Claremont Global Fund (Hedged)

September 2024 Quarter Report

Performance to 30 September 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)	11.0%	11.2%	11.0%	8.9%	3.3%	13.7%	2.0%	5.2%
MSCI AC World Accum Index ex-Aust (AUD)	10.0%	9.8%	9.6%	10.9%	7.5%	28.6%	8.0%	4.6%
Excess return	1.0%	1.4%	1.4%	-1.9%	-4.2%	-14.9%	-6.0%	0.6%

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 again posted modest gains for the quarter, appreciating 2.6%, with increased gains of 4.6% on a hedged basis, due to Australian dollar strength (all figures are in AUD unless noted otherwise). The Australian equity market delivered a strong quarter, outperforming the global market, rising 7.8%.

The US equity market edged higher, rising 1.9% (+5.9% in local currency). During the quarter a key market focus was the potential for The Federal Reserve (**Fed**) to cut rates, and by how much, without triggering a second bout of inflation. The Fed left interest rates on hold in July however, subsequent economic data, including a weaker jobs report in August, saw an eagerly awaited, 50 basis point (**bp**) rate cut delivered in late September.

Another market focus during the quarter was the Information Technology sector, specifically the escalating levels of capital expenditure on artificial intelligence and the potential implications for the sector's return on capital. This was evident in disparate sector returns across the quarter, with Information Technology falling -2.7%. Conversely, previously out-of-favour sectors such as Real Estate and Utilities were both strong, appreciating 12.6% and 12.2%, respectively.

Thirdly, an increasing proportion of news headlines were dedicated to the upcoming US Presidential election in November, particularly with Joe Biden withdrawing from the race in July, and endorsing Vice President Kamala Harris as the Democratic candidate.

European markets also rose in the September quarter, up 2.6% (+1.6% in local currency), with UK markets slightly outpacing them, rising 3.9% (+1.7% in local currency). With September Eurozone inflation falling under 2%, the European Central Bank (ECB) decided to cut rates by 25 basis points (bps) in September. Further, weaker PMI data bolstered expectations for further rate cuts from the ECB.

Fund details

Strategy FUM	$1.4Bn
ASX Ticker	CGHE
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	ETL0391AU

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

Top five holdings as at 30 September 2024

Top five	Region	Sector
Automatic Data Process.	US	Business Services
CME Group	US	Financial Services
Jack Henry	US	Financial Services
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 Sep 2024

Standard deviation	18.8%
Realised beta	1.11
Tracking error	6.4%
Upside capture ratio	1.15
Downside capture ratio	1.12

For fund investor use only. The views expressed herein are part of a wider portfolio investment strategy and should not be considered in isolation. All figures displayed in AUD.

Portfolio performance

The Claremont Global Fund (Hedged) appreciated 5.2% during the quarter, outperforming the broader market by 0.6% on a net basis, which saw a 4.6% increase (numbers may not add due to rounding).

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

- **Equifax (EFX-US)** – the company delivered a strong set of second quarter results, with 9% revenue growth (8% organic, constant currency revenue growth), and 6% adjusted EPS growth. Both revenue and adjusted EPS were ahead of management's prior guidance ranges. The non-mortgage business delivered 13% growth, while the U.S. mortgage business grew 4% (despite a 13% decline in mortgage enquiries). This result provided further confidence in the businesses trajectory and that full year guidance would be achieved. However, Equifax's share price outperformance during the quarter appeared primarily attributable to market expectations of falling U.S. interest rates, and a return to growth in the, currently subdued, U.S. mortgage market.

- **Automatic Data Processing (ADP-US)** – the company's fourth quarter result for 2024 was largely in line with expectations with no major change in underlying drivers of the business. The labour market looks to be resilient and ADP's ability to reach customers through a variety of channels (digital, broker, referrals) as well as an enhanced product offer is proving to be a strong competitive advantage. Retention rates at 92% are at near-record highs, underpinned by record NPS across all segments. With strong customer feedback on their NextGen and GenAI products, the company is well positioned to maintain current retention levels. While macro factors may impact stock sentiment, we remain confident in the long-term competitive positioning of the business.

Key detractors to performance for the quarter were **Alphabet** and **Adobe**:

- **Alphabet (GOOGL-US)** – the second quarter result was solid, with Alphabet posting 15% constant currency revenue growth. Search revenue increased 14%, YouTube revenue was up 13% and Google Cloud grew 29%. Improving profitability is a central part of the investment thesis, and so we remain watchful of management's ability to control costs as well as how they allocate capital. The group's adjusted operating margin grew 300 bp in the quarter, to over 32%. This year we have seen the benefits of tighter expense management, and in the second quarter this was most evident in their Cloud business, with margins expanding more than 600 bp, to over 11%, as the Cloud business continued to scale. However, the ongoing capex bill for AI-related investments will result in additional depreciation and may limit further margin expansion in the short to medium-term.

  Following Alphabet's second quarter results, the stock gave back some of its share price gains on an adverse antitrust ruling. No remedies have yet been determined (currently scheduled for August 2025). Importantly, the company continues to perform strongly and this antitrust case will likely run for multiple years. Alphabet has already indicated it will appeal the recent ruling.

- **Adobe (ADBE-US) –** the company delivered a solid third quarter result in September, with 11% constant currency revenue growth, higher year-on-year adjusted operating margins, and 14% adjusted earnings per share growth. Revenue growth was consistent across segments, with both Digital Media and Digital Experience growing at a low double-digit rate. Relative to management's prior guidance, third quarter revenue was 6% above, and adjusted EPS was 2% above, the top of the guidance range. However, the share price fell following the result, with the market seemingly disappointed that the third quarter's revenue outperformance did not translate into a lift in full year guidance, and potentially, extrapolating the slower fourth quarter growth rate, into FY25 forecasts. Notably, there are some timing issues which have impacted the fourth quarter's guidance (both pull-forward in the third quarter and pushback into the first quarter of 2025), and historically management's guidance has proven conservative. Once again, Adobe's share price was far more volatile than the underlying results. While management's communication (or lack thereof) has at times been unhelpful, Adobe's execution remains strong.

Fund details

ARSN	166 708 407
ISIN	AU60ETL03919
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 September 2024 (%)

Top Three	%
Equifax	1.14
Automatic Data Processing	1.07
Zoetis	0.84
Bottom Three	**%**
Alphabet	-1.09
Adobe	-0.84
Microsoft	-0.68

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Portfolio additions

Amazon (AMZN-US) – we initiated a position in the company during the September quarter. Amazon's two largest businesses are eCommerce and cloud (via Amazon's AWS business). In each of these sectors, scale is a key competitive advantage, and in both Amazon has clear market leadership.

The financial profile of the two businesses is very different, however, with AWS approximately 16% of group revenues but two-thirds of last year's operating income, reflecting the much stronger profitability dynamics of the AWS compared to the core retail business. With that said, the retail business has seen ongoing improvements in profitability over the last two years, under the new CEO and well tenured Amazonian, Andy Jassy, and there is scope for further improvement.

Looking forward, AWS has a large, growing revenue backlog (more than $155bn, or more than 150% of AWS's revenue over the last twelve months). AWS's revenue growth is currently reaccelerating (+19% last quarter), while advertising revenue continues to grow at +20%, as the company expands its content and advertising clients. Growth in these two businesses provide the potential for further Amazon margin expansion (AWS and advertising are relatively high margin businesses), as does operational improvement/scaling in eCommerce.

We have long been admirers of Amazon's customer centric approach/obsession, long-term thinking, operational excellence and innovation – with an extraordinary track record of building large, successful businesses from the ground-up. We were able to build a position in Amazon at approximately 30x next-twelve-month (NTM) consensus earnings, a historically attractive multiple (relative to a five-year average multiple of over 60x, although our valuation is not predicated on a return to that multiple).

Portfolio removals

Nike (NKE-US) – has a long track record of growth, scale and innovation. However, we lost confidence in the management team, following poor strategic moves, a lack of innovation over recent years, a loss of key talent and multiple earnings downgrades. Further, the industry continues to evolve and there are signs that the scale advantages that Nike has enjoyed over its peers, as well as consumer loyalty, are eroding at the margin. While we believe the recently appointed CEO is the right candidate for the job, getting the business back on track will be a significant task and a return to former glory isn't guaranteed. On the view that client capital could be better deployed, into companies with lower business risk and more attractive return profiles, the position was exited.

Louis Vuitton Moet Hennessy (MC-FR) – our exit of this position was primarily driven by concerns around the ability of the company to maintain strong revenue growth, in part through increasing Louis Vuitton products' ubiquity, while at the same time protecting brand exclusivity and pricing power. What has become evident in recent results, is that LVMH management have gradually broadened the company's customer base, including increasing exposure to "aspirational" customers. While this successfully boosted group revenue in a buoyant consumer environment, aspirational spend tends to be more closely linked to discretionary income, hence cyclical, and has subsequentially slowed over recent quarters. We have seen similar revenue growth deceleration trends across many luxury goods companies over the last several quarters and while LVMH appears to be taking share, our confidence in the company's ability to maintain strong revenue growth (and simultaneously maintain or improve margins), without jeopardising the veneer of exclusivity, has diminished for now.

Securities movements for the quarter

Bought in	Amazon
Sold out	Nike and LVMH
Increased holding	Automatic Data Processing, Dassault Systemes and Jack Henry
Decreased holding	Alphabet, Equifax and Steris

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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	11.0%	1.4%

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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