

Returns	1 Month	3 Months	Since Inception (13 Dec 2024)
GCQ NZ PIE (NZD) <sup>1</sup>	-5.9%	0.6%	0.5%
MSCI World Index (NZD) <sup>3</sup>	-5.7%	-3.1%	-0.1%
Outperformance	-0.2%	3.7%	0.6%

Returns	1 Month	3 Months	6 Months	1 Year	2 Year (p.a.)	Since Inception (p.a.) (1 July 2022)
GCQ P Class (AUD) <sup>2</sup>	-5.2%	1.0%	13.3%	19.8%	29.8%	30.6%
MSCI World Index (AUD) <sup>4</sup>	-5.0%	-2.7%	9.0%	11.8%	19.9%	19.8%
Outperformance	-0.2%	3.7%	4.3%	8.0%	9.9%	10.8%

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

- Cullen Roche












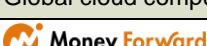


The portfolio's net return for the month of March 2025 was **-5.9%**. This compares with the MSCI World Index (NZD) return of -5.7% for the month.

March was a more volatile month for global markets than we have seen for some time. **While we expect tariffs will continue to dominate headlines, it's worth noting that our portfolio is less exposed to U.S. tariffs than it may appear. While 60% of the GCQ portfolio is listed in the U.S., we own businesses with global growth, and we estimate only 35% of the portfolio's revenue is generated in the United States.** Additionally, pricing power is an essential criterion for all portfolio companies, and the **GCQ Industry Quality Checklist™** includes questions that are designed to prevent investment in companies with significant direct exposure to potential trade wars. We discussed tariffs in our monthly update in [January 2025](#).

One highlight for GCQ was an announced takeover of Fortnox (the monopoly cloud accounting software business in Sweden) by a private equity consortium on the last day of the month, which we discuss overleaf.

We also discuss the launch of Hemnet Max, Hemnet's most premium package. In following REA Group's well-trodden path, we expect Hemnet will progressively introduce new premium products to drive revenue growth.

During the month, we added to our position in Alphabet, which is now our largest position. Alphabet's share price has fallen almost 30% from its peak in December 2024 and is trading at a significant discount to our appraisal of fair value. Below, we discuss what we think the market has gotten wrong, and why we believe Google's AI-powered tools are driving incremental search volumes and improved opportunities for advertisers.

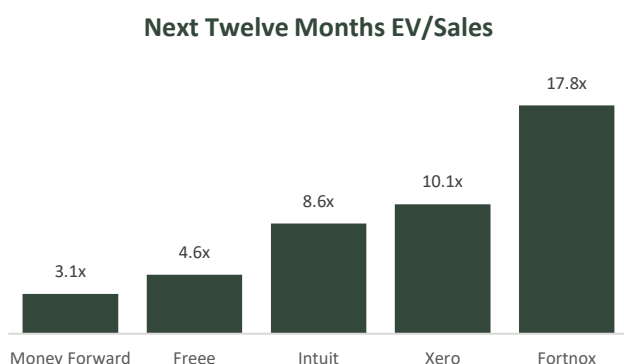
Portfolio Overview as at 31 March 2025	Portfolio Weight
 Hemnet	10%
 rightmove	8%
Real estate advertising monopolies	<b>18%</b>
 Alphabet	11%
 Meta	2%
Global online advertising	<b>13%</b>
 Uber	9%
 airbnb	2%
Sharing economy	<b>11%</b>
 RICHEMONT	6%
 HERMÈS	4%
Super-luxury goods	<b>10%</b>
 VISA	6%
	4%
Global consumer payments	<b>10%</b>
 amazon.com	9%
Global cloud computing	<b>9%</b>
 Money Forward	7%
 freee	1%
Cloud accounting software	<b>8%</b>
 WD-40 COMPANY	2%
Branded consumer goods	<b>2%</b>
Other high-quality businesses	<b>18%</b>
Total long	<b>99%</b>
Shorts	<b>(2%)</b>
Net exposure	<b>97%</b>
Cash	<b>3%</b>
<b>TOTAL</b>	<b>100%</b>

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

You may also be interested to listen to a [podcast](#) released in late-March where GCQ's Chief Investment Officer Doug Tynan is interviewed by AFR Columnist and Founder of [Rampart News](#), Joe Aston. This was a great opportunity to discuss the GCQ investment strategy.

## Fortnox

Fortnox, the monopoly cloud accounting software business in Sweden, received a takeover offer from a private equity consortium on the last day of the month, which was pitched at a +38% premium to Fortnox's pre-bid trading price. The bid values the company at approximately 18x forward sales. While Fortnox was a smaller position for the GCQ Flagship Fund, we believe the takeover provides strong endorsement for our cloud accounting software industry investment thesis. Notably, Money Forward – which operates in the far larger, less penetrated market of Japan, and is many years earlier than Fortnox in its corporate journey – currently trades at approximately 3x forward sales. We expect Money Forward's valuation will approach that of global peers as margins inflect over the coming years. We discussed our investment in the cloud accounting software industry in our monthly update in [November 2024](#).



Source: Bloomberg & GCQ Funds Analysis.

We fully exited our investment in Fortnox on the day of the announcement, and we used the proceeds to add to our position in Alphabet at attractive prices.

## Hemnet

In April 2025, Hemnet launched Hemnet Max, which is its most premium package. Hemnet Max is designed to give home sellers maximum visibility and reach. Importantly, following a two-week introductory launch price, Hemnet Max is priced +55% higher than Hemnet Premium, which was previously Hemnet's most expensive package, and at a +3.3x premium to Hemnet Bas, Hemnet's starter package.

We track every listing on Hemnet's website and estimate that Hemnet Premium accounted for 50% of listings in March 2025.

Over the years, REA Group has launched several top-end packages, encouraging customers to purchase more expensive listings, which has been an important driver of REA's tremendous growth. Similarly, we expect take-up of Hemnet Max will drive strong revenue growth for Hemnet.

## Alphabet

***"You get up in the morning, you brush your teeth, and you search on Google."***

- Satya Nadella, CEO of Microsoft

It is difficult to remember a time when Alphabet's flagship brand – Google – was not the monopoly gatekeeper to the internet for 4 billion consumers. However, in the 1990s, the landscape of online search was cluttered with competitors including Yahoo!, Excite, LookSmart, AltaVista, and Ask Jeeves.

Early search engines, like Yahoo!, focused on keyword matching to pair search terms with answers. While these early search engines were sophisticated enough to return the right answers to most queries, they struggled to place the most relevant results at the top of the page. When Larry Page and Sergey Brin introduced Google in 1998, its PageRank algorithm provided a novel solution to this problem. At the time, it was possible to see what websites a page linked to, but not the reverse. Larry and Sergey's algorithm, PageRank, did just this. Each webpage was assigned an "importance value" based on the quality and quantity of websites linking to it, with more valuable websites having more pages navigated to them from high-quality sources. This solution provided a unique way to rank results, and as a result, one of the world's most profitable technologies was born.

The enormity of their invention appears to have eluded Larry and Sergey in the early years. In 1998, they attempted to sell the company to Yahoo! (then the #1 player in the online search industry) for US\$1 million. Yahoo! declined. Soon afterwards, they knocked on the door of Excite (then the #2 player in the industry) asking if they might be prepared to pay US\$1 million, a figure that was later walked down to US\$750,000. Even at the reduced price, Excite turned the deal down.

Four years later, Yahoo! tried to buy Google, but Google's asking price of \$5 billion was too much for Yahoo! to stomach.

The failure of the incumbent search players to capitalise on Google's PageRank technology is one of the greatest missed opportunities of all time. Google swiftly dislodged both players and has subsequently sat at the top of the world's most visited websites for more than two decades. Alphabet's market capitalisation is currently US\$2.1 trillion, and Larry and Sergey own 6% of the company (US\$130 billion) – each.

## Google Search: Alphabet's Crown Jewel

***"Google has a huge new moat. In fact, I've probably never seen such a wide moat," said Munger. "I don't know how to take [the moat] away from them," said Buffett." "Their moat is filled with sharks!" Munger added.***

- Warren Buffett & Charlie Munger

Google has more than 90% market share among search engines globally (outside of China), supported by its strong network effects and distribution advantages.

Google's PageRank algorithm has evolved into an exceptionally sophisticated system that leverages hundreds of variables to determine the relevance of a page. Having the broadest dataset allows Google to map the internet more effectively than its competitors, which peer through a much smaller window to what consumers are looking for online. Scale is critical for success due to the sheer volume of unusual potential searches. In fact, every day, 15% of Google searches are for queries that even Google has never seen before, highlighting the extremely long tail of unique search terms that need to be serviced.

Google also benefits from meaningful distribution advantages. 70% of mobile phones sold today run on Alphabet's Android operating system, with Apple's iOS holding the remaining 30%. Through lucrative revenue-sharing agreements with phone manufacturers like Samsung and Apple, Google has cemented its default search engine status for nearly all mobile devices. On desktop browsers, two-thirds of consumers access the internet through Google Chrome, with Google as its default search engine. Google is also typically the default search engine of choice among consumers that use other web browsers.

Today, we estimate Google is used by approximately 4 billion people per month, with the average user making upwards of 100 searches per month.

Around half of all Google searches are queries for specific information, while one-third are navigational; for example, typing "YouTube" into Google's search bar instead of its official URL. Approximately 15% of searches are of a commercial nature, such as a product comparison. Meanwhile, transactional keywords which show the strongest intent to purchase, and often contain words like "buy", "purchase" or "near me", make up approximately 1% of all searches. These are likely the most valuable searches for advertisers.

## Secular Growth in Online Advertising

Over one hundred years ago, a U.S. merchant named John Manamaker said "Half the money I spend on advertising is wasted; the trouble is I don't know which half." While this may have been true with legacy

advertising mediums like print and then radio and television, it is outdated in an age of digital advertising. Alphabet provides advertisers with measurement tools that provide real-time insights on ad campaigns. This allows advertisers to measure the return on ad campaigns with a high degree of accuracy.

Alphabet has also unlocked meaningful advertising demand by democratising advertising. Prior to the internet era, most small and medium-sized businesses (SMBs) lacked the scale and expertise to advertise on big-budget mediums like TV, radio, metropolitan newspaper, or billboards. As a result, many of these SMBs simply underinvested in advertising. Alphabet's advertising tools have made small-budget advertising possible. SMBs contribute approximately 70% of global GDP, and serve as an incredibly large tail of advertising demand. Because digital ads are highly targeted, it has made it much easier for small merchants and brands to compete. For example, a local plumber who may have previously placed fridge magnets in letter boxes, or taken out an ad in Yellow Pages, can now pay to appear at the top of Google search results when people search for key words like "plumbers near me".

The economic consequences are far-reaching. While the secular shift from traditional advertising (e.g., television and print) to digital advertising continues to tick away at a modest pace (digital advertising already represents ~70% of global ad spend), what's more important is that the shift to digital has grown the entire pool of advertising spend, where the vast majority of incremental growth in advertising has accrued to Alphabet's Google and YouTube, and Meta's Facebook and Instagram.

## Opportunities for Margin Expansion

Alphabet's advertising business continues to grow in the double-digits, driven by secular growth in its highest-margin segments. At the same time, Alphabet has recently sharpened its focus on "durably re-engineering" its cost base, which follows a period of heavy investment in headcount and capital expenditure to support growth opportunities in generative AI and cloud.

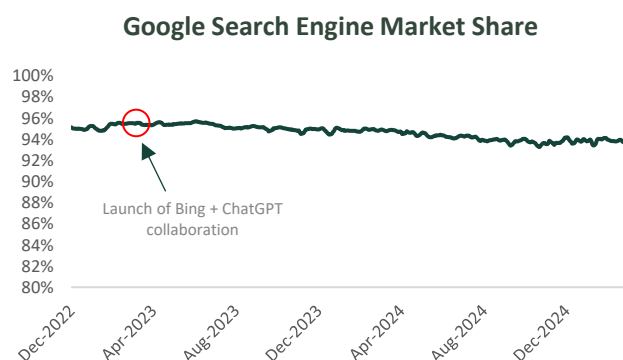
We believe the scope for margin improvement is significant. For context, Alphabet's core Google Services segment (which includes Google Search and YouTube) is expected to generate an operating profit (EBIT) margin in the low-40% range this year. In comparison, Meta's Family of Apps segment, which includes Facebook, Instagram, Messenger, and WhatsApp, generates EBIT margins in the mid-50% range. We see no reason why Alphabet's margins cannot approach this level over time.

In mid-2024, Anat Ashkenazi joined Alphabet as CFO. She is a rational capital allocator, and is focussed on cost-cutting and margin expansion, while directing investment in growth opportunities to support Alphabet's core business. This is the first time in Alphabet's 26-year history that we have seen it prioritize cost-cutting.



## Buying and Selling Alphabet

We made Alphabet our largest position in early-2023 when the market first became overly concerned about the impact of Artificial Intelligence (AI) chatbots like ChatGPT on Google's monopoly position in search. At the time, Microsoft had just unveiled an AI-powered version of Bing, which Microsoft CEO Satya Nadella once said would shake up Google's lead in online search. We took a different view. Based on our understanding of Google's industry structure and its substantial competitive advantages, we predicted Bing would struggle to pry consumers away from Google's search bar. Through this period, we closely followed daily market share figures, which (over time) gave us increased conviction that we were right.



Source: StatCounter & GCQ Funds analysis. Data excludes local players such as Yandex (Russia), Baidu (China), Naver (Korea), CocCoc (Vietnam) and Sogou (China)

Come mid-2024, market sentiment had changed, and Alphabet's share price had appreciated over 100%. Publicly, Microsoft had gone quiet on its ambitions to compete with Google, and privately, Microsoft admitted to us that it is "hard to grow in the search space". Believing our margin of safety had substantially decreased, we meaningfully trimmed our position in Alphabet from approximately 15% of the portfolio in April 2024 to 5% by July 2024.

In August 2024, a U.S. Federal Court ruled that Google had illegally monopolised the market for online search. With a potential break-up on the table, Alphabet's share price fell 20% from peak to trough.

The prospect of a corporate break-up invariably generates sensational headlines, but in practice, break-ups are extremely rare; the two most recent examples are AT&T in 1982 and Standard Oil in 1911 (that is, 43 and 114 years ago, respectively). Further, history suggests that break-ups can unlock significant shareholder value. The seven publicly traded companies created from AT&T's breakup – the "Baby Bells" – meaningfully outperformed the market for many years, while the successors of Standard Oil became the dominant petroleum producers of the 20<sup>th</sup> century. While unlikely, we believe a break-up of Alphabet's market-leading businesses would likely unlock significant shareholder value. At this point in time, Alphabet was once again trading at a meaningful discount to our

estimate of fair value, and we subsequently took our position in Alphabet back to 10%.

While we almost never buy at the bottom and sell at the top, our buying and selling activities have provided a meaningful uplift to the returns achieved by GCQ's investors. **Alphabet's total return since 1 July 2022 has been +43% to the end of March 2025, but the active management of our Alphabet position has resulted in a realised return more than double this.**

**Alphabet Share Price (USD)**



Source: Bloomberg & GCQ Funds analysis.

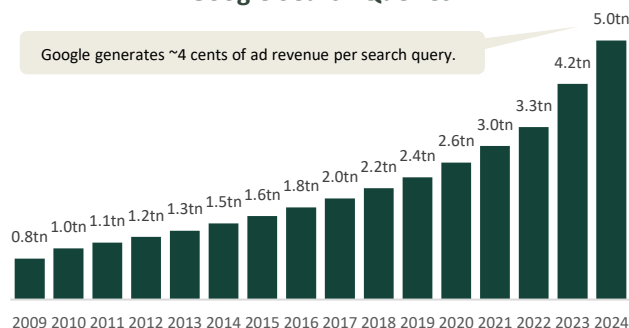
## Recent Share Price Weakness and How We See Things Differently: AI Overviews Will Drive Incremental Growth in Search Volumes

At the time of writing, Alphabet's share price has fallen almost 30% from its peak in December 2024 and is again trading at a significant discount to our appraisal of fair value. This has occurred amid market concerns that Google is falling behind in the AI arms race.

We have a different view. We believe Alphabet's AI tools are unlocking new ways for users to search, which is driving *incremental* demand, and we expect to see growth in Google search volumes over time.

This is evident in the data. Google is now processing 5 *trillion* search queries per year. The number of queries has more than doubled since 2016 and has grown more than four-fold since 2012. We believe the introduction of Google's new AI services has been a key reason why growth has accelerated over the past two years.

**Google Search Queries**

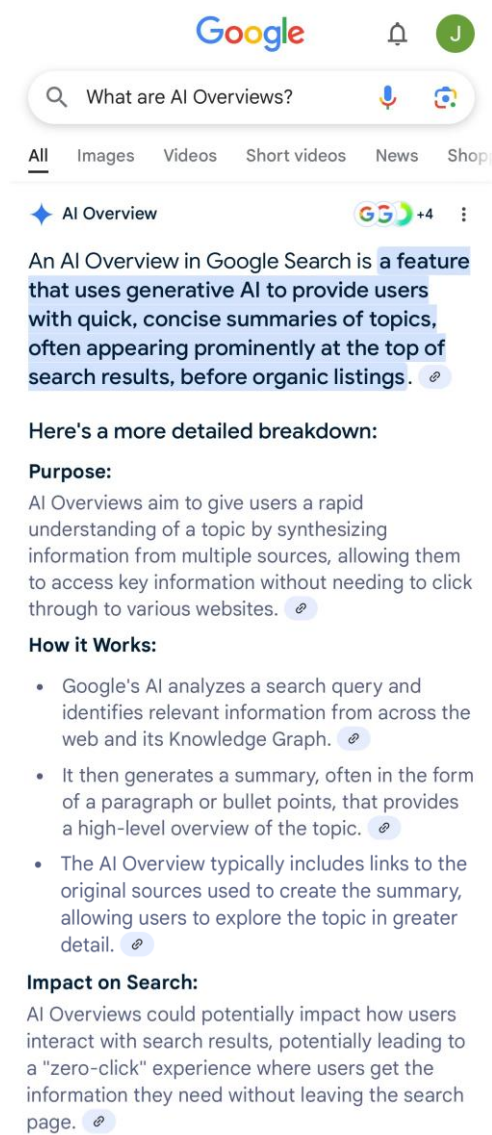


Source: Google, Internet Live Stats & GCQ Funds analysis



The durability of Google's dominance in traditional search is underpinned by its scale, network effects, and distribution advantages, and these factors remain as relevant as ever in a world of AI-powered searches.

Today, Google is running the largest AI-powered search tool in the world via the "AI Overviews" it provides at the top of relevant search results. AI Overviews offer users a quick snapshot of a topic and links to more comprehensive websites.



There are concerns that AI Overviews will cannibalise traditional search revenues. However, even before the introduction of AI Overviews, over 60% of Google searches resulted in "zero-click answers", where Google simply provided an answer rather than having the user navigate to a third-party website. Helpfully, Alphabet recently confirmed that in practice, cannibalisation has not occurred. In fact, AI Overviews have driven an *increase* in search volume activity as users ask new and more complex queries, which monetise just as well as traditional search queries. In other words, Google's core search product is improving, which is driving growth in the volume of monetisable search queries. By this metric, we believe Alphabet has one of the clearest pathways of any company to monetising AI.

Alphabet's AI tools are also encouraging advertisers to hand over even more control to Alphabet. Historically, ad placement involved significant judgement from marketing professionals. Increasingly, advertisers are trusting their ad purchasing decisions to services like Alphabet's Performance Max, which uses algorithms to determine the best time, format, and place to run an ad campaign based on an advertiser's goals. Advertisers simply provide a set of inputs (such as photos, text, or videos), while Alphabet's algorithms do the rest.

Performance Max campaigns are generating substantially higher returns for advertisers than traditional ad campaigns, which has led some industry participants to predict that over 80% of digital advertising purchases will be driven by AI-powered buying agents within the next five years. This puts Google in an incredibly powerful position within the global online advertising industry.

Finally, we believe Google has by far the strongest business model of any of its AI-powered competitors. While we expect ChatGPT will struggle to convince price-sensitive consumers to pay US\$20 per month for a premium subscription, Google's advertisers will be delighted to pay for more targeted ads that drive higher returns on investment. In general, AI enables better ad targeting, which is beneficial to both the users and advertisers in Alphabet's ecosystem.

Today, Google is generating roughly 4 cents of ad revenue per search query. We expect this figure will continue to grow over time.

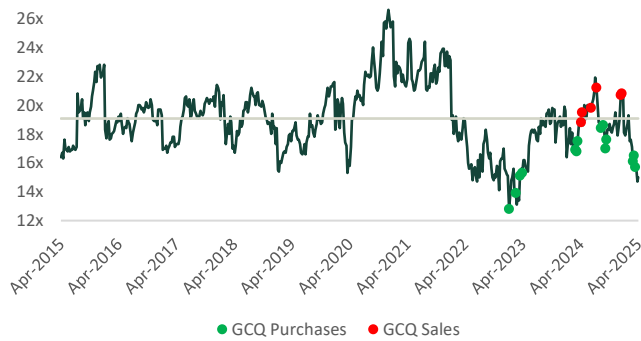
### Alphabet Has Been Consistently Undervalued by the Market

At the time of writing, Alphabet is trading on under 14x forward earnings, below its historical average of 19x, which is a figure that has persistently undervalued the company, in our view.

The 14x figure also includes the impact of Alphabet's loss-making divisions, such as its Waymo self-driving car project. If we exclude the impact of Alphabet's loss-making and non-core businesses, Alphabet's core business (i.e., Google and YouTube) is trading on just 9x forward earnings.

Alphabet's core business is valued at a substantially lower valuation multiple than the broader market, despite it being one of the best businesses in the world; growing revenues in the double-digits, with high margins, high returns on incremental capital, and net cash on its balance sheet.

### Alphabet Forward Earnings Multiple



Source: Bloomberg & GCQ Funds Analysis

These valuation multiples are mouth-watering if you believe – as we do – that:

1. Alphabet's scale, distribution, and network effects provide it with a defensible market position in online search and digital advertising;
2. AI is driving growth in search volumes and providing more opportunities for advertisers; and
3. Alphabet has a meaningful opportunity to expand margins.

We remain vigilant in monitoring the industry structure for signs that Google may be having its "Kodak Moment" and include this as a point in our **GCQ Industry Quality Checklist™**. With that said, we believe Alphabet has been consistently undervalued by the market, as investors have underestimated the durability and defensibility of its long-term growth. Against this backdrop, we have a high degree of conviction that Alphabet will deliver healthy shareholder returns over the coming years.

***"Be fearful when others are greedy and greedy when others are fearful."***

- Warren Buffett

## CONTACT

KATHY WU  
Chief Operating Officer  
contact@gcqfunds.com  
+61 (2) 7252 9124

GCQ Funds Management Pty Ltd  
Level 14, 167 Macquarie Street  
Sydney, NSW 2000 Australia  
gcqfunds.com

## DISCLAIMER

Adminis Funds Limited (FSP1008007) (NZBN: 9429052179914) is the Manager and Issuer of the GCQ Flagship PIE Fund (the Fund). The investment manager for the Fund is GCQ Funds Management Pty Ltd AFSL 538513. The information on this website is directed and available to residents of New Zealand only deemed to be Wholesale Clients under Schedule 1 of the Financial Markets Conduct Act 2013. The distribution of information to persons outside these criteria may be restricted by law and persons who come into possession of it should seek advice and observe any such restriction. This information is intended to be general in nature and is not personal financial product advice. Any advice contained in this document is general advice only and has been prepared without considering your objectives, financial situation or needs. Before acting on any information, you should consider the appropriateness of the information provided and the nature of the relevant financial product having regard to your objectives, financial situation and needs. You should seek independent financial advice and read the relevant disclosure statements or other offer document prior to making an investment decision (including a decision about whether to acquire or continue to hold) about a financial product.

<sup>3,4</sup> Certain information contained herein (the "Information") is sourced from/copyright of MSCI Inc., MSCI ESG Research LLC, or their affiliates ("MSCI"), or information providers (together the "MSCI Parties") and may have been used to calculate scores, signals, or other indicators. The Information is for internal use only and may not be reproduced or disseminated in whole or part without prior written permission. The Information may not be used for, nor does it constitute, an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product, trading strategy, or index, nor should it be taken as an indication or guarantee of any future performance. Some funds may be based on or linked to MSCI indexes, and MSCI may be compensated based on the fund's assets under management or other measures. MSCI has established an information barrier between index research and certain Information. None of the Information in and of itself can be used to determine which securities to buy or sell or when to buy or sell them. The Information is provided "as is" and the user assumes the entire risk of any use it may make or permit to be made of the Information. No MSCI Party warrants or guarantees the originality, accuracy and/or completeness of the Information and each expressly disclaims all express or implied warranties. No MSCI Party shall have any liability for any errors or omissions in connection with any Information herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.