GCQ FLAGSHIP FUND | P Class Units

GCQ
GLOBAL CONCENTRATED QUALITY

MONTHLY PERFORMANCE & PORTFOLIO UPDATE

February 2024

Returns	1 Month	3 Months	6 Months	12 Months	Since Inception (1 July 2022)
GCQ P Class (AUD)[1]	**6.0%**	**15.2%**	**19.0%**	**52.1%**	**73.9%**
MSCI World Index (AUD)	5.9%	12.6%	12.0%	29.9%	43.1%
Outperformance	**0.1%**	**2.6%**	**7.0%**	**22.1%**	**30.7%**

"I can't remember a period since March 11, 1942 – the date of my first stock purchase – that I have not had a majority of my net worth in equities, U.S.-based equities. And so far, so good."

- Warren Buffett

The portfolio's net return for the month of February was **+6.0%**. This compares with the MSCI World Index (AUD), which was up +5.9% for the month.

Following an extended period of strong performance for the GCQ Flagship Fund, recent months have seen elevated activity within the portfolio as we have moved to exit or reduce several portfolio positions, while redeploying capital into more attractively priced opportunities that meet our strict quality criteria and **GCQ Industry Quality Checklist**.

On the following pages, we provide an overview of these portfolio decisions, and an introduction to **WD-40**, a company our team has owned, on and off, over the past 15 years.

Portfolio Overview as at 29 February 2024	Portfolio Weight
Hemnet	12%
rightmove	7%
Real estate advertising monopolies	**18%**
Alphabet	11%
Meta	6%
Global online advertising	**17%**
VISA	8%
Mastercard	7%
Global consumer payments	**15%**
Richemont	11%
HERMÈS	1%
Super-luxury goods	**12%**
amazon.com	12%
Global cloud computing	**12%**
S&P Global	4%
Moody's	3%
MSCI	1%
Credit rating agencies & investment index providers	**7%**
FICO	5%
Local monopolies	**5%**
WD-40 Company	1%
Branded consumer goods	**1%**
Other high-quality businesses	**10%**
Total long	**98%**
Shorts	**(3%)**
Net exposure	**95%**
Cash	**5%**
TOTAL	**100%**

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

RECENT PORTFOLIO CHANGES

Over the long-term, we expect portfolio turnover to be **approximately 15% p.a.** We own some of the highest quality companies in the world, and finding new investment ideas to replace companies in the existing portfolio is no easy task! We expect turnover will vary year by year, because it is an **outcome** of our investment process, rather than an input.

Portfolio turnover has been elevated over the past few months as strong portfolio performance provided us the opportunity to recycle capital into several new, high-quality companies. At GCQ, we maintain strong sell discipline when an investment reaches our appraisal of fair value. Importantly, we recognise that we are naturally better buyers than sellers, and therefore, we have a self-imposed discipline that we will trim or sell a position entirely when the price comes within 10% of our valuation. Looking forward, you should continue to expect us to optimise the portfolio for both quality and valuation upside when opportunities arise.

As we discussed in our January 2024 Portfolio Update, we recently exited our position in **Microsoft**. When we first invested in Microsoft in 2022, it was trading at a high-teens multiple of earnings. Today, the stock is trading at a mid-30s multiple of earnings – its highest multiple in some time – amid widespread enthusiasm over Artificial Intelligence (AI). While Microsoft is one of the most competitively advantaged businesses in the world, we believe there are better risk-adjusted returns available elsewhere.

We also exited our position in **Spotify**. Spotify is up over **+270%** since its lows in November 2022. We believe the market is no longer questioning whether Spotify will ever be a good business (and not just a good product!), following price increases; the introduction of new services, like audiobooks; a reduction in investments in lower-margin, first-party podcast content; and a large reduction in excess headcount. Today, we view the risk-reward as being more balanced, and we have taken advantage of strong share price appreciation to reallocate capital to higher-quality opportunities.

We have also slightly reduced **Hemnet**'s weight in the portfolio for risk management purposes. Today, Hemnet is a **12%** position in the Flagship Fund, down from a peak of **14%** during February. While Hemnet's share price is up **+160%** since our initial purchase in June 2022, we continue to believe the stock has material upside over the next five years.

On the following pages, we discuss our investment in **WD-40**, a business we have followed for over 15 years. Following strong share price appreciation, with the stock up over **+80%** since its lows in October 2022, we made the decision to reduce WD-40's weight to **1.4%**, with the stock approaching our estimate of fair value. We believe WD-40 is one of the most durable growth companies in the consumer staples sector, and is illustrative of the type of company we like to own. We are likely to increase the weight if we are presented with an opportunity to repurchase the stock at a more attractive price.

Importantly, we have added several new high-quality companies to the portfolio, which we look forward to discussing over the next few months.

Today, the portfolio is trading on a weighted-average forward free cash flow multiple of **23x**, and we expect free cash flow will **double** over the next five years. On this basis, we expect the portfolio will deliver a **mid-teens** annual return over the next five years.

WD-40 COMPANY

"Some brand-name products own a piece of consumers' minds and don't have any direct competition. When Charlie and Warren first discovered such companies, they called them consumer monopolies."

- The Tao of Charlie Munger

In 1953, a fledgling company called Rocket Chemical Company and its staff of three set out to create a line of rust-prevention solvents and degreasers for use in the aerospace industry. Working in a small lab in San Diego, California, it took them 40 attempts to get the water displacing formula worked out. The original secret formula for **WD-40** – which stands for **Water Displacement perfected on the 40th try** – is still in use today (with the unpatented trade secret locked in a vault in California!).

In 1969, Rocket Chemical Company was renamed after its only product, **WD-40 Company**, and in 1973, it went public and was listed.

Since that time, the **WD-40** brand has grown in leaps and bounds and is now a household name. **WD-40 is now found in four out of five American households (it seems everyone has a can or two!) and is used by over 80% of trade professionals at work.**

WD-40 is a rare example of a brand that brings a smile to everyone's face. We believe there are only a handful of brands that will ever match the enduring popularity of the WD-40 brand – and we can't think of one that is owned by a smaller company (WD-40 generates less than $600 million of revenue globally).

We have owned WD-40 on and off for over 15 years, having discovered the company in 2008 in the printed version of the **Value Line Investment Survey**, a favourite of investors like Warren Buffett and Peter Lynch. At the time, we couldn't believe the blue and yellow can was a listed company, with a market cap of just ~$500 million.

A trip to WD-40's headquarters in San Diego confirmed our suspicions about the brand: WD-40 was in a category of its own. The brand is memorable, easily recognisable, and known for its superior quality and reliability.

WD-40 has been referenced in movies – like Agent WD-40 Dick Steele in *Spy Hard*, a James Bond parody, and jokes by former President Barack Obama. Its signature fragrance, which was added in 1961 to overcome the smell of petroleum distillates, often brings back fond memories, and has even been recreated in a new cologne, *Smells Like WD-40*. The brand is translated into every language, and has become synonymous with doers, makers, fixers, and builders, made famous by the old saying: "*You only need two tools in life, Duct Tape and WD-40. If it's not stuck and it's supposed to be, Duct Tape it. If it's stuck and it's not supposed to be, WD-40 it.*"

While you may not think of looking for wonderful companies in the oil-based lubricants category, we quickly realised that WD-40 was a remarkable capital-light brand masquerading as a commodity. Over the past 20 years, WD-40 has generated average gross margins of **~50%**, average operating margins of **~20%**, and average returns on tangible invested capital of **~100%** – achievable because the company outsources its manufacturing to third parties. This year, WD-40 will generate almost $600 million of revenue with just over 600 employees!

Since December 2008, the stock has compounded at over **+18% CAGR**, up **~12.7x** including reinvested dividends.

Uses for the WD-40 product now number in the thousands. Over the years, thousands of WD-40 users have written letters to the company sharing their unique uses for the product, which include everything from silencing squeaky hinges to protecting tools from rust and removing adhesive labels. Some of the more interesting stories include the bus driver in Asia who used WD-40 Multi-Use Product to remove a python snake, which had coiled itself around the undercarriage of his bus, or when police officers used WD-40 Multi-Use Product to remove a naked burglar trapped in an air conditioning vent.

High-Margin Growth Opportunities

In 2005, WD-40 introduced the WD-40 Smart Straw, which features a permanently attached straw, solving the number one complaint about WD-40: losing the little red straw! In 2015, WD-40 introduced WD-40 EZ-REACH. With an attached flexible straw that bends and keeps its shape, it can reach tight spaces.

WD-40's **premiumisation** strategy (illustrated by the following image) leverages WD-40's wonderful brand in new formats. More importantly, each of these products have similar input costs to the classic can, but sell at much higher price points. Today, premiumised products account for **~50%** of WD-40 Multi-Use Product global sales, but we expect penetration to increase over time, contributing to both revenue growth and gross margin expansion.

Classic Can | Smart Straw® | Next Generation Smart Straw® | EZ-Reach® Flexible Straw

In 2011, WD-40 Company launched WD-40 Specialist – a new line of best-in-class specialty products under the WD-40 brand geared toward trade professionals. WD-40 Specialist includes products for specialty applications, like Anti-Slip Belt Dressing (for old and used vehicle belts). Over the past five years, WD-40 Specialist sales have grown at **+14.2%** CAGR. Given the value of WD-40's brand, we expect future product extension initiatives to be accretive to both revenue growth and gross margins.

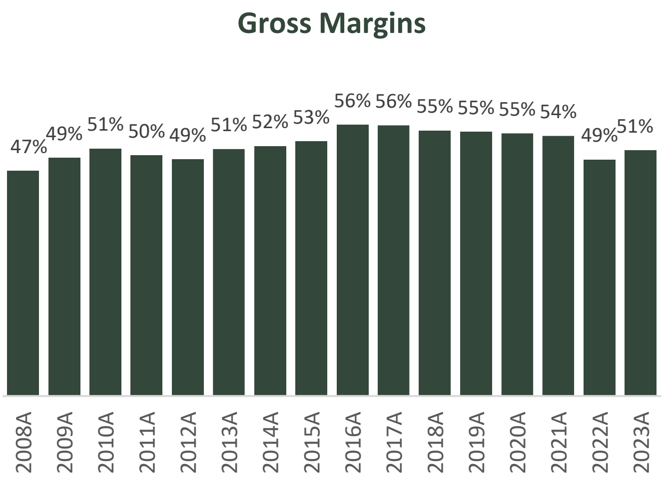
WD-40 is also growing through **geographic expansion** particularly in Europe, the Middle East, Africa, and Asia-Pacific, where product penetration is far lower, and the potential for growth is much higher. Today, WD-40 estimates the global market opportunity for WD-40 Multi-Use Product is ~$1 billion, which suggests there is the potential to approximately **double** sales today.

We expect premiumisation and geographic expansion will drive **high-single-digit revenue growth** and opportunities for **margin expansion** – as WD-40 leverages its brand in new, higher-margin categories, and expands into new markets.

Buy a Commodity, Sell a Brand

While increases in the price of crude oil – a key input cost – are often highly unpredictable, WD-40's gross margins have been extremely stable. Over the past 20 years, WD-40's gross margins have averaged **~52%**.

We believe this is demonstrative of WD-40's significant **pricing power**. Importantly, over the past 30 years, WD-40 has never decreased prices, given prices become embedded – and demand is relatively price inelastic. This was most apparent during 2022, when WD-40 raised prices between **+20%** to **+30%** to offset higher commodity costs. We don't know of many brands that can do this!



Valuation

Today, WD-40 is a ~1.4% weight in the GCQ portfolio, with the share price up over **+80%** since its lows in October 2022. As the share price approached our estimate of fair value, we have trimmed the weight, and reallocated capital to new opportunities. That said, we continue to believe WD-40 is one of the most durable growth companies in consumer staples, and is very likely to be around (and growing!) in another 60+ years. We will look to increase the position if we are presented with an opportunity to repurchase the stock at a more attractive price.

"Buy commodities, sell brands has long been a formula for business success."

- Warren Buffett

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