

## MONTHLY PERFORMANCE &amp; PORTFOLIO UPDATE

November 2023

Returns	1 Month	3 Months	6 Months	12 Months	Since Inception (1 July 2022)
<b>GCQ P Class (AUD)<sup>1</sup></b>	<b>8.7%</b>	<b>3.3%</b>	<b>11.3%</b>	<b>39.2%</b>	<b>51.0%</b>
MSCI World Index (AUD)	5.0%	-0.5%	6.4%	14.8%	27.2%
<b>Outperformance</b>	<b>3.7%</b>	<b>3.8%</b>	<b>4.9%</b>	<b>24.4%</b>	<b>23.8%</b>

***“The first rule of compounding: Never interrupt it unnecessarily.”***
















- Charlie Munger

The portfolio's net return for the month of November 2023 was **+8.7%**. This compares with the MSCI World (AUD) Index, which was +5.0% for the month.

The strong result recorded by the GCQ Flagship Fund in November was achieved despite material currency headwinds, with the AUD/USD rallying by 4.2% over the month.

Currency headwinds were more than offset by broad-based performance across the GCQ portfolio, following the strong set of quarterly earnings which we discussed in our update last month. Investor sentiment also improved as moderating inflation fuelled confidence that interest rates have peaked for the current cycle.

On the following page, we provide an overview of recent portfolio decisions, and an update on Rightmove following its Investor Day on 27<sup>th</sup> November.

Portfolio Overview as at 30 November 2023	Portfolio Weight
 <b>Hemnet</b>	12%
 <b>rightmove</b>	7%
Real estate advertising monopolies	<b>20%</b>
 <b>Alphabet</b>	12%
 <b>Meta</b>	5%
Global online advertising	<b>17%</b>
 <b>VISA</b>	9%
 <b>Mastercard</b>	7%
Global consumer payments	<b>15%</b>
 <b>amazon.com</b>	11%
 <b>Microsoft</b>	1%
Global cloud computing	<b>12%</b>
 <b>RICHEMONT</b>	10%
 <b>HERMÈS</b>	1%
Super-luxury goods	<b>11%</b>
 <b>S&amp;P Global</b>	5%
 <b>MOODY'S</b>	3%
 <b>MSCI</b>	1%
Credit rating agencies & investment index providers	<b>10%</b>
 <b>FICO</b>	5%
Local monopolies	<b>5%</b>
 <b>WD-40</b>	2%
Branded consumer goods	<b>2%</b>
Other high-quality businesses	<b>4%</b>
Total long	<b>97%</b>
Shorts	<b>(2%)</b>
Net exposure	<b>95%</b>
Cash	<b>5%</b>
<b>TOTAL</b>	<b>100%</b>

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

## RECENT PORTFOLIO DECISIONS

Following strong share price appreciation, and with the stock approaching our assessment of fair value, we trimmed our portfolio weight in **Microsoft** from **5%** to **1%**. We continue to believe Microsoft is one of the most competitively advantaged businesses in the world, but we have found compelling opportunities to redeploy capital into other high-quality businesses – including **Richemont** (**10%** of the GCQ portfolio) and **Rightmove** (**7%**) – which are both trading at a significant discount to our appraisal of fair value.

We continue to use strong performance to refresh the portfolio, and we relish the opportunity to buy high-quality companies that are temporarily out of favour.

## RIGHTMOVE

**Rightmove** is the dominant real estate advertising portal in the UK. Rightmove benefits from powerful network effects between buyers, sellers, and estate agents, garnering **85%** of time spent on property portals by UK consumers.

**At GCQ, we look for companies that sell a product or service for a cost that represents a small fraction of the overall value this product or service provides to the customer.**

UK estate agencies typically meet the cost of marketing on behalf of home sellers, which is different from the situation in Australia – where this cost is borne by the vendor. Agents typically spend upwards of 15% of commissions on marketing, and Rightmove represents about half of this. Today, estate agencies pay on average **£1,300** (A\$2,500) per month for a subscription to Rightmove, but we believe Rightmove has plenty of additional pricing ahead. As a point of reference, newspapers charged a typical suburban real estate agency £2,500 per month in 2007, or about **£4,000** per month on an inflation-adjusted basis – **3x** Rightmove's Average Revenue Per Advertiser today.

Since its commercialisation in the early 2000s, Rightmove has successfully implemented a strategy of package premiumisation and price increases.

Importantly, **60%** of Rightmove's revenue growth is led by agents moving up the tiers of the company's subscription memberships – with **50%** of agents still on Rightmove's most basic package, Essential. Rightmove's Enhanced and Optimiser packages, which include premium property listings, branding products, and e-marketing tools – and broadly provide the estate agent with more exposure on Rightmove – are **20x** to **50x** the cost of Essential, respectively. As such, we believe Rightmove has a long growth runway ahead, both as Rightmove increases prices, and as agents upgrade to a more premium package.

Today, Rightmove represents over **7%** of the GCQ portfolio. During October and November, we added to our position, taking advantage of share price weakness following CoStar Group's offer to acquire the UK's third-

most visited property portal, **OnTheMarket**. Recent purchases have been well-timed, with Rightmove's share price up about **+19%** since the stock bottomed on 6<sup>th</sup> November, and up **+8%** since Rightmove's Investor Day on 27<sup>th</sup> November. We provide an update on Rightmove's Investor Day below.

Rightmove Share Price (£)



We believe the market is presenting us with an attractive opportunity to buy Rightmove for two reasons: **1)** fears that **OnTheMarket** could take meaningful market share or see Rightmove accelerate marketing spend to compete, and **2)** **macroeconomic concerns** in the UK. We have addressed both below.

### Acquisition of OnTheMarket by CoStar

OnTheMarket was launched in 2015 by a group of real estate brokerage firms. Despite buy-in from large estate agencies, OnTheMarket struggled to gain traction with consumers, attracting less than **5%** share of time spent on property portals.

CoStar, a US-listed provider of commercial real estate information services, is now seeking to turn OnTheMarket's fortunes around – with plans to invest **£47 million** into sales and marketing in the first full year following the acquisition.

At GCQ, we are incredibly focused on assessing whether an industry has a structure and growth outlook supportive of sustainably strong shareholder returns. As such, we take all competitive threats very seriously.

That said, we have long admired residential property portals due to the presence of strong network effects between home buyers, home sellers, and estate agents. We have watched with interest as the strength of these network effects has been tested by new entrants in the past, and are not aware of any precedent globally where a dominant property portal has been displaced by an upstart.

We remain cautiously optimistic that OnTheMarket will fail to take any meaningful market share. Because property portals are free to home buyers, it is extremely difficult to provide consumers with an incentive to switch to a different website or app. For this reason, property portals tend to be a winner-takes-all market. Consumers are reluctant to visit a property portal that does not

include all available listings, while agents and home sellers are unwilling to advertise on a property portal that does not attract sufficient eyeballs. This dynamic, and Rightmove's dominant market position, mean that it is very well placed to defend against competitive threats. Further, in most markets, the #2 player – in this case, Zoopla – is often most at risk from an aggressive #3, given the entrenched position of the market leader.

Rightmove delivered a confident message at its Investor Day, delivering revenue and operating profit targets which signalled confidence in its long-term pricing and packaging opportunity – unhindered by the arrival of CoStar, with no likely deterioration in industry structure.

Rightmove upgraded full-year expectations for growth in Average Revenue Per Advertiser (ARPA) to **c.+9%** in 2023, **+1%** above consensus estimates, and set out plans to deliver **low-double-digit** growth in revenue out to 2028, which implied upgrades to long-term consensus revenue estimates.

Further, in 2024, Rightmove only expects to invest an incremental **£1 million** into marketing, with no plans to take its operating margin below **70%**, despite CoStar's intention to ramp up sales and marketing spend. Again, we believe this signals confidence that Rightmove's incredibly privileged market position is unlikely to be disrupted.

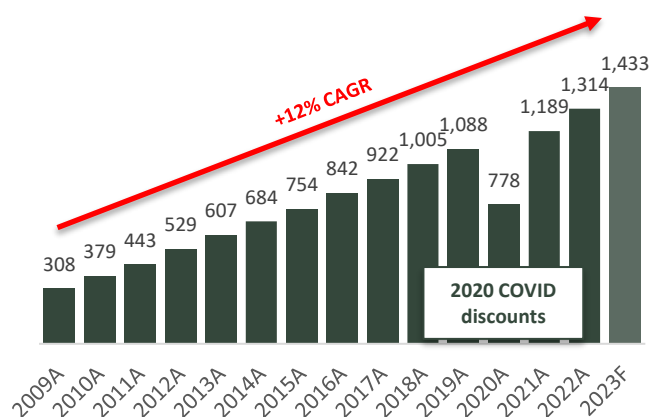
### Macroeconomic concerns

Rightmove's earnings multiple is also being dragged down by macroeconomic concerns in the UK, which is negatively impacting housing market sentiment. Having followed Rightmove since its listing in 2006, we believe downturns in the housing market often provide an attractive entry point for investing in what is a highly resilient business model.

Rightmove's revenue has grown throughout economic and housing market cycles because its revenues aren't directly linked to the number of houses bought and sold, or even to house prices. Revenue is generated from fixed subscription fees paid by real estate agents. For as long as estate agents remain in business, they will continue to pay their Rightmove subscription. This results in very stable revenue and operating profit growth for owners.

The following chart shows Rightmove's Average Revenue Per Advertiser (ARPA), which has demonstrated consistent growth over time.

Average Revenue Per Advertiser (£)



Over the last 15 years, while real estate transactions have showed some volatility, Rightmove estimates about **70%** of home sales transactions each year aren't discretionary – circumstances change, life events happen, and people must live somewhere.

Over the medium- to long-term, house prices have grown at **+4%** per annum, leading to growth in the commission pool available to estate agents, which is theoretically available to be spent advertising on Rightmove.

In 2023 – despite what has been one of the noisiest and most volatile periods in the U.K. housing market in several years – Rightmove is on track to deliver revenue and profit growth of about **+8%** year-over-year.

We continue to believe Rightmove remains attractively valued today. Having historically traded at a **high-20s** multiple of earnings, vs. **21x** earnings today, and with expectations for sustainable **low-double-digit** revenue growth from a combination of pricing, packaging, and new product initiatives, we estimate that Rightmove will generate a return of about **+20%** per annum over the next five years.

***"I don't have to be an expert on every company, or even many. I only have to be able to evaluate industries and the leaders within them."***

- Charlie Munger

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GCQ Flagship Fund's Target Market Determination is available [here](https://www.eqt.com.au/corporates-and-fund-managers/fund-managers/institutional-funds/institutional) (https://www.eqt.com.au/corporates-and-fund-managers/fund-managers/institutional-funds/institutional). A Target Market Determination is a document which is required to be made available from 5 October 2021. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.