GCQ FLAGSHIP FUND | P Class Units

GCQ
GLOBAL CONCENTRATED QUALITY

MONTHLY PERFORMANCE & PORTFOLIO UPDATE — March 2023

"You make most of your money in a bear market, you just don't realise it at the time."
- Shelby Cullum Davis

Returns	1 Month	3 Months	6 Months	Since Inception (1 July 2022)
GCQ P Class (AUD)[1]	**8.2%**	**20.9%**	**24.3%**	**23.7%**
MSCI World Index (AUD)	3.9%	9.7%	13.5%	14.5%
Outperformance	**4.3%**	**11.3%**	**10.8%**	**9.2%**

The portfolio's net return for the month of March 2023 was **+8.2%**[2]. This rounds out a strong quarter for the GCQ Flagship Fund, with a return of **+20.9%**.

March was an eventful month for global financial markets. March saw the fast-paced failure of Silicon Valley Bank, which was the largest banking collapse in the United States since 2008. Later in the month, UBS agreed to buy Credit Suisse in a deal brokered by the Swiss government.

While the emergence of hidden stresses in the banking system made for a dramatic ten days, the commitment shown by regulators to comprehensively address the situation before contagion spread through the financial system resulted in the immediate challenges being brought quickly under control. However, heightened concern over the (previously largely unforeseen) consequences for the financial system of continued interest rates hikes led to expectations for future interest rate increases being revised sharply downwards.

The easing of immediate concerns for the financial system, coupled with a more subdued interest rate outlook, saw the equity market rally in the second half of the month. The MSCI World index recorded a positive performance in AUD terms of +3.9% for the month.

The Fund's return for the month was driven by strong performance across the portfolio as investors embraced the relative certainty offered by high-quality businesses with a highly predictable growth outlook.

At GCQ, our focus is on building enduring wealth over the long-term by focusing our efforts on businesses that we expect to deliver predictable and persistent fundamental outperformance. We believe that periods like the last three months demonstrate just how much opportunity an investor might miss if their decision-making uses newspaper headlines to predict market sentiment.

Portfolio Overview as at 31 March 2023

Company	Portfolio Weight
VISA	10%
	7%
Global consumer payments	**17%**
Hemnet	10%
FICO	6%
Local monopolies	**16%**
Alphabet	11%
Meta	5%
Global online advertising	**16%**
RICHEMONT	5%
LVMH	5%
HERMÈS	4%
Super-luxury goods	**15%**
amazon.com	9%
Microsoft	6%
Global cloud computing	**15%**
S&P Global	6%
Moody's	4%
MSCI	3%
Credit rating agencies & investment index providers	**12%**
Other high-quality businesses	10%
Shorts	1%
Net exposure	**98%**
Cash	2%
TOTAL	**100%**

1. *Cumulative performance since inception, after all fees and expenses, and assumes reinvestment of distributions.*
2. *Net performance figures are shown after all fees and expenses and assumes reinvestment of distributions.*

Market Timing

"The idea that a bell rings to signal when to get into or out of the stock market is simply not credible. After nearly fifty years in this business, I don't know anybody who has done it successfully and consistently. I don't even know anybody who knows anybody who has."

- Jack Bogle

Back in July 2022, we opened the GCQ investor letter with a discussion of market timing. The first half of 2022 had delivered the worst first half performance for the equity market of any year since 1970, and we reminded investors of the rationale for our steadfast commitment to stay fully invested most of the time, rather than attempt to time the market.

Back then, we shared our observation that "most people who try to time the market actually take their money out after the fall and then face the challenge of timing their re-entry."

Fast forward almost nine months, and the subject of market timing is once again top of mind, but for different reasons.

The GCQ Flagship Fund is up +23.7% since 1 July 2022, including performance of +20.9% in the March quarter. These returns have meaningfully outperformed the broader equity market.

As we have seen so often before, this was a quarter where the market climbed a wall of worry. Concerns over rising interest rates and the possibility of an economic recession were ever-present, while the possibility of a full-blown financial crisis came into play during March.

With so many reasons for concern, investors who reduced their global equity exposure in a prior period would have likely continued to sit on the sidelines. Market sentiment data and our conversations with clients and fund managers suggest that many investors are in this camp.

Rarely has the consensus been more bearish than it is today. Investors are now sitting with the lowest allocation to U.S. stocks in almost two decades, with Goldman Sachs recently observing there are "zero bulls out there".

Similarly, in the latest Bank of America survey of money managers, cash levels held above 5% for 15 straight months, the longest run since 2002.

Sir John Templeton famously said that "bull markets are born on pessimism," and history suggests that such bearish sentiment is typically a contrarian signal marking a good time to buy stocks.

Whether the herd of equity strategists and investors is bearish or bullish has no bearing on how we invest at GCQ. We understand that short-term equity market prices are driven by unpredictable events and changes in market sentiment, while long-term investment returns are driven by the fundamental performance of the underlying businesses in our portfolio. While market timing does not influence our approach, we are quite often asked by potential investors whether now is a good time to allocate capital to the GCQ Flagship Fund.

We always answer this question with reference to how our assessment of the value of companies in the Flagship Fund portfolio compares with current trading prices. On this measure, even after the strong performance recorded during the March quarter, we are optimistic about the outlook for our portfolio of high-quality businesses.

Across the portfolio, our valuations are currently at a premium of around 40 - 60% to trading prices. We believe this augurs well for fund performance over the medium-term.

Possibly just as important, our portfolio companies have pricing power and are growing faster than inflation. Over the next three years, we expect our portfolio companies to grow free cash flow by around 15% each year.

Therefore, any potential investor who holds off investing while waiting for a better opportunity is inherently betting that a further deterioration in investor sentiment will prove more significant than the ability of companies in the GCQ Flagship Fund portfolio to deliver predictable and persistent fundamental outperformance.

"When it comes to market timing there are only two sorts of people: those that can't do it, and those who know they can't do it."

- Terry Smith

CONTACT

KATHY WU
Chief Operating Officer
contact@gcqfunds.com
+61 (2) 7252 9124

GCQ Funds Management Pty Ltd
Level 9, 139 Macquarie Street
Sydney, NSW 2000 Australia
gcqfunds.com