

# MUNRO CONCENTRATED GLOBAL GROWTH FUND

## RELATIVE RETURNS

### JUNE 2020 QUARTERLY UPDATE

#### QUARTERLY HIGHLIGHTS

- The Munro Concentrated Global Growth Fund returned 12.9% over the June quarter (25.0% from equities and -12.1% from currency) while the MSCI World (ex-Aus) returned 5.9% (18.5% from equities and -12.6% from currency) (page 2).
- From a stock attribution perspective, positive contributions came from our large digital winners Amazon, PayPal (page 3), Microsoft and ServiceNow (page 3). While equity markets recorded their highest quarterly local returns in decades, the Australian Dollar appreciated 14% against the US dollar during the quarter, which cost both the Fund and the index.
- We remain confident on the prospects of our portfolio over the medium term, while respectful of potential second wave or second order effects of the COVID crisis over the shorter term.

FUND QUARTER#	12.9%
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MSCI QUARTER#	5.9%
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#### NEW YOUTUBE CHANNEL



We have recently updated the Munro Partners' YouTube channel and encourage our clients to [subscribe](#).

We will be recording a new Q&A update video with Founding Partner and Chief Investment Officer, Nick Griffin next week

This will be first available on YouTube. [Subscribers](#) will receive an alert when the video is published.

Munro Partners YouTube channel includes videos on:

- Our Investment Process
- Areas of Interest (e.g. Infrastructure as a Service)
- Fund Updates (e.g. the March quarter webinar)

#### FUND FEATURES

GLOBAL GROWTH EQUITIES  
LONG-ONLY, UNHEDGED  
20-40 POSITIONS  
RELATIVE RETURNS  
\$10M FUND FUM  
\$355M STRATEGY FUM

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IMPORTANT INFORMATION: #Past performance is provided for illustrative purposes only and is not a guide to future performance. As at 30 June 2020. Inception date is 31 October 2019. Returns of the Munro Concentrated Global Growth Fund are net of management costs and assumes distributions have been reinvested. The MSCI World [Ex-Aus] TR Index AUD refers to the MSCI World [Ex-Australia] Total Return Net Index in Australian Dollars. BPS refers to Basis Points. AOlS refers to Areas of Interest. GSFM Responsible Entity Services Limited ABN 48 129 256 104 AFSL 321517 (GRES) is the responsible entity of the Munro Concentrated Global Growth Fund ARSN 630 173 189 (Fund) APIR GSF9808AU and is the issuer of this information. This information has been prepared without taking account of the objectives, financial situation or needs of individuals. Before making an investment decision in relation to the Fund, investors should consider the appropriateness of this information, having regard to their own objectives, financial situation and needs and read and consider the product disclosure statement for the Fund dated 31 October 2019 (PDS) and the Additional Information to the Product Disclosure Statement (AIB) which may be obtained from [www.gsfm.com.au](http://www.gsfm.com.au), [www.munropartners.com.au](http://www.munropartners.com.au) or by calling 1300 133 451. None of GRES, Munro Partners, its related bodies or associates nor any other person guarantees the repayment of capital or the performance of the Fund or any particular returns from the Fund. No representation or warranty is made concerning the accuracy of any data contained in this document. The Fund's holdings, exposure and allocations depict end of month figures and may have changed materially or not disclosed due to confidentiality reasons. Numbers may not sum due to rounding or compounding returns. This document is issued on 10 July 2020.



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## RELATIVE RETURNS

### JUNE 2020 QUARTERLY UPDATE

#### FUND COMMENTARY

Global equity markets had their highest quarterly returns in decades as markets rebounded from the March COVID-19 induced lows. The dramatic recovery was led by essentially a 'less bad' outlook on COVID infections and an unprecedented wave of stimulus by central banks and governments across the globe.

The key stimulus package came from US President Donald Trump who signed the Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act. This \$2 trillion US stimulus package was the largest emergency relief bill in American history. Similar packages were passed in other developed countries, combined with co-ordinated central bank efforts to lower interest rates for sovereigns and corporates alike.

Asset prices responded in kind with all asset classes rising. However, equity markets did bifurcate from the lows with strong differentiation between the so-called digital and technology 'winners' in a post COVID world and the so-called bricks & mortar retail, financials and autos 'losers'. This is most evident when looking at the calendar year performance of indices in the US, where the Nasdaq is up 13.7% and the smaller cap Russell 2000 index is down 14.2%.

From a stock attribution perspective for the Fund, positive contributions mainly came from our large digital winners such as Amazon, Microsoft, PayPal and ServiceNow. Elsewhere, strong gains were also achieved from semi-conductor equipment player ASML and in healthcare via Thermo Fisher and Danaher. Listed futures exchange CME was the only detractor for the quarter, as lower interest rate volatility reduced market turnover.

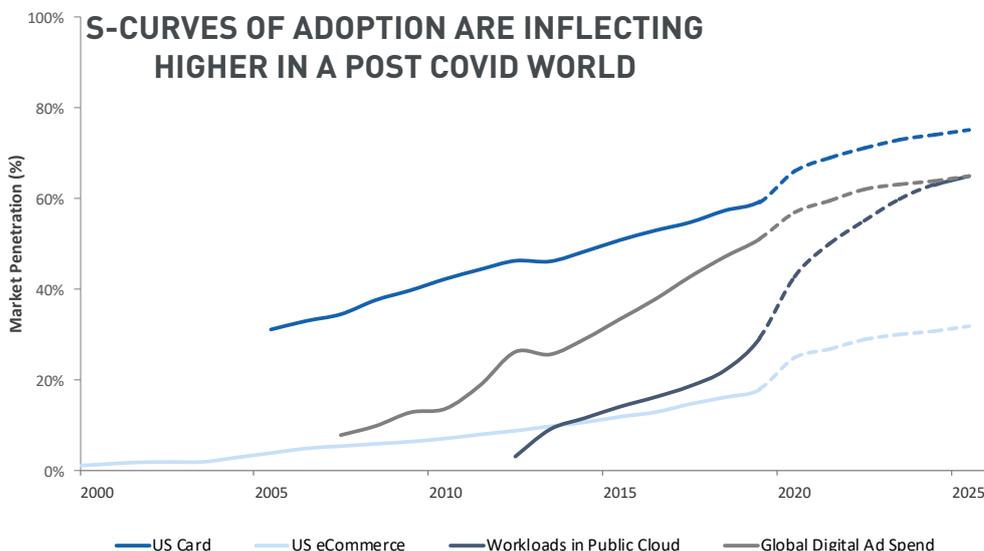
#### MARKET OUTLOOK

The COVID-19 pandemic is essentially a health crisis and by extension a solvency crisis for many small businesses across the globe. Consequently, governments and central banks alike have seen little need to worry about moral hazard or sovereign debt levels, instead moving quicker than usual to provide unprecedented levels of stimulus and far reaching interventions into credit markets which together have provided a strong firewall against any near term solvency concerns.

Seeing these unprecedented actions and having also learnt the lesson of the 'Powell Pivot' in December 2018, the Fund acted quickly to deploy its remaining cash holdings over the first half of April. Furthermore, we chose to deploy our cash into identified Areas of Interest (AoI) that would be better off in a post COVID world. Specifically, we have pushed portfolio exposure higher in key winning AoIs like Digital Enterprise, Digital Payments, eCommerce and Innovative Health. Many of our key portfolio holdings are now uniquely positioned to accelerate their market share dramatically as disruption speed, social distancing and the need to test the population becomes more prevalent.

We would reiterate that over the medium to long term it is far more important to correctly identify an area of structural growth and the companies set to benefit from that growth, than to try to predict the direction of the economy or market. With so many areas of disruption occurring at once post COVID-19, we feel confident about the opportunities ahead over the medium to long term.

That said, it would be naïve to think that there are not more twists and turns in the road ahead given the global pandemic. While we are comfortable in our core holdings, we remain watchful for any second waves or second order COVID-19 repercussions over the months ahead.



**PayPal**  
"tipping point of physical to digital (cash)" ... "explosion of new users"...

**VISA**  
**MasterCard**  
**FIS**

**Facebook**  
"We have seen increased usage across all of our platforms"

**Tencent 腾讯**  
**theTradeDesk**  
**Google**

**Microsoft**  
"We have seen 2 years of digital transformation in 2 months"

**free**  
**Adobe**  
**servicenow**  
**ATLASSIAN**

**amazon**  
"We experienced a major surge in demand"

**Alibaba Group**

Source: Company Filings, Magna, Morgan Stanley, Munro estimates 30 June 2020



# MUNRO CONCENTRATED GLOBAL GROWTH FUND

## RELATIVE RETURNS

### JUNE 2020 QUARTERLY UPDATE

#### STOCK STORY - PAYPAL



AREA OF INTEREST: DIGITAL PAYMENTS  
MARKET CAP: US\$210B

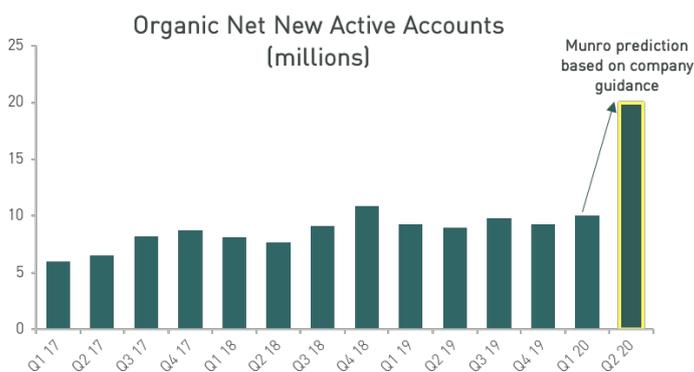
PayPal contributed 2.7% to Fund performance during the June quarter.

The 2020 COVID pandemic has proved an accelerant for digital payments. As consumers have been required to stay at home, e-commerce has become an essential service for many, particularly to buy groceries and pharmaceutical products, and it has also benefited from the shift in spending away from travel and entertainment. Elsewhere, cash has been deemed a virus transmitter, with many businesses and individuals choosing to no longer accept it as a form of payment.

PayPal is the dominant online payment platform, sitting at the forefront of the Digital Payments structural growth trend and has been a core holding in the Fund since early 2018. PayPal operates as a three-sided platform: it connects the bank, consumer and merchant selling online goods to securely process online transactions.

While PayPal's Q1 results were in line with expectations, comments on its accelerating outlook by CEO Dan Schulman were what drove the recent strong performance. As evidence of this positive inflection, on the 1st of May, PayPal had its largest single day of transactions in history, larger than either of Black Friday and Cyber Monday last year.

The company also reports how many 'net new actives' have joined the platform, i.e. net new users adopting PayPal. Typically, PayPal reports 3-4 million net new active users per quarter. During April alone, the company recorded 7.4 million net new active users for a single month and looks on track to deliver nearly 20 million net new active users for the 2nd quarter, (see below). Despite the strong recent performance, we see PayPal as only beginning to monetise these new consumers and expect wider adoption and further performance in the years ahead.



Source: PayPal reports, Bloomberg, Munro estimates 30 June 2020

#### STOCK STORY - SERVICENOW



AREA OF INTEREST: DIGITAL ENTERPRISE  
MARKET CAP: US\$80B

ServiceNow contributed 1.3% to Fund performance during the June quarter.

As the market leader in IT Service Management software, ServiceNow is automating IT departments and help desks, as well as enabling them to function virtually, all over the world. While ServiceNow's Q1 results were good, the outlook was also upbeat with the business quickly pivoting to remote working and virtual implementations. CEO Bill McDermott said on the call that "Post COVID, digital transformation will accelerate, and ServiceNow is the workflow standard for digital transformation. And most important, the Now Platform, the platform of platforms, has become the standard for workflow design experiences".

Like many of our software investments, ServiceNow is dominating its core vertical, which in this case is IT support. This domination allows increased R&D investments to create increased functionality and network effects which in turn creates further domination.

ServiceNow's latest software update includes chatbots that automate low level IT helpdesk queries such as resetting passwords; allowing human IT power to focus on more complex requests. Also included were machine learning features – by observing thousands of past queries the machine ascertains what the best outcome is, having learned from history. These features could add significant value in a COVID world where IT help desks have been overwhelmed by the volume of requests.

Other key products in HR and Customer Service Management are early in their life cycle, with management estimating they are 1% penetrated in their addressable markets. Here ServiceNow is the workflow management software that sits on top of the underlying system of record software products. For example, an employee onboarding process touches many different departments from HR, payroll, security, etc. ServiceNow's product allows for automated workflow of this process.

ServiceNow has been a core holding in the fund since early 2018 and the investment case looks as attractive as ever; with the acceleration of digital transformation and vast growth opportunities ahead for a company that is already growing revenues at >30% per annum at close to a 30% FCF margin.



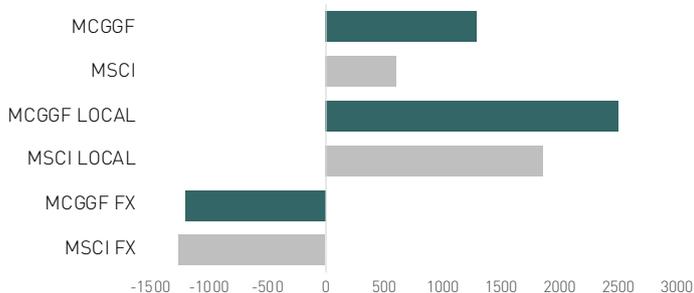
# MUNRO CONCENTRATED GLOBAL GROWTH FUND

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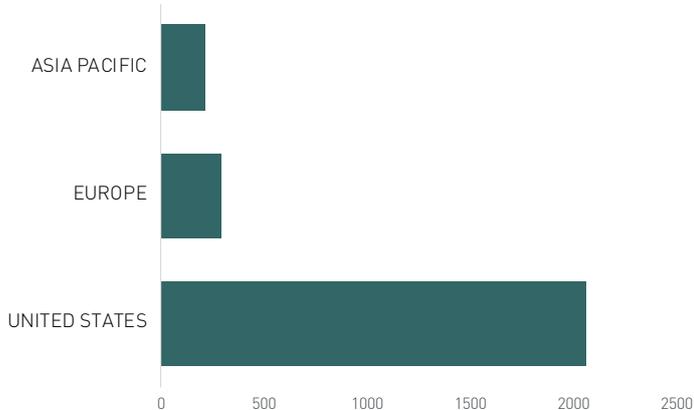
### JUNE 2020 QUARTERLY UPDATE

#### QUARTERLY FUND ATTRIBUTION

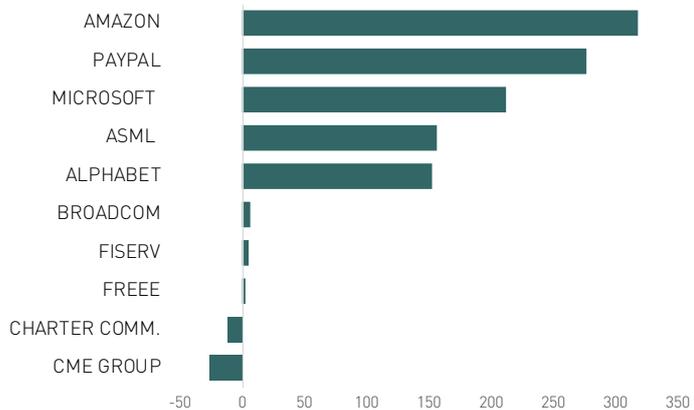
##### BY INVESTMENT CATEGORY



##### BY REGION



##### BY CONTRIBUTORS (TOP & BOTTOM)



#### QUARTER END EXPOSURE

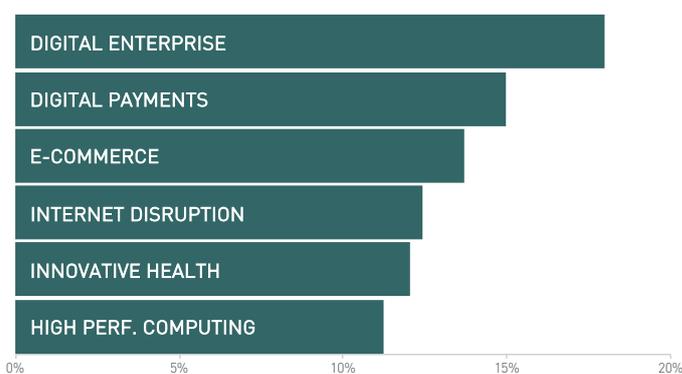
##### BY INVESTMENT CATEGORY

LONG	96%	INFO TECH	46%
CASH	4%	CONS DISC	15%
NO. OF LONG POSITIONS	28	COMM SERV	14%
		HEALTH CARE	13%
		OTHER	8%

##### BY REGION

Region	LONG Exposure
AUSTRALIA	0.0%
UNITED STATES	68.6%
HONG KONG/CHINA	10.0%
EURO AREA	7.6%
NETHERLANDS	5.2%
PORTUGAL	2.4%
DENMARK	2.6%
SWITZERLAND	2.5%
TAIWAN	4.1%
JAPAN	0.9%
EXPOSURE	96.3%
CASH	3.7%

##### BY AREAS OF INTEREST (AOI)



PERFORMANCE	1 MTHS	2 MTHS	3 MTHS	6 MTHS	INCEPTION CUMULATIVE
MUNRO CONCENTRATED GLOBAL GROWTH FUND (AUD)	1.3%	5.7%	12.9%	14.8%	19.0%
MSCI AC WORLD (EX-AUS) TR INDEX (AUD)	-1.1%	2.2%	5.9%	-3.6%	0.1%
EXCESS RETURN	2.4%	3.5%	6.9%	18.4%	18.9%

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL RETURN
2020FY					4.9%	-1.2%	7.4%	-1.1%	-4.2%	6.7%	4.4%	1.3%	19.0%

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