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2024 Annual Investor Letter

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To our valued clients,

In 2024 the Fund delivered an annual return of 13.2%. Whilst this is ahead of our long-term annual target of 8-12% p.a., it was disappointing in the context of our benchmark which was up by 29.8%.

Nearly half of the relative underperformance was the result of having no exposure to the current market excitement in electric vehicles, consumer electronics, semiconductors and weight loss drugs. Just the exclusion of Nvidia, Broadcom, Apple and Tesla cost the Fund approximately 6% in relative performance in 2024. Whilst fast disruptive change brings the chance for large gains (and quick losses), this has never been a part of our investment process. We have never invested in these types of industries and are unlikely to do so in the future.

Nike was also a material detraction from performance for the year. This investment fell short of our initial expectations and had a negative 3% impact to overall return. We exited this position in mid-2024.

We also had a couple of positions, where the business performance was solid and in line with our expectations at the beginning of the year, but where we saw multiple compression.

While our relative performance lagged in 2024, we believe our approach will continue to serve our clients well over the long-term, as it has in the past, and has evidenced by Morningstar ranking the Fund in the top 7% of its peer group, over the last decade.

	Claremont Global	Benchmark*	Relative
2014	15.3%	15.7%	-0.3%
2015	10.1%	10.0%	0.0%
2016	12.2%	8.3%	3.9%
2017	8.7%	14.9%	-6.2%
2018	7.6%	0.7%	6.9%
2019	39.9%	26.9%	13.0%
2020	3.8%	6.0%	-2.2%
2021	42.0%	26.0%	16.0%
2022	-14.4%	-12.7%	-1.7%
2023	24.2%	21.6%	2.6%
2024	13.2%	29.8%	-16.6%
Since Inception p.a.	**14.0%**	**12.8%**	**1.1%**
Since inception	**313.9%**	**272.2%**	**41.7%**

* Benchmark is MSCI All Countries World Index Ex-Australia (Net, AUD). Performance is net of investment management fees and includes all distributions. Inception date is 18th February 2014. Numbers may not sum due to rounding. Past performance should not be taken as an indication of future performance.

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Investment Criteria

It is worth repeating our investment criteria when we select businesses to own:

- Organic growth through an economic cycle in excess of nominal GDP growth.
- Stable industry structures, where market leadership endures over long periods of time (our average business is nearly 60 years old).
- High margins or low capital intensity (ideally a combination of both) that leads to excess and stable returns on capital.
- Financial strength as evidenced by strong free cash flow and low levels of debt.
- Ethical and able management that allocates capital to sustainably build competitive advantage over the long term.

Top three detractors to performance in 2024

We first invested in Nike in April 2021. At the time, we believed the company clearly met all our investment criteria:

- 10-year average sales growth of 9% p.a.
- A long history of brand and market leadership with revenue nearly 2x its closest peer.
- Returns on invested capital that averaged 28% in the five years prior to Covid-19.
- A history of running the business with a net cash balance sheet.
- Seasoned management, which included an Executive Chairman who had been with the company for 42 years, as well as a well-credentialled CEO with prior successful leadership positions at eBay and ServiceNow. A strong board which included Tim Cook – the current CEO at Apple.

At the time of our investment, Nike was in the midst of a shift in strategy which involved selling more directly to consumers, either through their own stores or through digital channels, as opposed to their more traditional third-party distribution. We agreed with management's strategy, as we believed it would allow Nike to engage more directly with their consumers, enhance data, improve price discipline and drive margins through the capture of the wholesale margin. Initially, the strategy appeared to be working, as evidenced by the strong revenue growth of 19% in 2021, as the company rebounded from the sales decline caused by Covid-19.

However, it became increasingly apparent that:

- Consumers prefer to shop in a multi-brand environment and Nike had erred in ceding valuable retail shelf space to newer, more nimble brands such as Hoka and On.

- Failure to bring innovation to the market resulted in an over-reliance on past winners such as Jordan and Air Force 1, to the exclusion of bringing newer franchises to market.
- A large amount of senior management turnover and loss of company morale, amplified by a cost-cutting exercise.

The question we expect clients to ask is what can we learn from this disappointing investment outcome? We would highlight the following:

- Beware of companies who are rapidly changing their distribution strategy, especially in retail, where consumer behaviour is hard to predict.
- We gave too much credence to the expected margin benefit that would arise from the change in distribution strategy.
- Whilst management is always important, it is even more crucial in retailing. Success in other industries does not guarantee a successful outcome in retail.

We exited the position in July.

Dassault Systèmes has been facing headwinds with a weaker backdrop in their two core markets of automotive and aerospace, as well as slower than expected growth in their life sciences business. This is still recovering from elevated spending through the pandemic. Additionally, they have seen cautiousness among their pharma customers. Despite this, the company delivered a respectable result in FY24 with organic revenue growth of 5% and earnings per share growth of 7%. They remain a highly profitable business with a low-30s operating margin while boasting a strong balance sheet with net cash of €1.5 billion. They expect a better year in FY25 and have guided to organic revenue growth of 6-8% with ongoing margin progression. We continue to hold the position and added modestly last year.

For the financial year ended November 2024, Adobe delivered revenue growth of 11% and EPS growth of 15%, ahead of their initial annual guidance. They did this with an operating margin of 38% and have a strong balance sheet with net cash of over $2bn. The market continues to have concerns over disruption from AI. We have conducted numerous expert interviews and background checks and believe these risks have been overstated. We continue to hold the position and added modestly last year.

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Top three contributors to performance in 2024

Alphabet

The company delivered strong results across 2024. Revenue increased 15% in constant-currency, but even more pleasing was the margin expansion of almost 500bps, to over 32%, which resulted in EPS growth of 39%. The balance sheet remains exceptional with net cash of $85bn. Despite the incessant media drum of "Mag-7 extreme valuations", Alphabet has a very reasonable valuation at 21x consensus next twelve-month earnings, a discount to the S&P500. With unparalleled data and the necessary scale, we believe the company should be well placed to capitalise on the opportunities presented by AI.

While not a household name, ADP has been a steady performer for the fund since we bought it in 2019. It has been a market leader in the outsourced payroll and Human Resources Management industry for decades. This has seen it deliver 50 years of successive dividend increases. Given its strong price performance, the gap between price and our estimation of value has closed and we have trimmed our position accordingly.

The company continues to deliver for the fund since we first purchased our stake in 2018. In their last financial year, they again delivered an impressive result with revenue growth of 12% and EPS growth of 17% respectively. The company processed an incredible $13 trillion in payment volume (up 7%) and over 230 billion transactions in 160 currencies. It continues to be a core holding in the fund.

Changes to the portfolio

Sales – Nike (see above), LVMH.
Purchases – Jack Henry, Amazon, Allegion and IDEXX.

LVMH

We have successfully bought and sold LVMH a couple of times over the last seven years, taking advantage of price volatility. We have long been attracted to the company's brand heritage, direct distribution, scale and and the long-term mentality reinforced by family ownership. However, we took the decision to exit the business as we became less confident of the true earning power of the business following a period of unprecedented demand post-pandemic.

jack henry™

The company provides core bank processing for over 900 banks and 700 credit union customers in the US, with a focus on institutions with assets of less than $50 billion. They also provide over 140 complimentary products and services including payments processing, information security, risk management, treasury, online and mobile banking.

Jack Henry is blessed with a very strong business model with high recurring revenue (>80%), high switching costs and large barriers to entry (technology, references and regulation). They also benefit from strong industry tailwinds, which include the ongoing move to private cloud, the secular shift from cash-to-card, the rise of e-commerce and the ever-present need for banks/credit unions to improve their efficiency and consumer experience, especially in an increasingly digital world.

This is a company with an exceptional culture that is clearly focused on doing the right thing, by both consumers and employees. Experts consistently highlight their service ethos and they rank highly in terms of preferred employers in the fintech/IT services area. On every employee's business card, you will find inscribed:

"Do the right thing, go the extra mile, do the right thing."

They have stayed very focused on their niches of core banking, payments and complimentary solutions. Historical growth has been organic, resulting in two key platforms where they focus their R&D spend (14% of revenues). By contrast, their peers have done numerous core banking acquisitions and as such their technology spend is watered down, with lots of legacy products that are not refreshed and experts said are treated as "cash cows."

The company was founded in 1976 and since listing in 1986 has compounded earnings per share at almost 15% p.a.!

If you want further information, we recently spoke about the company on the excellent podcast Business Breakdowns on Spotify.

Amazon's two largest businesses are in 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.

During FY24, Amazon's revenue grew 11% to an incredible $638bn. By profit, approximately 58% is derived from AWS and 42% from retail. Importantly, the retail business has seen ongoing improvements in profitability over the last two years, under the new CEO and well tenured Amazonian, Andy Jassy. Plus there is scope for further improvement. For those wondering, the founder, Jeff Bezos, remains with the company as Chair.

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. The two reasons we have only recently initiated a position are: 1) following a period of heavy investment in their fulfillment capabilities, we have seen evidence of strong improvement in retail margins and free cash flow – with the company well positioned to scale existing retail infrastructure and; 2) what we perceive to be a much more attractive entry price. We were able to build a position in Amazon at approximately 30x next-twelve-month consensus earnings, a historically attractive multiple, relative to its history.

Allegion is a global leader in security solutions and has an extensive portfolio of security and access control across a wide range of brands – many of which are decades old. These include trusted names such as Gainsborough, Schlage and Von Duprin. Their products include door controls and systems, exit devices, locks, electronic security, attendance and services and software. In their home Americas market (~80% of revenue), the market is dominated by Assa Abloy and Allegion, with dormakaba a distant third. By end user – 40% is institutional (mainly health and education), 35% commercial and 25% residential. Around 50% of the business is new build and 50% aftermarket.

Since listing in 2014, Allegion has delivered impressive financial results with an average operating margin of 20% and EPS growth of 12% p.a. The company has a conservative balance sheet with net debt/EBITDA of 1.6x.

We initiated our position at ~19x next twelve-month consensus earnings vs a 10-year average of ~20x.

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IDEXX is the global leader in companion animal diagnostics with an estimated 50% market share. IDEXX has been developing the market for 40 years in the US and for over a decade internationally. The company has the most comprehensive in-clinic offer and reference lab network, driven by a remarkable leadership in R&D as IDEXX is responsible for over 80% of the R&D spend in the industry.

Price is not the first topic of conversation with a clinic. Diagnostics is not seen as a commodity, it is a high value product and vets want a quality, powerful instrument. There is little price elasticity from a customer perspective, therefore clinics prefer to get the best product, as costs are passed on to the customer.

IDEXX has an industry leading salesforce, that are subject matter experts acting as trusted advisers. Over the last decade, IDEXX has delivered 11% organic revenue growth p.a., while EPS has grown 19% p.a. We initiated our position at ~35x next twelve-month consensus earnings compared to the 10-year average of ~48x.

Our thoughts on markets

As clients know, we do not attempt to call short term market movements. However, we aim to be aware of valuations and market sentiment. If we use the S&P 500 as a proxy, the market is currently trading around 22x next twelve-month consensus earnings, which is somewhat elevated versus the 20-year average of around 16x. In addition, spreads in the credit markets remain very tight relative to history. At the risk of "talking our book", we think this is a time to be cautious, improve the quality in your portfolio and pay attention to the value of what you own.

Portfolio quality and valuation

We believe the quality of the portfolio is as high as it has ever been. This is based both on our assessment of each company's sustainable competitive advantage and the portfolio's financial metrics. The weighted operating margin across the portfolio is 33% (over twice the average US listed business), we have negligible debt levels and the portfolio's return on invested capital is 20% (also over twice the average US listed business). We expect our portfolio companies, on average, to deliver low double-digit earnings growth over the medium term.

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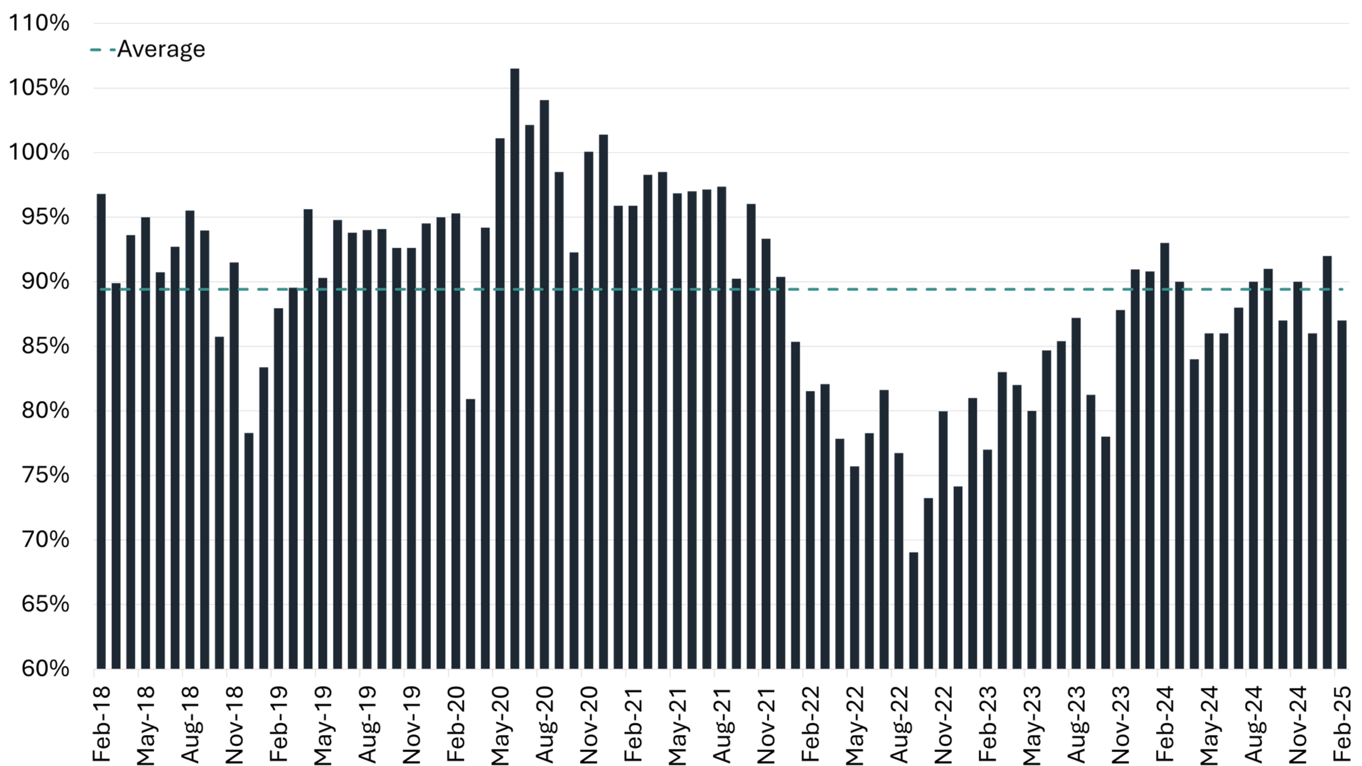
From a valuation perspective, the forward price earnings ratio of the portfolio is currently ~26x, which is 8% below the 10-year average. For argument's sake, assume the portfolio can hold its current multiple, our future estimated return would equal the underlying earnings growth of our businesses, delivering our targeted return of 8-12% p.a. over the medium term. Looked at on a relative basis, the portfolio currently trades at a 20% premium to the market, versus its 10-year average of >50%.

While we are often asked, we don't attempt to predict market moves. Rather, each day we compare every company's share price to our estimate of its value and produce a weighted estimate of this for the whole portfolio. We believe this is a much better way of both identifying investment opportunities and also communicating with our clients about what current market prices imply for long term investment returns. At current prices, the portfolio is slightly below its long run average discount to value of 10%.

It is important to stress that the absolute number is less important than the long-term trend and the signal it gives to clients. We believe that our valuations are inherently conservative, particularly as we base our valuations off a market multiple that is nearly 25% below the current S&P 500 multiple. If we were to value our companies using a 10-year discounted cash flow (DCF), the portfolio discount to value would look much higher (but our confidence in those valuations would be much lower!).

Portfolio – estimated price to value



Source: Claremont Funds Management, as at 17 February 2025. The chart's average line reflects data from February 2018 to the present. Historical performance is not a reliable indicator of future performance. Claremont Global regularly estimates the value of each portfolio company using a proprietary, 5-year net present value model. Each company's share price is then compared with its estimated value, based on the formula: share price/value. The portfolio's price/value is a weighted average (based on portfolio constituents' weights) of each portfolio company's price/value, at a specific time.

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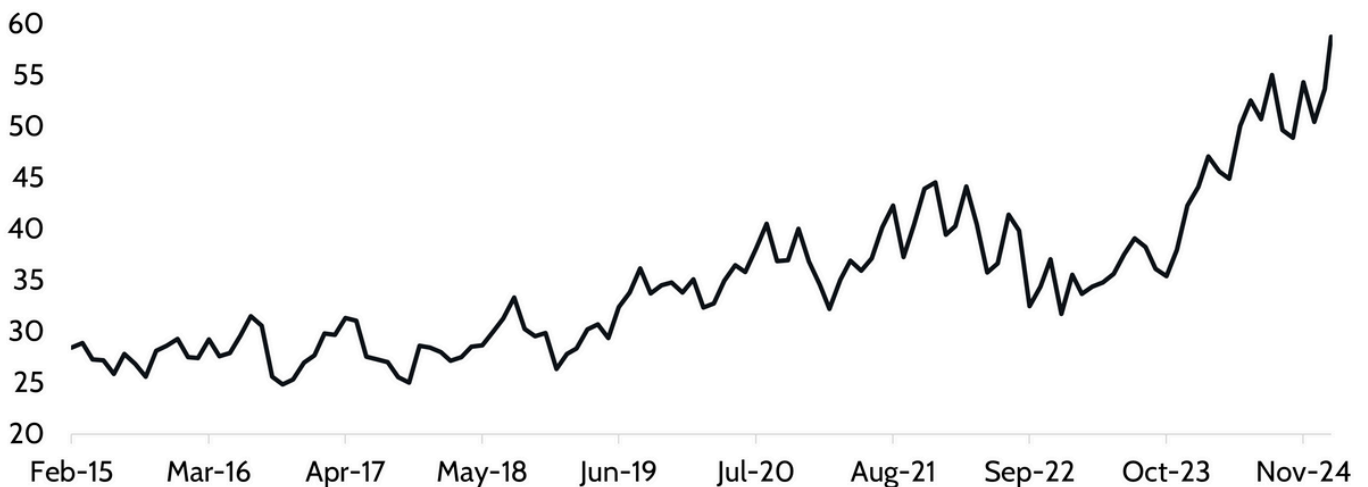
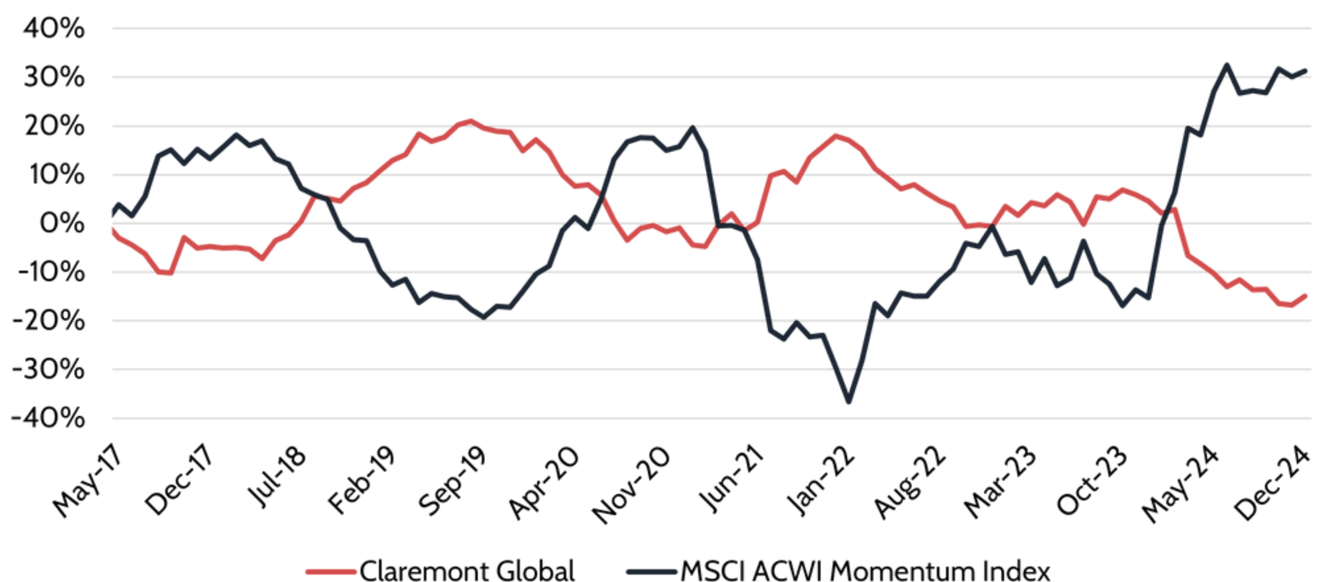
While we look for underlying momentum in business fundamentals (for example an improving competitive position and market share gains, strong sales growth and expanding profit margins), we look to buy businesses when they are trading at historically attractive earnings multiples, we won't pay any price. Unfortunately, 2024 was a momentum driven market and this was not just confined to the Magnificent-7 as the media may have you believe. A good example is Costco – a company on our approved list and one we have long admired. Over 20 years, the average forward price earnings multiple has been ~27x. It is currently approaching 60x, with very little appreciable difference in its earnings growth rate or competitive position! At Claremont, experience has taught us that our disciplined style does not perform well in this type of market and last year was no exception.

Costco Wholesale Corporation - PE - NTM



Source: Claremont Global, Bloomberg, as at 31 January 2025. Historical performance is not a reliable indicator of future performance.

1Yr rolling returns relative to MSCI ACWI Momentum Index (AUD)



Source: Claremont Global, Bloomberg, as at 31 December 2024. MSCI ACWI Momentum Index (Net, AUD). The MSCI Momentum Indices calculate a risk-adjusted price momentum score for each security from the Parent Index, MSCI ACWI, and select the top 15-20% of securities with the highest momentum scores. Historical performance is not a reliable indicator of future performance.

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The Claremont business

Funds management is a commoditised industry, with an ever-expanding choice of options available to investors (and speculators!), with low switching costs. At Claremont, we want to partner with like-minded investors that share our long-term investment and client partnership philosophy.

We appreciate our approach is not for everyone, but it is based on deliberate choices:

- A **focused portfolio of no more than 15 exceptional businesses.** We only invest in what we view as the highest quality businesses and are happy to exclude large parts of the market. This includes banks, commodities, fast-changing parts of technology and healthcare, utilities, emerging markets and what we call the "theme du jour".

- We **do not make predictions** about the short-term direction of markets, interest rates, politics or economics.

- Instead, we prefer to talk about the **quality of the businesses you own, their current valuations and what this implies for future expected returns.** In 2021, when the Fund produced a return of 42%, we cautioned investors that we believed prices were ahead of underlying values. By contrast, in the fourth quarter of 2022, we shared with investors that we were excited by the attractive valuations as they closed in on levels not seen since the depths of Covid-19, in early 2020. This was despite the fact that every investment strategist we met (bar none!) was bearish, given the perceived impending recession from recent rate rises – like Godot, we are still waiting....

- Our distribution team is not rewarded on funds raised. We want them to act as your **trusted partner for the long term, rather than as asset gatherers in the short term.** After all, how many distribution people have you met who said it not a good time to invest in their fund?! It is hard to be impartial when your bonus depends on making a successful sale. We wish we could claim this as a novel idea, but we took the concept from Warren Buffett, who discovered that rewarding his underwriters on annual business written resulted in a lot of bad business being written! To quote the late Charlie Munger "show me the incentives and I will show you the behaviour".

- We have publicly stated that we will close the Fund at $7-10 billion as we believe a **"fat wallet is the enemy of investment returns".**

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Whilst the year was not our best from an investment point of view, especially on a relative basis, our business remains on a very sound footing. Our funds under management are ~$1.5bn, which allows us to continue reinvesting in the business. Our research team has been stable for seven years and we continue to build our client service team. In 2024, we also successfully launched our listed managed ETFs on the ASX under the tickers CGUN (unhedged) and CGHE (hedged). We believe the bedrock of a successful investment outcome for clients rests on **consistency in process, personnel and culture.** If we do this, it is our hope we will continue to deliver above average long-term investment returns for you with high levels of trust and transparency.

As always, we thank you for your support. It is our privilege to serve you as clients.

Best wishes,

Bob, Adam and the team.

Important information

This publication has been prepared by Claremont Funds Management Pty Ltd (Investment Manager) (ACN 649 280 142, ABN 38 649 280 142, CAR No. 001289207), as investment manager for the Claremont Global Fund (ARSN 166 708 792) and Claremont Global Fund (Hedged) (ARSN 166 708 407), which are together referred to as the 'Funds'. Equity Trustees Limited (ABN 46 004 031 298, AFSL 240975) ("Equity Trustees") is the Responsible Entity of the Funds. Equity Trustees is a subsidiary of EQT Holdings Limited (ABN 22 607 797 615), a publicly listed company on the Australian Securities Exchange (ASX: EQT).

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The Fund's Target Market Determination is available [https://www.claremontglobal.com.au/document-types/pds]. A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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