GCQ FLAGSHIP FUND | P Class Units

GCQ GLOBAL CONCENTRATED QUALITY

MONTHLY PERFORMANCE & PORTFOLIO UPDATE — July 2024

Returns	1 Month	3 Months	6 Months	12 Months	Since Inception Annualised (1 July 2022)
GCQ P Class (AUD)[1]	**5.4%**	**10.1%**	**11.8%**	**29.1%**	**33.8%**
MSCI World Index (AUD)	4.0%	7.7%	13.5%	21.9%	22.8%
Outperformance	**1.4%**	**2.4%**	**-1.7%**	**7.2%**	**11.0%**

"The stock market is the only market where things go on sale and all the customers run out of the store."

- Cullen Roche

The portfolio's net return for the month of July was **+5.4%** which compares with the MSCI World Index (AUD) return of +4.0%. This brings the net return for P Class units to +83.3% since inception on 1 July 2022 (+33.8% annualised).

Second Quarter Earnings Season and Recent Market Volatility

We have just completed the second quarter earnings season. Results for GCQ Flagship Fund companies were generally strong and supportive of our investment theses.

As discussed in greater detail below, commentary from Visa and Mastercard that spending by high income consumers remains stable was particularly meaningful for our portfolio. The market's strong response to Hemnet and MSCI reporting quarterly results consistent with our investment thesis also contributed to the Fund's outperformance during the month.

However, following the Fund's strong performance in July a bout of volatility swept through markets in early August. There were a number of concurrent catalysts for this stock market selloff, including heightened concerns that slowing demand for labour in the United States may trigger a recession and increased investor focus during the earnings season on the financial case for companies investing in Artificial Intelligence initiatives. The ramifications of tightening monetary conditions in Japan, and concerns over extreme geopolitical tensions in the Middle East, also played a part.

Portfolio Overview as at 31 July 2024	Portfolio Weight
Hemnet	12%
rightmove	8%
Real estate advertising monopolies	**20%**
VISA	10%
Mastercard	7%
Global consumer payments	**17%**
MSCI	8%
S&P Global	4%
Moody's	1%
Credit rating agencies & investment index providers	**13%**
RICHEMONT	10%
HERMÈS	1%
Super-luxury goods	**11%**
amazon.com	9%
Global cloud computing	**9%**
Alphabet	5%
Meta	4%
Global online advertising	**9%**
FICO	3%
Local monopolies	**3%**
WD-40 Company	2%
Branded consumer goods	**2%**
Other high-quality businesses	**15%**
Total long	**99%**
Shorts	**(3%)**
Net exposure	**96%**
Cash	**4%**
TOTAL	**100%**

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

The portfolio has outperformed the broader market through early August, thanks largely to our disciplined approach to reduce or exit portfolio positions which approach our assessment of fair value, or push up against our internal position size limits.

Recent performance is consistent with our efforts to outperform markets through the cycle. We have previously reminded investors that our returns over the last twelve months have not been driven by an excessive exposure to a single stock or market "theme" such as Artificial Intelligence. One of the benefits of this is that - on the flipside - we are not overly exposed to a reversal in market sentiment towards this same theme.

In fact, we reduced exposure to the largest US-based technology companies (all of which have meaningful exposure to AI) from 40% at 30 June 2023 to just 21% at 31 July 2024. Over this period we have exited our position in Microsoft and reduced exposure to Alphabet and Amazon. This includes the sale of ~3% of Alphabet, ~2% of Amazon and ~1% of Meta during the month of July. Further, during July, we trimmed the portfolio's position in Hemnet for risk management reasons after the share price increased by up to 19% immediately following the release of its results, bringing the monthly share price increase to as much as 30%.

One of the things that we like about current market conditions is that every time we sell a portfolio position, we have a deep bench of opportunities to buy. This includes several companies that we have been actively researching but have not previously owned.

Set out below are our key takeaways for the GCQ Flagship Fund from the latest earnings season. However, what is possibly most important in light of recent market jitters is that the GCQ portfolio remains attractively priced. At the time of writing, the portfolio is trading at only 24x forward earnings on a weighted average basis. We believe this compares favourably to the S&P 500's forward earnings multiple of 19x, given that the average company in our portfolio is higher quality, with higher growth, higher margins, higher returns on capital and minimal debt.

High-income consumer spending remains stable

Among our portfolio companies, Visa and Mastercard offer the best read on the health of the consumer.

Both payment networks delivered solid results, with Visa and Mastercard growing revenue +10% and +13% year-on-year on a constant currency basis, respectively.

Cross-border payments growth was a key driver, growing +14% and +17% year-on-year on a constant currency basis for Visa and Mastercard, respectively.

Spending by high-income consumers in the US remains stable. However, both Visa and Mastercard saw a slight moderation in low-income consumer spending.

Commentary from J.P. Morgan CFO Jeremy Barnum echoed this view, when he said: *"On spend patterns, you can see a little bit of evidence of behavior that's consistent with a little bit of weakness in the lower-income segments."*

Operating performance by global luxury houses continues to bifurcate

We saw similar trends play out across the luxury goods industry.

GCQ differentiates between super-luxury companies and "luxury" companies that sell to aspirational consumers. We seek to own super-luxury goods companies that pass through our strict **GCQ Super-Luxury Industry Quality Checklist**. These businesses have built irreplicable brands over 100 years or more, operate in high-value categories like jewellery and leather goods, restrict supply growth, increase prices regularly, and control their distribution. At their best, these brands sell "Veblen goods" – which are products for which ***demand increases as price increases***.

By contrast, aspirational luxury businesses tend to operate in more difficult categories (e.g., ready-to-wear, or clothing), are exposed to "runway risk" (i.e., changes in fashion trends), and have weaker brand heritage. As a result, these "luxury" businesses are less durable, and are more exposed to the risk of brand dilution.

Aspirational luxury houses performed poorly during with quarter, with Gucci and Burberry's retail business reporting a -20% and -22% year-on-year decline in revenues, respectively.

The GCQ Flagship Fund currently holds positions in Richemont and Hermès, which generate most of their earnings from economically resilient, wealthy consumers. This favourable customer exposure was reflected in their operating performance during the quarter, where Richemont's Jewellery Maison's division (which accounts for ~90% of Richemont's operating profit) generated constant currency sales growth of +4% year-on-year (on top of +24% in the prior year period), while Hermès delivered constant currency sales growth of +13% year-on-year (on top of +28% in the prior year period).

While Richemont and Hermès' revenue growth was adversely impacted by the weak macroeconomic environment in China, we estimate that Richemont and Hermes delivered growth in revenue ex-China of +15% and +18% year-on-year, respectively.

The performance of Richemont and Hermès in the current environment demonstrates why we prefer to be exposed to luxury brands that pass through the **GCQ Super-Luxury Industry Quality Checklist**.

We remain confident in Hemnet's long-term earnings trajectory and in the Fund's exposure to real estate advertising monopolies. However, we have trimmed our Hemnet position for risk management reasons after the share price rallied up to +19% immediately following the release of its results

Hemnet reported a very strong result with revenue and EBITDA growing +51% and +54% year-on-year, respectively. Despite this strong growth, Hemnet's average revenue per listing is still only 0.17% of the average home price in Sweden, which is less than half what an Australian vendor would pay to list on realestate.com.au and domain.com.au. Given this dynamic, we remain confident that Hemnet has a long runway of revenue and earnings growth ahead.

We have scaled back our position in Hemnet for risk management reasons after the stock exhibited strong price performance post the 2Q24 result (up as much as +19%) with the result that our collective weight in real estate advertising monopolies (including Rightmove) would otherwise have exceeded our risk limits.

At GCQ, we remain disciplined risk managers. No matter how much we like a stock, it cannot exceed 15% of our portfolio. On top of this, no single industry can exceed 20% of GCQ's portfolio. We are also mindful of how the industries we are invested in are correlated. We construct our portfolio by investing across 7-10 industries with very different fundamental and valuation drivers.

Rightmove is the dominant real-estate advertising portal in the UK with >80% share of time spent on property portals. The company reported a solid result with revenue growth of +7% year-on-year. Rightmove is currently trading at its lowest forward earnings multiple in over a decade, and we believe it is priced to deliver attractive shareholder returns from here.

MSCI performs in-line with our investment thesis

In April, we increased the Fund's position in MSCI to 7% of the portfolio, after the company delivered disappointing quarterly earnings that saw its share price fall -13%. In our view, this weak result was driven by short-term issues – in particular, the merger of UBS and Credit Suisse, which led to elevated client cancellations. However, MSCI's long-term franchise value remained unchanged (particularly because UBS and Credit Suisse could only ever merge once!).

In 2Q24, MSCI delivered a strong result with revenue and EBITDA up +14% year-on-year. Importantly, MSCI's client retention rate bounced back to ~95% (up +200bps sequentially vs. 1Q24). We saw this as validation of our investment thesis.

The stock was up +8% on the day of MSCI's latest result, and is up +22% since we started adding to our position in April.

Cost discipline continues to remain a focus for the world's largest technology companies

Technology companies in the GCQ Flagship Fund (Alphabet, Amazon, and Meta) delivered a solid set of results, with the magnitude of operating profit growth positively surprising the market.

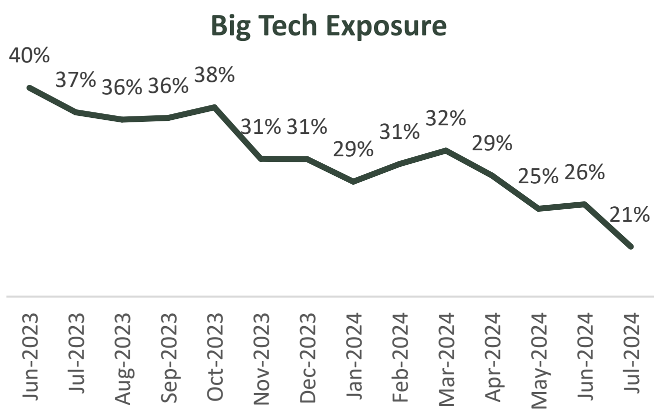
Alphabet generated revenue and operating profit growth of +14% and +25% year-on-year, respectively. Operating profit was +4% above consensus expectations, with Google Services operating margin (primarily Google Search and YouTube) expanding +480bps year-on-year, +200bps above consensus expectations.

Meta's revenue and operating profit grew +22% and +46% year-on-year, respectively. Meta's strong result was driven by user growth of +7% year-on-year, plus growth in average revenue per user of +14% year-on-year.

Amazon generated revenue and operating profit growth of +10% and +91% year-on-year, respectively. Operating profit was +8% above consensus expectations. AWS, a highlight of the quarter, saw revenue growth accelerate sequentially for the second straight quarter to +19% year-on-year, benefiting from 1) customers having completed the vast majority of their workload optimisations, and 2) the ongoing secular shift in computing from on-premises to the cloud.

Leading into these results, we believed the share prices of Alphabet, Amazon, and Meta increasingly reflected expectations for strong performance, with their share prices up +94%, +123%, and +295%, respectively, over the past ~18 months.

This contrasts to our views in early 2023, where we believed these high-quality businesses were on sale, leading us to build a substantial investment in each of them. Over recent months, we have been trimming our positions in these companies as they approached our estimate of their fair value, recycling the capital into more attractive opportunities. This has reduced our collective exposure in large technology companies to 21% of the portfolio (versus a peak of 40% in June 2023).



Credit rating agencies continue to deliver strong earnings

S&P Global and Moody's delivered solid results, with revenue growth of +14% and +22% year-on-year, respectively, and operating profit growth of +26% and +38% year-on-year, respectively. The strength in operating performance was primarily driven by the ratings divisions of S&P Global and Moody's, which delivered revenue growth of +33% and +36% year-on-year, respectively, with very high incremental margins. Strength in debt issuance was driven in part by the pull-forward of high-yield bond refinancings from 2025 into 2024, with issuers taking advantage of favourable investor appetite.

We have reduced our investments in both S&P Global and Moody's to fund investments that we believe are likely to deliver stronger returns.

FICO continues to exercise its untapped pricing power. We have gradually trimmed our holding to remain disciplined on valuation, given the stock has appreciated +313% since July 2022

FICO, which owns the FICO score, the standard measure of consumer credit risk in the US, delivered a strong result, delivering revenue growth of +27% year-on-year within its core business of selling credit scores to lenders. This was primarily a function of an incredible +80% year-on-year revenue growth in mortgage originations revenue, where FICO continues to exercise its latent pricing power.

FICO has been a core position in the GCQ portfolio since the fund's inception in July 2022. Since then, the stock has appreciated +313%, making it the strongest performer in the GCQ portfolio.

We have gradually trimmed our position as the stock has continued to appreciate, while reallocating capital to other investments with more valuation upside.

"The low point for share prices is when most people are expecting bad news, not after the bad news comes out."

- Sir John Templeton

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