GCQ FLAGSHIP FUND | P Class Units

GCQ
GLOBAL CONCENTRATED QUALITY

MONTHLY PERFORMANCE & PORTFOLIO UPDATE

January 2024

Returns	1 Month	3 Months	6 Months	12 Months	Since Inception (1 July 2022)
GCQ P Class (AUD)[1]	**6.7%**	**18.0%**	**15.4%**	**45.7%**	**63.9%**
MSCI World Index (AUD)	4.9%	11.6%	7.4%	25.0%	35.2%
Outperformance	**1.8%**	**6.4%**	**8.1%**	**20.6%**	**28.7%**

"If you can get into a great company, stay in for a long time. That's the easiest and biggest money you'll possibly make."

\- Charlie Munger

The portfolio's net return for the month of January was **+6.7%**, ahead of the MSCI World Index (AUD), which was up +4.9% for the month.

Performance was broad-based across the GCQ portfolio, with particularly strong contributions from Hemnet (the monopoly property portal in Sweden) and Richemont (the owner of super-luxury brands including Cartier and Van Cleef & Arpels). GCQ presented on Hemnet at a "Best Ideas" conference in June 2023, and presented on Richemont in October 2023. If you would like a copy of these presentations, please let us know.

Earnings season is currently underway, with most of GCQ's portfolio companies having reported their results at the time of writing. On the following pages, we provide a summary of key themes from the earnings reports of GCQ Flagship Fund portfolio companies. We have been pleased with the results from our portfolio companies.

Portfolio Overview as at 31 January 2024	Portfolio Weight
Hemnet	13%
rightmove	7%
Real estate advertising monopolies	**20%**
Alphabet	12%
Meta	5%
Global online advertising	**17%**
VISA	9%
	7%
Global consumer payments	**15%**
RICHEMONT	11%
HERMÈS	1%
Super-luxury goods	**12%**
amazon.com	11%
Global cloud computing	**11%**
S&P Global	5%
Moody's	3%
MSCI	1%
Credit rating agencies & investment index providers	**10%**
FICO	6%
Local monopolies	**6%**
WD-40 COMPANY	2%
Branded consumer goods	**2%**
Other high-quality businesses	**8%**
Total long	**99%**
Shorts	**(3%)**
Net exposure	**97%**
Cash	**3%**
TOTAL	**100%**

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

FOURTH QUARTER RESULTS

"Sustained structural growth is (almost always) chronically underpriced in the market."

- Steve Mandel

GCQ's portfolio companies delivered another strong set of results for the December quarter.

In January, **Hemnet** and **Richemont** were our largest individual contributors to returns. Both companies reported revenue and earnings materially above consensus estimates, with Hemnet's share price up **+20%** and Richemont's share price up **+23%** since reporting to the time of writing (8th February 2024). More importantly, both results were consistent with our long-term investment theses.

Hemnet, Sweden's monopoly property portal, reported a particularly strong quarter, with revenue up **+37%** year-over-year, **+11%** above consensus estimates, and EBITDA up **+60%** year-over-year, **+18%** above consensus estimates.

Hemnet's Average Revenue Per Listing (ARPL) was up **+47%** year-on-year, driven by a combination of pricing and premiumisation. Importantly, revenue from premium listings nearly **doubled** year-over-year, which supports our view that the premiumisation journey has only just begun.

Today, Hemnet's Average Revenue Per Listing is just **0.17%** of the average home price – a bargain considering that it would be extremely difficult to sell a home in Sweden without a listing on Hemnet. This is still less than **one-half** of the **0.40%** that an Australian home seller would pay to list on realestate.com.au and domain.com.au. We believe Hemnet has plenty of untapped pricing power.

Hemnet's listing volumes were up **+5%** year-over-year, the first-time volume growth has been positive since 2022. We expect volume growth to accelerate as comparisons become materially easier in 2024. We believe this is likely to be a second driver of near-term earnings growth, with listings likely to return at materially higher prices and extremely high incremental margins.

Importantly, Hemnet announced a revised compensation model to better reward agents who are proactive ambassadors for premium listings. The admin fee paid to agents on Basic listings is now fixed in dollar terms, while Hemnet has reduced commission levels, and added more tiers to better reward agencies that recommend Plus and Premium. As a result, we expect continued strong growth in premium listings, with margins likely to expand towards those of international peers. For context, REA Group in Australia has EBITDA margins in the mid-60s, which compares to Hemnet in the low-50s today.

Hemnet's share price is up over **+130%** since we initiated our investment in June 2022, but we continue to see significant upside today. We expect the stock will more than double from here over the next five years.

Richemont delivered constant currency revenue growth of **+8%** year-over-year, **+110bps** above consensus estimates. Richemont's strong result was led by its Jewellery Maisons segment (which includes the Cartier and Van Cleef & Arpels brands and accounts for c.90% of Richemont's operating profit), with sales up **+12%** year-over-year on a constant currency basis, **+350bps** above consensus expectations.

On the earnings call, CFO Burkhart Grund said Richemont saw a **sequential acceleration** in growth throughout the quarter, with the strongest month of growth in December.

Retail sales (i.e., directly operated boutiques; Richemont's highest-margin channel) were up **+11%** year-over-year constant currency. Meanwhile, revenue in the Americas region was up **+8%** year-over-year constant currency, **+330bps** above consensus, driven by double-digit growth at Jewellery Maisons.

At today's price, Richemont trades on a 6% free cash flow yield. We continue to believe this is a highly attractive valuation for a business of Richemont's quality and durability.

Visa and **Mastercard's** results continue to demonstrate that **consumer spending remains healthy** across all segments from low to high spend, supported by a strong labour market.

Among our portfolio companies, **Visa** and **Mastercard** offer the best read on inflation and consumer spending trends, with an unmatched real-time data feed on global consumer spending.

During the quarter, Visa and Mastercard reported revenue growth of **+9%** and **+13%** year-on-year, and earnings per share growth of **+11%** and **+20%** year-on-year, respectively, driven by resilient consumer spending, the continued shift from cash to cards, and strong growth in cross-border travel volumes.

Visa and Mastercard both remain positive about the growth outlook for consumer spending, which was echoed by JPMorgan Chase, Bank of America, and Wells Fargo.

Over the last twelve months, we've seen a cultural shift in capital allocation and cost discipline among the world's largest technology businesses.

Alphabet (the parent company of Google) reiterated its commitment to **"durably reengineer" its cost base** over the long-term. During the fourth quarter, Alphabet's underlying operating margins increased **+500bps** year-over-year. We believe Alphabet's Google Services (which includes Google Search, YouTube, and Google Network, among others) is likely to benefit from multi-year margin expansion as growth in advertising revenues drop to the bottom line at very high incremental margins.

During the quarter, Google Search grew revenues at **+13%** year-over-year, while Google Services grew operating income **+32%** year-over year, **+4%** above consensus expectations. Market concerns about the impact of ChatGPT on commercial search activity continued to dissipate, with Google's market share of global search engines steady in the mid-90s. Google's search business also continues to grow at a higher percentage rate than Bing, despite Google being 15x the size! During the quarter, Microsoft's News and Search Advertising revenue was down -0.1% year-over-year, while Google Search & Other revenue was up +13% year-over-year. Alphabet's share price is up **+60%** since bottoming in February 2023, and we continue to view its valuation as highly attractive today.

Meta delivered an outstanding result, with revenue up **+22%** year-over-year on a constant currency basis, and operating income from Meta's Family of Apps segment (which includes Facebook, Instagram, WhatsApp, and Messenger) up **+106%** year-over-year, **+12%** above consensus estimates.

During the quarter, headcount was down **-22%** year-over-year, which led operating margins (excluding restructuring costs) in Meta's Family of Apps segment to expand to **56%**, up from lows of **34%** in 3Q22.

Importantly, **we believe Meta's cost discipline is permanent**. During the earnings call, CEO Mark Zuckerberg said: "I think that being a leaner company is helping us execute better and faster, and we will continue to carry these values forward as a **permanent** part of how we operate." It is incredible to think that just over a year ago, the market believed Zuckerberg was presiding over a bloated organisation with little regard for shareholders!

In 1Q24, Meta expects revenue growth to accelerate to **+25%** year-over-year at the mid-point of its guidance range (vs. expectations for revenue growth of +17%).

Following the result, Meta's share price increased **+20%**, and is now up over **5x** since bottoming in November 2022. Despite the move, we still see considerable upside to Meta's valuation today – with Meta's Family of Apps business trading at only 15x earnings ex-cash.

Amazon is similarly driving operating margin expansion in its online retail business through cost discipline, and we believe the long-term profitability and durability of this business is not reflected in its market value today.

In its online retail business, Amazon's revenue grew **+14%** year-on-year, above expectations, while profitability materially surprised to the upside. Since North America operating margins were at their recent low levels in March 2022, Amazon has seen seven consecutive quarters of operating margin expansion, resulting in a cumulative improvement of **+800bps**. During the quarter, Amazon's operating margin was 7.8%, up **+600bps** year-over-year, **+150bps** above consensus.

This has been achieved through improvements in Amazon's cost structure; regionalisation efforts that have reduced transportation distances; growing into overcapacity that was added during the pandemic; and growth in high-margin advertising revenue, which has outpaced traffic growth.

Crucially, we believe Amazon is reaping the rewards of multi-year investments in regionalisation (moving from one national network in the US to a series of separate regions serving smaller geographic areas) and capacity. To illustrate this point, CEO Andy Jassy said: "We have a saying that it's not hard to lower prices, it's hard to be able to afford lowering prices." Importantly, Amazon is not done lowering its cost to serve.

In Amazon Web Services (AWS), revenue increased **+13%** year-over-year, and operating income increased **+38%** year-over-year. Importantly, Amazon continued to see the diminishing impact of customer cost cuts, which was similarly echoed by Microsoft Azure and Google Cloud. CFO Brian Olsavsky said: "As these optimizations slow down, we're seeing more companies turning their attention to newer initiatives and reaccelerating existing migrations."

In 2024, AWS will be lapping periods where so-called "cost optimisations" were elevated, and we expect to see an acceleration in revenue growth when this occurs. AWS remains the clear cloud infrastructure leader, and we believe cloud penetration is in its early innings, with a long runway of profitable growth ahead.

Microsoft delivered another strong quarter, with constant currency revenue and earnings growth of **+16%** year-on-year and **+23%** year-on-year, respectively. Microsoft now expects full-year operating margins to be up **+100bps** to **+200bps**, versus previous expectations for flat operating margins.

We continue to view Microsoft as one of the most competitively advantaged businesses in the world. However, when we initiated our position in 2022, Microsoft was trading at a high-teens multiple of earnings. Today, the stock is trading at a low-30s multiple of earnings – its highest multiple in some time – amid widespread enthusiasm over Artificial Intelligence (AI). Today, we believe there are better risk-adjusted returns available, and as a result, we sold our position in Microsoft towards the end of January.

WD-40 delivered constant currency net sales and operating income growth of **+9%** year-on-year and **+25%** year-on-year, driven by increases in sales volume, and higher average selling prices. Importantly, WD-40's gross margin expanded by **+240bps** year-over-year, driven by lower costs associated with warehousing, distribution, and freight; favourable sales mix; and tactical price increases. We continue to believe WD-40 has ample opportunities for geographic expansion and premiumisation, which will underpin both revenue growth and margin expansion.

Earnings across the portfolio have been very strong, and we remain optimistic about the outlook for our investments. We believe the portfolio is likely to deliver free cash flow growth at a mid-teens rate over the next five years, with current market prices representing an attractive discount to our assessment of fair value.

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