GCQ FLAGSHIP FUND | P Class Units

GCQ
GLOBAL CONCENTRATED QUALITY

MONTHLY PERFORMANCE & PORTFOLIO UPDATE

May 2023

"For me, I'd like a monopoly. If I can't have a monopoly, I'd like an oligopoly. As an investor, I am constantly focused on competition."

- Sam Zell

Returns	1 Month	3 Months	6 Months	Since Inception (1 July 2022)
GCQ P Class (AUD)[1]	**5.1%**	**18.6%**	**25.1%**	**35.6%**
MSCI World Index (AUD)	1.3%	8.5%	7.9%	19.5%
Outperformance	**3.7%**	**10.2%**	**17.2%**	**16.2%**

The portfolio's net return for the month of May 2023 was **+5.1%**. This continues a period of strong performance for the GCQ Flagship Fund, with a net return for P Class units of **+35.6%** since inception in July 2022.

Two key themes drove equity markets during May.

First, equity markets sold off intra-month on concern that the US government may fail to raise its debt ceiling before hitting its borrowing limit in early June 2023. An analysis of history shows that since 1960, Congress has acted 79 times to raise the debt limit (49 times under Republican presidents and 30 times under Democratic presidents). Once again, the debt ceiling crisis was resolved in the early days of June 2023.

The second key theme for the month was optimism that an Artificial Intelligence (AI) boom would fuel profit growth for companies most exposed to AI demand.

Of note, this year equity market index returns have been underpinned by an unusually small handful of companies. From the start of the year through to the end of May, the S&P 500 appreciated by +9.6% in local currency terms, while an equal-weighted version of the same index shows that the average stock has actually fallen by -0.7% over the same time period. Year-to-date, the unweighted version of the index is losing by the widest margin since Bloomberg's data began in 1990. This statistic highlights the importance of stock selection and portfolio construction in an environment where a small minority of companies are delivering the majority of market returns.

During May, we continued to sell down the Flagship Fund's holdings in super-luxury goods businesses as these companies are now close to fully valued after a year of material outperformance. We finished the month with 5% of the portfolio invested in the super-luxury goods industry, down from close to 20% earlier in the year. Selling down these investments has enabled us to increase the Fund's investments in Alphabet and Hemnet at opportune times.

Portfolio Overview as at 31 May 2023

Company	Portfolio Weight
Alphabet	13%
Meta	6%
Global online advertising	**19%**
amazon.com	11%
Microsoft	6%
Global cloud computing	**17%**
Hemnet	10%
FICO	6%
Local monopolies	**16%**
VISA	9%
	7%
Global consumer payments	**15%**
S&P Global	6%
Moody's	4%
MSCI	2%
Credit rating agencies & investment index providers	**12%**
RICHEMONT	3%
LVMH	1%
HERMÈS	1%
Super-luxury goods	**5%**
Other high-quality businesses	12%
Shorts	2%
Net exposure	**94%**
Cash	6%
TOTAL	**100%**

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

INVESTOR SUMMIT PRESENTATION

"Our most profitable insights have come from recognising the deep reality of some businesses, not from being more contrarian than anyone else."

- Nick Sleep, Nomad Investment Partnership

Earlier today (8 June) GCQ's Chief Investment Officer, Doug Tynan, was one of four Australian fund managers invited to present a stock idea at a major investor summit in Sydney.

The investment idea Doug presented was Hemnet – a Swedish company familiar to investors in the GCQ Flagship Fund but not well-known in the broader investment community.

The Fund has held Hemnet since 29 June 2022 and the share price has increased by +49.7% since our initial investment. As we discuss below, the GCQ investment team expects Hemnet to be a strong contributor to Fund returns in coming years as the company capitalises on its position as the monopoly property internet portal in Sweden.

To provide a frame of reference for Summit attendees, Doug's presentation highlighted that Hemnet is largely a carbon copy of the ASX-listed REA Group as it was positioned in 2016.

REA Group requires little introduction for an Australian audience. As the operator of the realestate.com.au website and related apps, REA Group is widely recognised as one of the best businesses in this country. Over the past 20 years REA Group has produced higher returns for shareholders than any company other than Fortescue Metals Group.

Seven years ago, REA Group had just pivoted its business model from selling subscriptions to real estate agents to instead focus on selling premium listings to home sellers. Successful execution of this strategy has underpinned the company's subsequent success.

Hemnet has a similar opportunity today as it moves from selling basic listings to home sellers to instead offer a range of premium listing products at higher prices.

A comparison between Sweden and Australia illustrates the scale of the opportunity. In Australia, a vendor pays about A$2,500 or 0.4% of the average home price to list with REA Group and Domain, which operate a local duopoly. In Sweden, home sellers pay an average of A$458 or just 0.1% of the average home price to list their home on Hemnet.

Hemnet's bargain prices are a historical legacy as the company started out as a real estate industry cooperative and has only recently adopted a more commercial model and started increasing prices.

We believe Hemnet can increase its average sale price in coming years to at least match the price currently paid (as a percentage of property value) by Australian home sellers.

While this implies a 300% increase in average listing price, even this may not be a ceiling on Hemnet's potential. In suburbs where REA Group has a monopoly, pricing is substantially higher than in suburbs where it competes with Domain. In other words, the competition between REA Group and Domain puts a lid on pricing power. This is highly relevant because Hemnet stands alone as the sole listing venue for real estate advertisements in Sweden.

Another interesting aspect of the Australian situation is that REA Group is continuing to increase prices. Even during the recent property slump, REA Group increased prices by around 15% in March 2023.

We are already seeing Hemnet move to close the pricing gap. Since premium listings were introduced in Sweden in 2019, Hemnet's average revenue per listing has grown at a rate of +32% per annum from A$198 (2019) to A$458 (2022). We think the trend to premium listings in Sweden is only going one way, just as we have seen in Australia. In premium suburbs in Sydney and Melbourne it's now rare to see a standard listing. Instead, home sellers flock to Premiere listings, with bigger photos and plenty of free profile-building advertising for real estate agents.

To illustrate the opportunity for revenue growth, Doug shared key findings of GCQ's in-house analysis of how Hemnet's pricing compares to REA Group and Domain. We see potential for Hemnet in areas including:

- ***Introducing price discrimination between localities***: In Australia, a listing in an upmarket suburb like Sydney's Paddington is more expensive than a listing in Mount Druitt. In Stockholm, pricing currently doesn't vary substantially between suburbs;
- ***Reviewing the pricing schedule***: Hemnet currently charges only twice as much to list a A$2 million home as a A$300,000 property. This price differential can be increased, as can the price differential between basic and premium listings;
- ***Charging for prominence in search results***: A property search on Hemnet features the most recent listings at the top of the search results. On more mature platforms such as realestate.com.au, sellers pay more to appear at the top of the search results. This is a substantial opportunity for Hemnet.

Importantly, from our trips to meet Hemnet management, we know the company is eagerly following the playbook that has made REA Group such a success story – no doubt helped by the presence of a former REA CEO on the Hemnet Board.

Interestingly, Hemnet trades on a lower earnings multiple than REA Group today, despite the opportunities in front of it.

GCQ expects Hemnet's revenue to grow around 20% per year over the next five years, and EBITDA margins to expand by around 10 percentage points. This would see Hemnet generate around A$400 million in revenue in 2028, at a 62% EBITDA margin. This compares with REA Group's 68% margin on its Australian business today.

Once Hemnet's transition to a premium listings model is proven we would expect the company to trade on an equivalent multiple to REA Group. This implies upside of around 3.7x[2] over the next four years for investors purchasing shares at the current price.

Whenever we find what appears to be such a great investment, we ask ourselves the question "Why does this opportunity exist?"

We believe Hemnet is trading at such an attractive price because investor sentiment is weighed down by near-term weakness in Swedish property listings.

While the Swedish property market has historically been quite stable, listing volumes declined -19% year-over-year in the March quarter. Sharply rising interest rates are largely to blame as people defer the sale of properties in a weak housing market. The fact Hemnet has been able to increase profits and raise its margin guidance through this difficult economic period underscores the quality of the business.

We expect that over the longer term Hemnet's pricing power, revenue growth and margin expansion opportunity will be a far more important driver of investor returns than short term fluctuations in listing volumes.

Analysis of the last 13 years shows that property listings downturns have been the best time to buy shares in property portals. We believe Hemnet's listing downturn presents a similar opportunity today.

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

2. Any projection or forward-looking statement is provided for information purposes only. Past performance is not a reliable indicator of future performance. Investments can go up and down. Whilst reasonably formed, no representation is made as to the accuracy of any such projection or that it will be met.