# Claremont Global Fund

# June 2024 Quarter Report

## Performance to 30 June 2024

| | Since inception p.a. | 10 Years p.a. | 7 Years p.a. | 5 Years p.a. | 3 Years p.a. | 1 Year | 6 Months | 3 Months |
|---|---|---|---|---|---|---|---|---|
| Portfolio return (AUD) | 13.3% | 14.1% | 13.8% | 11.7% | 8.2% | 4.5% | 0.2% | -5.0% |
| MSCI AC World Accum Index ex-Aust (AUD) | 12.1% | 12.3% | 12.3% | 11.9% | 9.7% | 19.1% | 13.9% | 0.5% |
| Excess return | 1.3% | 1.7% | 1.5% | -0.2% | -1.4% | -14.5% | -13.7% | -5.5% |

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. Returns assume reinvestment of distributions and are annualised for periods greater than 1 year. Past performance should not be taken as an indication of future performance.

## Market commentary

Global equity markets posted modest second quarter gains, appreciating 0.5% (all figures are in AUD unless noted otherwise). The Australian equity market underperformed the global market, falling 0.7%.

The US equity market reported a modest 1.5% gain (+3.9% in local currency). With continued speculation on the timing of a potential rate cut by the US Federal Reserve, stronger-than-expected economic data was received negatively by the market, with the latest "dot plot" indicating just one rate cut this year. Inflation eased slightly to 2.6% in May from 2.7% in April, however, the US labour market still remains robust. That said, there appears to be a strong consensus that the Federal Reserve will be able to guide the economy to a soft landing.

European markets saw some increased volatility, falling 3.1% (broadly flat in local currency). This was particularly evident in France, where President Emmanuel Macron surprisingly called for snap parliamentary elections after right-wing nationalist parties gained ground in the European parliamentary elections earlier in the quarter. The result was a broad-based pull-back in French equity markets as investors took a cautious stance in the face of a potentially more unstable government in the country.

From a sector standpoint, Information Technology was a clear outperformer, up +8.9%, again driven by AI-related enthusiasm while Real Estate (-5.1%), Materials (-5.4%), and Industrials (-4.0%) were among the weakest performing sectors.

## Fund details

| | |
|---|---|
| Strategy FUM | $1.4Bn |
| ASX Ticker | CGUN |
| Number of Stocks | 10-15 |
| Maximum Single Stock Weighting | 10% |
| Maximum Cash Weighting | 10% |
| Minimum Investment[1] | $20,000 |
| Investment Management Fee | 1.25% |
| Performance Fee | Zero |
| APIR Code | ETL0390AU |

[1] Does not apply to investments made via the ASX.

## Top five holdings as at 30 June 2024

| Top five | Region | Sector |
|---|---|---|
| Adobe | US | Information Technology |
| Alphabet | US | Information Technology |
| Microsoft | US | Information Technology |
| Visa | US | Financial Services |
| Zoetis | US | Healthcare |

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

## Portfolio characteristics – 5 years to Jun 2024

| | |
|---|---|
| Standard deviation | 13.5% |
| Realised beta | 1.08 |
| Tracking error | 6.4% |
| Upside capture ratio | 1.08 |
| Downside capture ratio | 1.08 |

## Composition of portfolio performance

| | Since inception p.a. | 10 Years p.a. | 7 Years p.a. | 5 Years p.a. | 3 Years p.a. | 1 Year | 6 Months | 3 Months |
|---|---|---|---|---|---|---|---|---|
| Local currency return | 11.4% | 11.5% | 11.7% | 10.7% | 4.3% | 5.1% | -1.7% | -2.6% |
| Currency impact | 2.0% | 2.5% | 2.0% | 1.0% | 4.0% | -0.5% | 1.9% | -2.4% |
| Portfolio return (AUD) | 13.3% | 14.1% | 13.8% | 11.7% | 8.2% | 4.5% | 0.2% | -5.0% |

Performance is net of investment management fees. Inception date is 18th February 2014. Numbers may not sum due to rounding. Returns assume reinvestment of distributions and are annualised for periods greater than 1 year. Past performance should not be taken as an indication of future performance. Composition of portfolio performance provides an estimate of the currency contribution to portfolio returns, and derives an indicative local currency return, for each period. The currency contribution estimate reflects the Fund's weighted currency exposure (based upon the currency in which each portfolio security is traded) and the change in the relevant foreign exchange rates, relative to the Australian Dollar, over each period.

## Portfolio performance

The Claremont Global Fund returned -5.0% during the quarter, underperforming the broader market by 5.5%, which saw a 0.5% increase on a net basis.

Key contributors to performance for the quarter were **Adobe** abd **Microsoft**:

- **Adobe (ADBE-US)** – announced its second quarter result, with revenue growth of 11% (in constant currency) and adjusted earnings per share growth of 15%. Both metrics were ahead of management's prior guidance range. The Creative Cloud division experienced good traction from innovation, new users, and successful cross/upsell, particularly from their Express and Firefly products. Additionally, full year earnings per share guidance was upgraded by 2%.

  During the earnings call, management reiterated their view that the production of AI generated content will dramatically expand the market, making Adobe's products more accessible, affordable, and productive. Further, personalisation at scale is expected to be a key revenue growth driver. Overall, a solid quarter, which supported confidence in the core business, and their ability to hit full year targets, amongst a lot of market noise.

- **Microsoft (MSFT-US)** – posted a strong third quarter result. Revenue growth was +17% (reported in constant currency) and EPS growth was 20%. Revenue and EPS were both above the top end of management's prior guide. For context, the Activision acquisition added c.3.5% to revenue growth.

  Azure's growth accelerated to 31% from 28%, sequentially. Importantly, Microsoft is taking share in Cloud, in part through its AI positioning with management noting accelerated adoption across industries and geographies. Management guided for the Group's FY25 revenue to grow at a double-digit rate, highlighting ongoing demand strength. Despite positioning for the next wave of innovation and building out infrastructure (the capex bills are eye-watering, at $14bn this quarter), operating expense control remains tight. During the quarter Microsoft delivered more than 200 basis points (bp) of operating margin expansion, despite AI/Cloud investment, Activision and depreciation changes.

Key detractors to performance for the quarter were Nike and Dassault:

- **Nike (NKE-US)** – reported their fourth quarter result in late June and provided disappointing guidance for FY25, moving away from the prior guide for sales and earnings growth, and now expecting a mid-single-digit decline in sales and a material earnings decline. The company attributed the downgrade to a meaningful slowdown in demand for some of their largest footwear franchises and further deterioration in China. We believe management's revised go-to-market strategy, and investments in innovation and marketing, are the right actions for Nike's longer-term positioning. However, the latest downgrade, including the rate of deterioration, raises concerns about the company's overreliance on a handful of struggling shoe franchises, ongoing lack of innovation and management's execution. The company's earnings visibility and our confidence in management has deteriorated, and as a result we have since made the decision to exit the position, reallocating the capital to higher conviction investments while maintaining valuation discipline.
- **Dassault Systemes (DSY-US)** – reported their first quarter earnings, posting a mixed result with constant-currency revenues growing 6%,

## Fund details

| | |
|---|---|
| ARSN | 166 708 792 |
| ISIN | AU60ETL03901 |
| Responsible Entity | Equity Trustees |
| Administrator | Apex |
| Market Maker | Nine Mile |
| Custodian | JP Morgan |
| Currency Exposure | Unhedged |
| Fund Inception | 18th February 2014 |
| Buy/Sell Spread | 0.10% / 0.10% |

## Contribution to portfolio return – Quarter June 2024 (%)

| Top Three | % |
|---|---|
| Alphabet | 1.46 |
| Adobe | 0.60 |
| Microsoft | 0.32 |
| **Bottom Three** | **%** |
| Nike | -1.60 |
| Dassault | -1.00 |
| CME | -0.93 |

## Portfolio performance (cont'd)

compared to guidance of 7-8%. Software revenue was at the lower-end of their guided range. The weakness in software was driven by subscriptions, partially offset by a strong licenses beat. Dassault's Medidata asset was a driver of the weaker than expected subscription revenue, experiencing a 3% revenue contraction during the first quarter. The clinical trial space has been impacted by a post-pandemic period of digestion across the industry, which in turn is impacting the sell-through to both Clinical Research Organisations (CROs) and pharma companies. Management expect a similar decline in the second quarter, before Medidata returns to a more typical double-digit growth cadence, towards the end of the financial year, supported by a gradual recovery in customer bookings. Additionally, during the June quarter broad-based volatility in the French equity market, due to political uncertainty (discussed above), also weighed on Dassault's share price. We utilised the share price weakness to increase our investment in the company.

## Portfolio additions

There were no additions to the portfolio in the June quarter.

## Portfolio removals

There were no removals from the portfolio in the June quarter.

## Securities movements for the quarter

| | |
|---|---|
| Bought in | - |
| Sold out | - |
| Increased holding | - |
| Decreased holding | - |

# Claremont Global Fund

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## Contact Us


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| Strategy Inception | Companies Held | Strategy FUM | 7-year total return per annum (net) | 7-year alpha per annum (net) |
|---|---|---|---|---|
| 2011 | 10 - 15 | $1.4Bn | 13.8% | 1.5% |

*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 investing 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 more cyclical or leveraged industries including banks and resources. 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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*Signatory of:*

PRI Principles for Responsible Investment

riaa Responsible Investment Association Australasia

## Important information