GCQ FLAGSHIP FUND | P Class Units

GCQ
GLOBAL CONCENTRATED QUALITY

MONTHLY PERFORMANCE & PORTFOLIO UPDATE April 2023

"It's a market of stocks, not a stock market."

- Investor aphorism

Returns	1 Month	3 Months	6 Months	Since Inception (1 July 2022)
GCQ P Class (AUD)[1]	**4.4%**	**14.7%**	**26.1%**	**29.1%**
MSCI World Index (AUD)	3.0%	9.1%	8.5%	17.9%
Outperformance	**1.3%**	**5.6%**	**17.6%**	**11.2%**

The portfolio's net return for the month of April 2023 was **+4.4%**. This continues a period of strong performance for the GCQ Flagship Fund, with a net return for P Class units of **+29.1%** since inception in July 2022.

Performance has been broad-based and was driven largely by the latest round of quarterly results from our portfolio companies. We provide a summary of key themes on the following pages.

Importantly, over recent months, many investors have been anticipating an "earnings recession". This has not eventuated, with most results surprising to the upside. The U.S. consumer is proving to be more resilient than many expected, and company outlook statements have had a relatively optimistic tone. At the same time, inflation appears to be slowing.

With almost all GCQ Flagship Fund portfolio companies now having reported their March quarter results, it is pleasing to advise that results across the board have been supportive of our investment theses, with almost all our investments exceeding expectations for the quarter.

Portfolio Overview as at 30 April 2023

Company	Portfolio Weight
Alphabet	12%
Meta	5%
Global online advertising	**17%**
VISA	10%
Mastercard	7%
Global consumer payments	**17%**
amazon.com	10%
Microsoft	6%
Global cloud computing	**16%**
Hemnet	9%
FICO	6%
Local monopolies	**15%**
S&P Global	6%
Moody's	4%
MSCI	2%
Credit rating agencies & investment index providers	**12%**
RICHEMONT	4%
LVMH	4%
HERMÈS	3%
Super-luxury goods	**11%**
Other high-quality businesses	10%
Shorts	2%
Net exposure	**96%**
Cash	4%
TOTAL	**100%**

1. *Net performance figures are shown after all fees and expenses and assumes reinvestment of distributions.*

FIRST QUARTER RESULTS

Most of our portfolio companies reported their first quarter results over the past three weeks. While we invest with a multi-year horizon, we review all results announcements closely as a team to monitor developments across the industries and companies included in our portfolio and high-quality watchlist.

Investor sentiment heading into reporting season was particularly negative, with concerns over inflation, rising interest rates, the possibility of an economic recession, and margin contraction. Many investors were anticipating an "earnings recession".

Against this backdrop, more than **80%** of GCQ's portfolio companies *exceeded* consensus expectations for the quarter.

As usual, reporting season kicked off with quarterly sales updates from LVMH and Hermès.

As our early investors know, luxury stocks were out-of-favour in mid-2022, particularly as Mainland China implemented rolling COVID-19 lockdowns without a clear exit strategy. This provided an excellent opportunity for GCQ to take a longer-term view and build stakes in these wonderful businesses at attractive prices. Over the past year, as investor concerns have abated and luxury businesses have delivered excellent fundamental results, luxury stocks have materially outperformed and come into relative favour. As a result, we have reduced GCQ's allocation to super-luxury investments.

LVMH delivered an excellent first quarter, with organic growth of **+17%** year-over-year. Hermès delivered an even stronger result, with organic revenue growth of **+23%** year-over-year.

Importantly, these businesses see strength continuing into the second quarter. Hermès said, "the trends we've seen in April remain favourable", and "we have not seen a slowdown so far."

LVMH and Hermès are benefiting from both volume and price growth. We believe both factors have a long way to run.

The possession of pricing power is a key item on GCQ's quality checklists, and one that was top-of-mind during the latest reporting season.

Hemnet (the monopoly property portal in Sweden, and a 9% GCQ portfolio weight) is currently experiencing weakness in the Swedish property market, with listing volumes declining **-19%** year-over-year. In a commoditised business without pricing power, such a decline in volumes would be devastating. However, central to our investment thesis is Hemnet's extreme pricing power, and the business was able to offset these volume declines with **+38%** year-over-year growth in its average price per listing.

The key driver of the increase in average price per listing was home sellers shifting to higher-priced premium listings. Hemnet is also taking pure pricing across its basic and premium listings. We have seen this dynamic play out in Australia with REA Group and Domain. We believe Hemnet is at least five years behind its Australian peers in terms of premium listing penetration and pricing but is making solid progress in closing the gap.

Haleon (the owner of a collection of durable, high-quality brands including Sensodyne, Panadol, Voltaren, Advil, Otrivin, Theraflu, Paradontax, Polident and Centrum) delivered a stronger-than-expected result that also demonstrated strong pricing power. Haleon reported organic revenue growth of **+12%** year-over-year, adjusting for one-off items, of which pricing contributed **+7%**. This is very strong growth for a portfolio of category-leading brands that have been around for decades! Haleon indicated that it now expects growth to come in at the upper end of its +4% to +6% organic growth guidance range for the full year, which we think is likely conservative given Haleon's growth in the first quarter. We published a write-up of Haleon in our January 2023 Monthly Performance & Portfolio Update. If you would like a copy, please let us know.

FICO, the monopoly consumer credit score provider in the United States, delivered a strong result, and raised its full-year guidance. Within its core business of selling FICO Scores to lenders, FICO grew revenues **+16%** year-over-year. This was primarily driven by increased originations revenue, with mortgage originations revenue up **+90%**, auto originations revenue up **+13%**, and card and personal loan originations revenue up **+12%** year-over-year. Optimistically, FICO has not seen any negative effects from the recent issues in the banking sector on U.S. consumer loan origination volumes. Like Haleon, we believe FICO's guidance for the full year is likely conservative.

With the outlook for inflation a key ongoing concern for investors, we continue to monitor a range of relevant data sources. From our portfolio, insights from Visa and Mastercard provide the best read on inflation trends across the global economy.

Visa and Mastercard's businesses sit at the centre of the consumer payments ecosystem, earning a high-margin royalty on card-based spending globally. Because of this, Visa and Mastercard have an unmatched real-time data feed on consumer spending and inflation trends.

This quarter, both Visa and Mastercard said that consumer spending remains "remarkably resilient", and that inflation is *cooling*. Visa and Mastercard's comments about easing inflation were consistent with comments made by companies including Amazon, Coca-Cola, and Nestlé. We believe that such an environment is favourable for both the broader economy and equity prices.

Both Visa and Mastercard delivered earnings that exceeded expectations, with revenue growth of **+18%** and **+15%** year-over-year, respectively, on a constant currency basis and excluding Russia. Higher yielding cross-border spending continues to surprise to the upside, with Visa growing **+32%**, while Mastercard grew **+39%** year-over-year.

Visa and Mastercard also continue to benefit from the adoption of contactless payments (e.g., Tap-to-Pay or Apple Pay). Australia leads the world in terms of contactless adoption, with **96%** penetration, while the rest of the world is racing to catch up. In the U.S., only **34%** of Visa transactions are contactless. This is up **7x** from three years ago. As contactless penetration increases, consumers use their card more often and spend more money, particularly in lower ticket size purchases that have historically been cash-based.

The market's fascination with Artificial Intelligence (AI) has reached fever pitch, with the implications of this technology a key topic on many company earnings calls.

Alphabet, the parent company of Google, is the GCQ portfolio company that is most often cited as facing threats from advances in AI, with the launch of ChatGPT by OpenAI in November 2022 providing a focus for these concerns.

Despite this, Google's search engine market share remained steady at **93%**, ceding no share to Microsoft's Bing (which now utilises OpenAI's ChatGPT in parts of its search offering) over the past few months. Microsoft delivered strong results across its core businesses, but its search engine revenue slowed modestly, despite the partnership with OpenAI. As we discussed in our February 2023 Monthly Performance & Portfolio Update, we believe the forces that were responsible for Google establishing a dominant position in search remain unchanged, and Alphabet is our largest single stock position.

Despite a series of macroeconomic headwinds, Alphabet delivered constant currency growth of **+6%** year-on-year during the quarter, highlighting the resilience of its search business. Further, Alphabet is committed to durably cutting costs, which we believe represents a meaningful opportunity to expand margins over time.

Amazon and Microsoft's cloud computing business are facing headwinds as corporate customers tighten their belts. Despite this, Amazon Web Services (AWS) and Microsoft's cloud computing business, Azure, grew **+16%** and **+31%** year-over-year, respectively, during the quarter.

With cloud penetration still in its early innings, and growth from new large and resource-intensive workloads driving demand for compute and storage, we believe cloud computing has a long runway of profitable growth ahead. Longer term, we also believe that increased adoption of AI will be a material tailwind for our investments in cloud computing businesses, which provide the "picks and shovels" to a rapidly growing industry.

S&P and Moody's both saw strong sequential improvement in debt issuance volumes in the first quarter. S&P and Moody's earn a high-margin royalty on global debt issuance by providing credit rating opinions to thousands of debt issuers. S&P and Moody's are deeply embedded in debt markets, and have enormous pricing power. Optimistically, Moody's highlighted that markets are recovering, with management expecting to benefit from pent-up demand in debt issuance, which was deferred in a rising interest rate environment.

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