningstar, Australian Unity Investments and E&P Funds Management.

Charlie joined Claremont Global as Head of Distribution in 2020 and is responsible for strategic partnerships and servicing private wealth and institutional clients.

He holds a Bachelor of Science in Psychology from Oxford Brookes University and a Master of Science in Countering Organised Crime and Terrorism from University College London. He has recently become a Certified Investment Management Analyst®.

Andrew Fitzpatrick, CIMA®

Investment Specialist

Andrew has more than 10 years of experience within financial services in both wealth and funds management.

He initially started his career on a derivatives desk before moving into a client services role at Morgan Stanley. Andrew commenced distribution with E&P Funds Management in 2017, working alongside Charlie Wapshott focusing on boutique wealth practices and family offices.

Andrew joined the Claremont Global team as Investment Specialist in 2021, with a primary focus on maintaining relationships across wealth management channels and servicing institutional clients.

He holds a Bachelor of Arts in Organisational Learning from the University of Technology Sydney and is also a Certified Investment Management Analyst®.

2. Process

A focus on what really matters

We have a concentrated portfolio of only 10-15 businesses and follow an evolving list of around 100 companies globally that fulfil our demanding investment criteria. We do not buy companies based on macroeconomic or political views – be it interest rates, commodity prices, industrial production or regulatory or political changes.

We do not buy complex or highly regulated businesses; we do not buy turnarounds. This highly focused research effort allows us the time to focus on the three things that really matter to us:

What is the company's competitive advantage and how long can it endure?

Is the company run by honest and capable management who allocate capital rationally?

Is the company trading at a fair price relative to our assessment of intrinsic value?

As a result, we take the time to get to know our companies and over the years build up a deep collective knowledge of their industry, the company, the management, and their competitors. It is then just a waiting game until the market gives us a price that allows for a fair entry point.

We invest in the best businesses for the long term – we do not try to predict or time markets

Our approach is to simply acquire the highest quality businesses at a fair price. In the words of Warren Buffet:

> *"It is far better to buy a wonderful company at a fair price than a fair company at a wonderful price. Time is the friend of the great business, the enemy of the mediocre."*

Compared with many shorter-term focused strategies, our long-term investment horizon provides a different view of a value. We think about businesses over years and decades, not about stocks over the next quarter. This affords a different perspective and set of opportunities to most market participants.

Rather than worry about the next set of results, or what the market might do, we take advantage of the situations when short-term "noise" creates an opportunity to buy a truly great business at a discount to our assessment of intrinsic value.

We target a return of 8-12 per cent per annum over an investment cycle

Our first objective is to protect and preserve client capital in real terms over time. We aim to earn a return of 8-12 per cent per annum over an investment cycle, which we think of as five to seven years.

We stick to simple businesses that are easily understood

We avoid complex businesses or ones that require us to make an "accurate" forecast of a highly unpredictable future. We do not look to have returns dependent of our ability to accurately predict interest rates, commodity prices, themes, regulation, or politics to name a few.

We do not use options, leverage, or derivatives to enhance return.

In the words of Thomas Watson – the founder of modern-day IBM:

> *"I am no genius. I am smart in spots and I stay around those spots."*

We want to buy companies that deliver strong organic revenue growth

We look for companies that are growing primarily through organic revenue growth, rather than through less sustainable means such as cost-cutting, serial acquisitions or debt funded share repurchases.

We want most of our targeted return of 8-12 per cent per annum to be coming from earnings growth.

2. Process (cont'd)

We like high margin/capital light businesses that earn consistently high returns on invested capital

Companies that earn high returns on capital usually have high margins and/or require little capital to grow.

High margins are often a result of selling a product or service that customers value, is a repeat purchase, difficult to replicate and a small part of a customer's total cost.

Our portfolio generally has margins that are twice the average listed business, a clear sign of competitive advantage and pricing power. Their capital light business models result in high levels of free cash flow, which is available to be reinvested at high rates of return to further grow the business.

We look for robust balance sheets to protect capital and reduce risk

Low levels of debt both reduce risk in the difficult times, but they can also allow companies to be opportunistic by making sensible bolt-on acquisitions or buying their shares when they are undervalued.

Importantly, this prevents companies being forced to raise capital at depressed prices to protect the business, resulting in large destruction of shareholder value.

We want management who understand competitive advantage and capital allocation

We are yet to meet an investor looking for bad management, so there is nothing original in wanting to partner with strong management teams. But how to define "good management"?

For us, good management means a resolute focus on a company's core competitive advantage. Unfortunately, it is all too common to see management mistake a company's competitive advantage for their own brilliance. This can often end in disaster as companies stray from what made them great in the first place – their heads often turned by investment bankers touting new markets, defensive acquisitions, diversification, synergies etc.

The second trait we look for is rational capital allocation. This means using the bulk of free cash flow to strengthen and grow the core business, make sensible bolt-on acquisitions, and whatever is left is returned to shareholders through dividends or share repurchases.

We buy at fair prices and avoid complex valuation techniques

We look to acquire our businesses at a price that will allow us to achieve a fair rate of return over the long term. Even the best company can be a bad investment if bought at the wrong price.

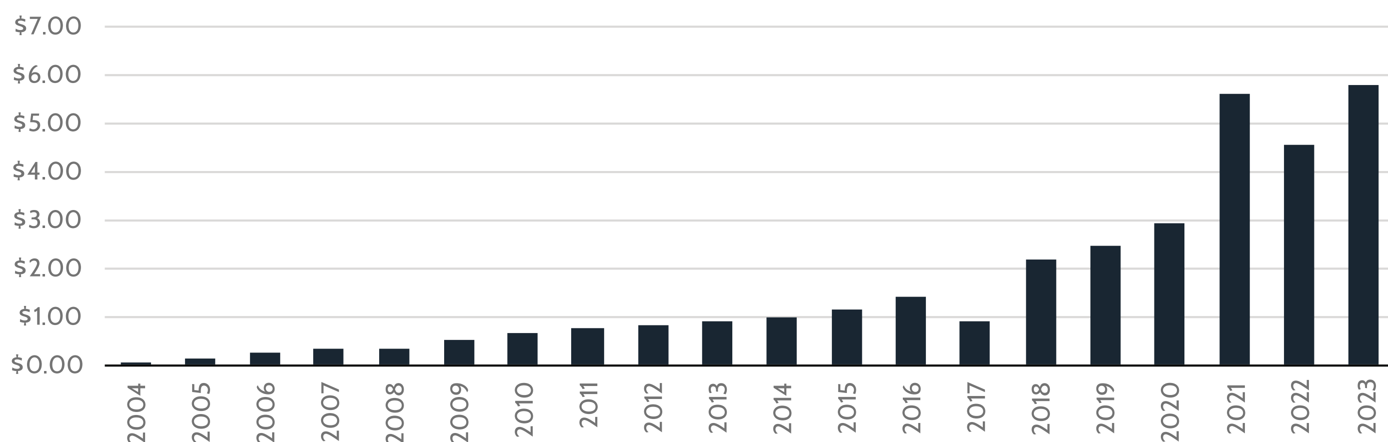
Our valuation work is based on simple metrics that are empirically based.

2. Process (cont'd)

Alphabet and Bank of America – a tale of two companies

The first graph highlights exactly the type of long-term steady earnings profile we look for in the companies we own. Alphabet (the parent company of Google) has enormous competitive advantages based on technology, network effects, scale, and data. This combined with the secular shift to digital advertising has seen consistent and impressive earnings growth over 20 years.

Alphabet – Earnings per share

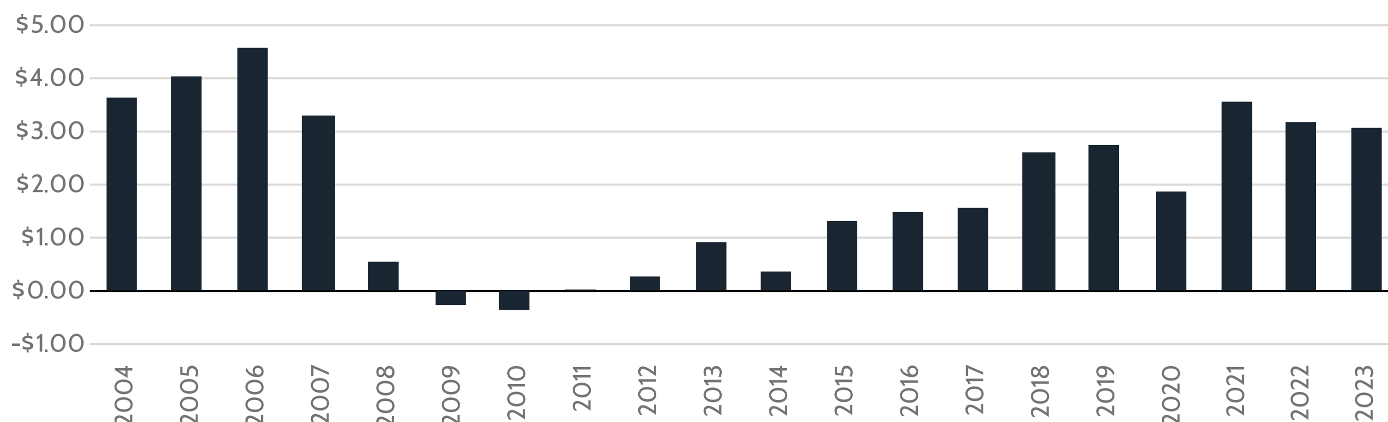


Source: Factset. Past performance should not be taken as an indication of future performance.

The second graph shows the earnings profile of Bank of America – the type of company you will never see us own. The company was decimated in the financial crisis of 2008/9 and its earnings are still below where they were 20 years ago.

In addition, these earnings have been achieved with a highly leveraged balance sheet, whilst Alphabet consistently runs with a high net cash balance.

Bank of America – Earnings per share



Source: Factset. Past performance should not be taken as an indication of future performance.

3. Portfolio

We control risk through quality and value

We believe good investment ideas are rare and we like to concentrate our capital on our best ideas.

There are very few global companies that meet our demanding investment criteria – and even fewer we can buy at a fair price. We believe that owning the highest quality businesses at the right price is the best way to reduce risk.

Academic theory states that diversification reduces risk, whilst we think in many cases it can increase it. One is inclined to add lesser quality names to a portfolio, have a lower understanding of a business, be less stringent on valuation and this can often result in a less focused research effort.

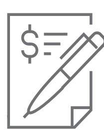
Rather, we prefer to achieve diversification through the companies we own, and we like to own businesses that are diversified by product and geography – rather than being "one-legged stools".

We expect our businesses to focus capital on their best ideas — and we are no different.

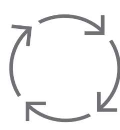
Risk is not a volatile share price

Our approach is risk averse, but we define risk as the permanent impairment of capital, not as the short-term volatility of a share price. We believe businesses that permanently impair capital typically have one or more of the following characteristics:

Excessive valuations

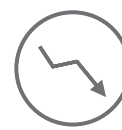


A weak balance sheet



Inherent cyclicality

Aggressive management



Profitability in structural decline due to competitive fade.

As a result, we do not price for excessive risk. We simply avoid companies with these characteristics to help minimise the potential for adverse portfolio outcomes.

You will not find companies in our portfolio that are "cheap". We buy our businesses much as one would buy a family home that we intend to live in for years. We always start with quality and work back to price – not the other way around. To take the property analogy one step further, we want to be asset owners for years - we are not renters looking to move every couple of months.

We are not index huggers – our highest conviction ideas get allocated the most capital

In many parts of the fund management industry there is a tendency to track an index. You will hear terms such as "overweight" and "underweight", which are used to signify a fund manager's weight in a stock relative to an index.

The benefit of this approach is that it limits risk for a fund, and you have less risk of losing your job or assets due to underperformance.

The downside for a client is that if your portfolio resembles an index, it makes it very hard to outperform the market after active manager fees and trading costs are considered.

In our opinion, such investors would be better served in a low-cost index fund.

Using sport as an analogy, we always have our best players on the field. And even within our portfolio, we allocate the most capital to our highest return ideas. We try to make infrequent but meaningful changes to the portfolio. We manage to value and not short-term share price moves.

In the words of Sir John Templeton:

> *"It is impossible to produce a superior performance unless you do something different from the majority."*

With a highly focused portfolio, we understand that periods of short-term underperformance may be a necessary prerequisite for long-term outperformance.

3. Portfolio (cont'd)

Our position size limit is 10 per cent

By mandate, our largest weight is 10 per cent. Our highest conviction ideas will usually get an 8-9 per cent weight, whilst those with more modest returns will get a 3-4 per cent weight.

We cannot hold cash above 10 per cent. We do not look to extend our role from an equity fund to broader asset allocators, and believe our clients are far better placed than us to determine the appropriate cash weighting for a client's total portfolio.

We have a soft sector limit of 25 per cent

While we do not look to predict the future, we do prepare for it. We have soft sector limits in place to ensure we do not become too exposed to particular economic drivers.

We have a rough guide that no sector will receive more than 25 per cent of portfolio capital. You will not always see us report according to standard industry classifications. We report our sector allocation according to what the underlying business drivers are.

For example, the US paints company Sherwin Williams makes most of its profit selling paint to professional painters and consumers through more than 4,900 operated stores and facilities. The industry standard classifies Sherwin Williams as a materials company, whilst in our portfolio we report it as a consumer holding.

We are more interested in where a business earns its money than where it is listed

Our weightings are based on the source of our company's revenues, rather than the country of listing. Most of our companies are global in nature and will often earn more money outside their home country. For example, we own Louis Vuitton Moet Hennessy, which is classified as a French company, but less than 10% of its revenue is earned there.

Our portfolio is constructed from the bottom-up, not based on a macro view

Historically, our portfolio has had a relatively high weighting to US companies. This is not because of any macro or political view. It is just simply a function of quality and value. The US is home to many of the best companies in the world. You will often hear people say that the US is more "expensive" than Europe, however this is based on a top-down view of the whole market.

By contrast, we are focused on a small subgroup of high-quality companies, and in our experience many of the best European businesses trade at a premium to their comparable US counterparts. We believe this is a function of scarcity value.

You will often see a similar phenomenon in the Australian market, which has historically been described as relatively "cheap". We believe this is due to a high weighting of bank and resource companies – in fact, many of the best Australian businesses trade at a substantial premium to global counterparts, again we believe this is due to scarcity value.

Our portfolio is extremely liquid

By mandate, we invest in companies with market caps over $3 billion. As such, we can enter and exit the market relatively quickly compared to larger fund managers. Our least liquid position trades just under $100 million a day (90-day average). This allows us to exit positions without disturbing prices and clients can have comfort knowing they have easy and daily access to their capital.

Our size is an advantage

Our relative size gives us enough scale to fund a fully-fledged research and client service effort, but we are still agile enough to invest in global mid-cap companies that fulfil our investment criteria. This is in direct contrast to larger fund managers, where size and liquidity constraints limit their opportunity set.

In the words of Warren Buffett:

> *"A fat wallet is the enemy of superior investment returns."*

3. Portfolio (cont'd)

Key person risk

The portfolio is run by two Portfolio Managers, who can each assume control in the event that one Portfolio Manager departs.

Should both Portfolio Managers leave, there is a deep experience and knowledge of the portfolio by the investment analysts to continue managing the portfolio until new arrangements are made. This is made possible through a well-documented investment process, a tight-knit focused team and a highly concentrated portfolio of 10-15 stocks. Once set, this is a relatively low maintenance portfolio, populated by highly resilient companies and with no complicated derivative overlays.

Foreign currency

We make no attempt to forecast currencies in the management of the portfolio. We have two classes of unit trust – one fully hedged and one unhedged. We outsource the FX hedging process to other professionals who specialise in this area.

4. Partners

We treat our clients as partners and are in it for the long term

We make a deliberate effort to inform our clients on our investment process and the durable quality of the assets they own. We do not employ Business Development Managers or "BDMs", preferring to use the title Investment Specialist.

Whilst we appreciate that without any development, we will have no business – we will always seek first to educate and inform clients on our process and portfolio, before building mutually beneficial relationships for the long term. Many of our clients have been with us since the strategy's inception a decade ago and like our portfolio holdings, we want both parties to be in it for the long term.

We want to deliver real client solutions, we are not just "asset gatherers"

Our Investment Specialists are as passionate about quality growth investing as our Research team. They look to build trusted relationships with our clients first, truly understanding their needs, then providing solutions based on mutual understanding. We want investors who understand and believe in our approach. There is a shared investment philosophy and long-term vision – which also creates a more stable investor base.

The biggest risk to client capital in difficult markets is a lack of understanding and trust

We believe the biggest risk to investors' capital is not market declines or recessions, but too hasty an investment decision that is not driven by mutual understanding and trust. This is especially true in difficult markets.

With a dedicated focus on only one strategy, our Investment Specialists develop a deep knowledge of our process and portfolio, which allows them to better serve clients on the best way to blend our strategy with their own for the long-term benefit of client portfolios. This is in direct contrast with much of the industry who have a plethora of products and "BDMs" and are there to sell what is the current flavour du jour.

We talk to our clients about businesses and valuations, not markets

We do not pretend to be able to read the macroeconomic or market tea leaves. The human imperative to try and predict makes it hard but when asked about the "market", we do our best to say, "we don't know". Instead we try to talk to clients about where our portfolio companies are trading in relation to our assessed intrinsic value and allow them to make an informed decision about what that means for future investment returns.

We are always accessible to our clients especially in difficult markets

It is relatively easy to commit capital to a strategy in good markets – the trick is to stay the course in difficult markets. Just as we stay close to our management teams in tough times, we attempt to do the same with our clients. We believe the biggest risk to client capital is a focus on price rather than value, especially in falling markets. With a simple process, highly resilient companies and investment specialists dedicated to only one strategy, we believe we are well placed to do this.

We believe in reasonable fees

We are not advocates of the 2 & 20 approach to managing portfolios or excessive performance fees. We believe this often results in highly complex investment processes or "chasing" short term performance to earn higher fees. If we do a good job for clients and we achieve an excess return, our fee will naturally reflect that and vice-versa if our clients see portfolio declines, we will share a commensurate decline in our fee.

We are tax aware

Whilst our primary concern is return, we try to remain tax aware. Our long-term approach to buying and holding great businesses and limiting unnecessary trading should naturally lead to more tax-efficient client outcomes. By the same token, we do always manage the portfolio first to value and where holdings trade well above intrinsic value, we will recycle capital into higher return ideas.

We invest our own capital alongside our clients

Bob Desmond has the majority of his investable assets in the fund along with other members of the team.

5. Performance

We measure our performance over a three-to-five-year period

We measure our performance over the long term, which we define as three to five years. You will note that when we report our performance, we start with the longest period on the left moving to the shortest on the right, unlike most of the industry. This is what we consider most important.

We think measuring a portfolio's performance over any periods less than that is liable to lead to short-term thinking and chasing the fastest rising share prices, rather than holding durable businesses for the long term.

Despite a highly focused portfolio our volatility is lower than the market[6]

Our portfolio will only hold 10-15 companies and despite this, its inherent quality results in a standard deviation that is similar to the market.

Our portfolios are resilient in down markets

The quality of the companies in our portfolio help to protect client capital in down markets. More importantly, we believe our companies' highly resilient business models will result in share price declines that are much higher than the actual decline in our companies' long-term earnings power or intrinsic value.

Notes:

6. Market is S&P 500 Index.

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6. Fund details

We partner with the best in breed providers

Our strategy has partnered with high quality partners, which include Pershing Securities, Perpetual, JP Morgan, Bernstein, Nine Mile, GLG, Tegus, Equity Trustees, Apex Fund Services, TGM and KPMG.

Number of stocks	10-15
Max. cash	10%
Investment structure	Unit Trust (Hedged & Unhedged) and ETMF (Hedged & Unhedged)
Benchmark	MSCI All Countries World Accum Index ex-Australia (AUD)
Responsible entity	Equity Trustees Limited
Distribution frequency	Bi-annually
Min. investment	Unit Trust: $20,000; ETMF: Broker minimum parcel size[1]
Buy/sell spread	0.10% / 0.10%
Management fee	1.25% inc. GST
Performance fee	None
Platform availability	ASX:CGUN, ASX:CGHE, BT Panorama, Hub24, Macquarie Wrap, Mason Stevens, Netwealth, Powerwrap, Praemium, Wealth02, Xplore

1. Broker minimum parcel sizes may vary between brokers.

Signatory of:

Important information

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