GCQ FLAGSHIP FUND | P Class Units

GCQ
GLOBAL CONCENTRATED QUALITY

MONTHLY PERFORMANCE & PORTFOLIO UPDATE

July 2023

Returns	1 Month	3 Months	6 Months	12 Months	Since Inception (1 July 2022)
GCQ P Class (AUD)[1]	**2.2%**	**10.0%**	**26.2%**	**30.3%**	**42.0%**
MSCI World Index (AUD)	2.5%	6.8%	16.4%	20.6%	25.9%
Outperformance	**-0.3%**	**3.2%**	**9.7%**	**9.7%**	**16.1%**

"You know, people tend to like to buy companies that are doing well."

Walter Schloss

The portfolio's net return for the month of July 2023 was **+2.2%**.

During July, equity markets took their lead from robust quarterly earnings reports, with more than 80% of companies in the S&P 500 Index exceeding earnings expectations for the quarter. This followed a very strong reporting season in the prior quarter.

While we invest with a multi-year horizon, we review all results announcements closely as a team to monitor developments across the industries in our portfolio and high-quality watchlist.

On the following pages, we provide a summary of key themes from the earnings reports of GCQ Flagship Fund portfolio companies, and recent changes in the portfolio.

You will see that company results for the quarter were supportive of our investment theses, and we have taken advantage of the opportunity to increase our holding in several companies that we believe have material valuation upside. We continue to be optimistic about the portfolio looking forward.

Portfolio Overview as at 31 July 2023 Company	Portfolio Weight
Alphabet	13%
Meta	5%
Global online advertising	**18%**
Hemnet	10%
rightmove	5%
Real estate advertising monopolies	**15%**
amazon.com	11%
Microsoft	4%
Global cloud computing	**15%**
VISA	9%
	7%
Global consumer payments	**15%**
FICO	6%
Automated Banking Services	2%
Other local monopolies	**8%**
S&P Global	6%
Moody's	4%
MSCI	2%
Credit rating agencies & investment index providers	**12%**
RICHEMONT	5%
HERMÈS	1%
Super-luxury goods	**6%**
HALEON	4%
WD-40 COMPANY	2%
Branded consumer goods	**6%**
Other high-quality businesses	**3%**
Shorts	**2%**
Net exposure	**97%**
Cash	3%
TOTAL	**100%**

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

SECOND QUARTER RESULTS

GCQ's portfolio companies delivered a strong set of results for the calendar second quarter. Several of our portfolio companies, including Amazon.com, FICO, Haleon, Moody's, S&P Global, Meta, and Rightmove raised their guidance, or issued guidance materially above investor expectations. We remain confident that we are invested in a collection of high-quality businesses operating within highly favourable industries.

Our read-across from company results to the economy more broadly was also positive. We heard from several portfolio companies that inflation is moderating at a time when consumer spending remains healthy.

Among our portfolio companies, Visa and Mastercard offer the most accurate read on inflation and consumer spending trends. Their businesses sit at the centre of the consumer payments ecosystem, earning a high-margin royalty on card-based spending globally, which provides an unmatched real-time data feed on consumer spending.

Visa and Mastercard are seeing a slowdown in inflation, driven by "declining fuel prices and the general moderation of inflation across multiple categories." At the same time, "consumer spend across all bands from affluent to low spend remained stable."

Similarly, Mastercard said that "consumer spending has remained resilient, with spend on experiences and travel remaining a focus." Visa and Mastercard are significant beneficiaries of cross-border spending, which generates higher revenue per transaction than domestic spending. Cross-border spending grew **+34%** at Visa and **+29%** year-over-year at Mastercard. Hermès and Richemont similarly benefit from the rebound in global tourism, given luxury spend is highly correlated with travel activity.

We heard similar comments about cooling inflation from Amazon. Within its e-commerce operations, Amazon saw "inflation headwinds continue to ease, most notably in fuel prices, linehaul rates, and ocean and rail rates."

We believe the continued deceleration companies are seeing in inflation is favourable for the broader economy, the trajectory of monetary policy, and equity prices.

Amazon is also seeing signs of improvement in Amazon Web Services (AWS), the global leader within the cloud infrastructure oligopoly. Over recent quarters, AWS' corporate customers have optimised cloud spend in an environment of heightened cost discipline. Amazon is now starting to see these cost optimisations moderate, and customers have shifted focus to new workload deployment. We continue to believe cloud penetration is in its early innings, with a long runway of profitable growth ahead.

Exuberance around Artificial Intelligence (AI) continues, and was a key topic on many company earnings calls. GCQ does not pursue investments in hot sectors or themes. Instead, we seek to invest in durable high-quality industries and business models at attractive valuations.

Alphabet, the parent company of Google, suffered from a brief period of concern over the impact of AI on its core search business. Specifically, investors were concerned that Microsoft Bing's collaboration with OpenAI's ChatGPT would erode both the market share and profitability of Google Search. This provided us with an opportunity to make Alphabet our largest single-stock investment in March 2023. Alphabet has increased to **13%** of the portfolio today due to both these purchases, and a **+45%** increase in the stock price from the lows recorded earlier this year.

In the most recent quarter, Alphabet delivered a strong result, with constant currency revenue growth accelerating to **+9%** year-over-year. Importantly, during the quarter, Alphabet saw accelerating growth in Google Search. Concern around the impact of AI adoption on Google Search has dissipated over recent months. We have been monitoring Google's search engine market share closely since the launch of Microsoft's AI-powered version of Bing. We have been unsurprised to see that Google's search engine market share has remained steady at **93%**, ceding no share to Bing. In fact, despite the launch of its collaboration with ChatGPT, Microsoft's search revenue slowed for the eighth consecutive quarter, to **+8%** year-over-year.

Pleasingly, Alphabet's top-line growth was paired with strong cost discipline, as the company reiterated that it is committed to "durably reengineer" its cost base. This cost discipline is a first for Alphabet, which has historically spent lavishly on its employees. We think Alphabet has significant margin expansion potential, and believe the stock has material valuation upside.

Both Alphabet and Meta called out an improvement in advertiser demand during their earnings calls, with Meta now seeing "strong advertiser demand." Meta's advertising revenues were further boosted by **+34%** year-over-year growth in the number of ad impressions, along with improvements to its ad targeting and measurement systems.

Negative sentiment around Meta has abated over the past nine months, with the stock up **+250%** from its lows in November 2022.

Hemnet (the monopoly property portal in Sweden, and a **10%** GCQ portfolio weight) continues to benefit from rising prices and product upgrades, with growth in Average Revenue Per Listing of **+31%** year-over-year. This more than offset volume declines, to deliver growth in revenue from property sellers of **+4%** year-over-year.

Growth in Hemnet's Average Revenue Per Listing is consistent with our investment thesis. We believe that Hemnet has significant untapped pricing power, charging roughly one-quarter of the price per listing it can achieve if it successfully translates the REA Group playbook from Australia to Sweden. We expect many years of strong pricing growth to come, and look forward to seeing investor sentiment improve as the number of listings rebounds down the track. We included a write-up of Hemnet in our May 2023 Portfolio Update. Please let us know if you would like a copy.

We continue to refresh the portfolio with new ideas when we can find high-quality companies that promise more attractive prospective returns than our existing portfolio positions. FICO and our super-luxury investments have been the strongest performing stocks in our portfolio over the past year, and we have taken advantage of this strong performance to reallocate capital.

In particular, over recent months, we initiated a new position in Rightmove, the leading real estate advertising portal in the U.K. Rightmove has performed well, with the stock up **+13%** since our first purchase in June.

In its most recent half-yearly result in July, Rightmove delivered revenue growth of **+10%** year-over-year, meaningfully ahead of expectations. The company indicated that it now expects to deliver 2023 growth towards the top-end of its previous guidance range of **+7%** to **+8%**, while providing a new commitment to deliver **double-digit revenue and profit growth** over the medium-term.

We now have a **5%** portfolio weight in Rightmove, which we purchased when the company was trading at its lowest earnings multiple over the past decade. Together with Hemnet, we now hold **15%** of the portfolio in local real estate advertising monopolies. We will discuss Rightmove in greater detail in our next Portfolio Update.

During July and early August, we also added to our investment in Richemont, which owns the leading luxury jewellery brands Cartier and Van Cleef & Arpels. As of 8th August, we have a **5.7%** portfolio weight in Richemont. We made this decision after the share price had come back meaningfully from the levels at which we reduced our position earlier in the year, and after a highly encouraging result for the June quarter. Revenue was up **+19%** year-on-year in constant currency terms, driven by **+24%** growth within the high margin Jewellery Maisons segment. Our tracking of consumer interest in Richemont's key brands suggests that both Cartier and Van Cleef are increasingly highly sought after, which positions the brands to continue their track-record of materially outperforming industry growth.

An additional rationale for investing more in Richemont than in the other super-luxury businesses relates to the possibility of the company being taken over on attractive terms over the medium-term. Richemont Chairman Johann Rupert (who controls Richemont with >50% of voting rights) is 73 years old, and his children do not have executive responsibilities in the business. While Rupert has dismissed talk of a takeover by LVMH, we believe a takeover scenario is possible.

Tiffany, which we believe is an inferior asset, was acquired by LVMH at **24x EV/EBIT** in 2021. Even if Richemont were to be acquired at a 20% discount to the Tiffany's acquisition multiple, this would imply a **+50%** premium to the current share price.

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 **+24%** year-over-year, driven by increased originations revenue.

FICO raised its full-year profit guidance by **+5.4%**. We believe FICO's guidance remains highly conservative, with management noting that "it's a big deal for us to raise guidance with one quarter to go, but we thought we pretty much had to."

S&P Global and Moody's have also seen signs of stabilisation in the macro environment. S&P said it is no longer expecting a global recession, and that "we're also seeing more economists, including our own, expecting only one or two more rate hikes from major central banks over the remainder of 2023."

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.

A more stable economic environment led to a resumption of debt issuance, which is a tailwind for S&P and Moody's. During the quarter, rated investment-grade debt issuance grew **+54%** year-over-year. Investment-grade issuance is typically the first green shoot to emerge, and we expect other debt categories to follow as market conditions continue to improve. There is significant pent-up demand for debt issuance, which was deferred in the volatile and rising interest rate environment of the past 18 months.

Both S&P and Moody's raised their guidance. S&P Ratings now expects to achieve **+5% to +7%** revenue growth from its credit ratings segment, up from +4% to +6%. Likewise, Moody's Investors Service, the credit rating business of Moody's, now expects **high-single-digit** revenue growth, up from low- to mid-single-digit growth.

WD-40 delivered strong sales growth of **+18%** year-over-year on a constant currency basis. Earnings grew materially faster, up **+33%** year-over-year, driven by gross margin expansion following price increases. We continue to believe WD-40 has a long runway of geographic expansion and product premiumization ahead, which creates opportunities for revenue growth and gross margin expansion.

Overall, our portfolio companies delivered a strong set of results that were supportive of our investment theses. We have taken advantage of recent strong share price performance from several of our investments to reallocate capital to positions with significant valuation upside. We continue to be optimistic about the GCQ portfolio.

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