

# MUNRO CONCENTRATED GLOBAL GROWTH FUND

## RELATIVE RETURNS

### SEPTEMBER 2020 QUARTERLY UPDATE

#### QUARTERLY HIGHLIGHTS

- The Munro Concentrated Global Growth Fund returned 10.1% in the September quarter (14.3% from equities and -4.2% from currency), while the MSCI World (Ex-Aus) returned 3.8% (6.9% from equities and -3.1% from currency) (page 2).
- From a stock attribution perspective, positive contributions came from our High Performance Computing winners TSMC and NVIDIA, e-commerce giants Amazon and Alibaba, and our Innovative Health performers Danaher and Thermo Fisher (page 3). The continued Australian Dollar appreciation - 3.8% against the US dollar during the quarter - cost both the Fund and the index, with the Fund suffering more due to being overweight to USD denominated assets.
- 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. From a market risk perspective we acknowledge the uncertainty leading into the US election), but it is actually the uncertainty around the spread of COVID heading into the northern hemisphere winter that continues to be our bigger concern.

|               |       |
|---------------|-------|
| FUND QUARTER# | 10.1% |
|---------------|-------|

|               |      |
|---------------|------|
| MSCI QUARTER# | 3.8% |
|---------------|------|

#### VIDEO UPDATES



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

Current short videos published in July include:

- Growth v Value debate
- Area of Interest - High Performance Computing
- COVID Ramifications

New videos will also be released over the coming month.

#### FUND FEATURES

GLOBAL GROWTH EQUITIES  
LONG-ONLY, UNHEDGED  
20-40 POSITIONS  
RELATIVE RETURNS  
\$16M FUND FUM  
\$514M STRATEGY FUM

#### LIVE Q&A WEBINAR

Munro Partners invites you to join a live Zoom Q&A webinar with our Chief Investment Officer, Nick Griffin:

Thursday, 15th October at 12:00pm (AEDST).

Please register [here](#)

The Q&A webinar will be hosted by GSFM and its Head of Retail Distribution, Stephen Fletcher, covering Fund performance, market outlook, valuations, capital preservation tools and Innovative Health as Munro Partners' No. 1 Area of Interest

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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 September 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 7 October 2020.



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#### QUARTERLY HIGHLIGHTS

##### FUND COMMENTARY

The Munro Concentrated Global Growth Fund returned 10.1% in the September quarter (14.3% from equities and -4.2% from currency), while the MSCI World (Ex-Aus) returned 3.8% (6.9% from equities and -3.1% from currency).

Global equity markets had another positive quarter, continuing to build on the strong recovery from the COVID-19 lows in March. A flattening of the COVID infection curve helped calm market fears, while the aggressive stimulus by global central banks and governments allowed investment grade companies to access cheap funding and assist furloughed industries through the health crisis.

From a bottom up perspective, it has become increasingly clear that many large and important listed companies, particularly in the digital, healthcare and climate change sectors are well placed to grow post the pandemic.

This has resulted in a bifurcated market since the March lows with structural growth stocks outstripping companies that are worse off in a post-COVID world.

This is most apparent in physical industries like retailing, banking, industrials, and travel. The differentiation in performance is stark when looking at the calendar year performance of the major indices in the US (S&P up 4.1% and the tech heavy Nasdaq up 24.5%). Meanwhile, indices with a higher concentration to more traditional industries have struggled with the US Russell 2000 (small caps) down 9.8% and the German DAX down 3.7%.

From a stock attribution perspective for the quarter, positive contributions came from High Performance Compute leader TSMC and dominant eCommerce companies Amazon and Alibaba. Each of these companies are well placed to succeed in a world of increased social distancing and greater need for digitalisation. Innovative Health businesses Thermo Fisher and Danaher also helped performance over the period (see page 3). There were three positions that detracted from quarterly performance - ASML, Spotify and Fiserv - as markets generally rose over the quarter.

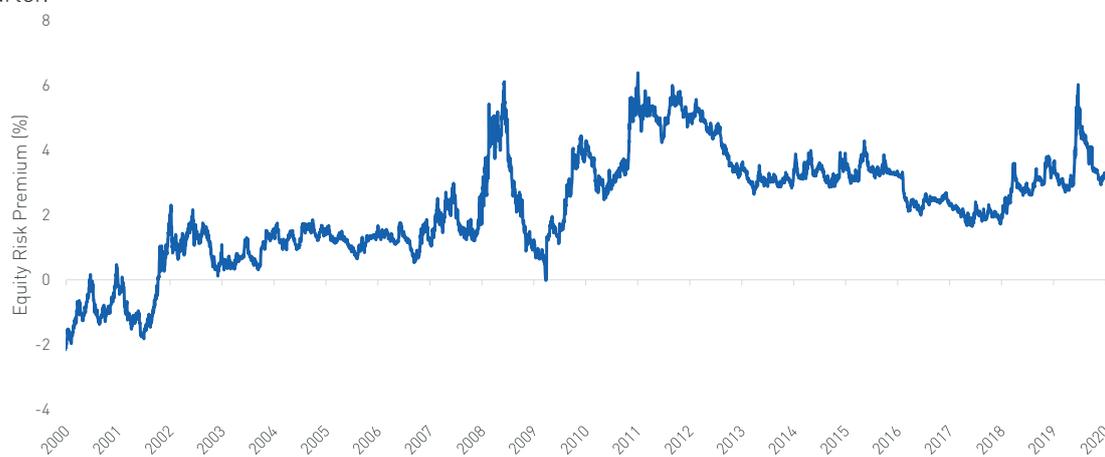
##### MARKET OUTLOOK

The Fund has had a strong period of performance since the COVID lows. Nonetheless, the equity risk premium available is still attractive with rates being held low (see chart below).

Furthermore, we are excited about many of the Areas of Interest (Aoi) represented in the portfolio. We expect our companies in the Digital Enterprise, Digital Payments, eCommerce, Innovative Health and Climate areas to continue to deliver strong upcoming earnings results and provide bullish outlook statements.

From a valuation perspective, we still see reasonable opportunities in these areas and note that in most cases the stock moves post COVID are simply reflecting a pull forward in market share gains. That is, much of this growth would have occurred anyway, but the disruption from COVID has accelerated these trends and pulled the gains into 2020. We would re-iterate 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.

From a market risk perspective, we acknowledge the uncertainty leading into the US election (note: we see the primary risk here as being a contested election, or blue wave) but it is actually the uncertainty around the spread of COVID heading into the northern hemisphere winter that continues to be our bigger concern.



EQUITY RISK PREMIUM (ERP) = 1/PE S&P500 – US 10 YEAR

Source: Bloomberg Finance L.P 30 September 2020



# MUNRO CONCENTRATED GLOBAL GROWTH FUND

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### SEPTEMBER 2020 QUARTERLY UPDATE

#### INNOVATIVE HEALTH AoI - DANAHER

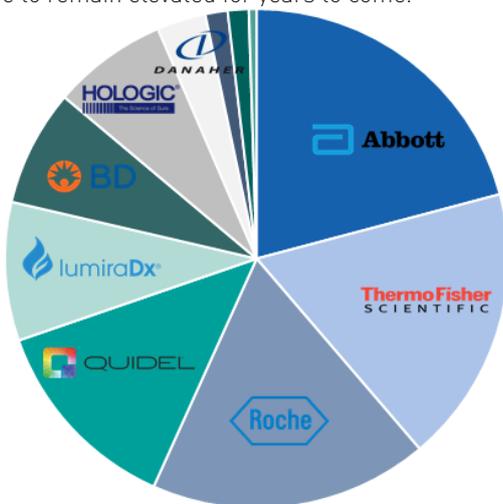


AREA OF INTEREST: INNOVATIVE HEALTH  
MARKET CAP: US\$150B

DanaHER contributed 101bps to fund performance during the quarter.

DanaHER designs, manufactures and markets products and services in the sectors of life sciences, diagnostics testing and environmental sciences. We first invested in DanaHER in February 2018 given the attractive end markets they were exposed to, with the characteristics of structural growth, resiliency during recessions and high recurring revenue from consumables. They have one of the best management teams and investment philosophies we have seen with their "DanaHER Business Systems" (DBS) framework. Rather than grow margins by cost-cutting, the DBS process increases cost lines such as Research & Development (R&D) leading to more innovation and higher priced products and expanding gross margins. Those higher gross margins can then be partially re-invested back into R&D and sales & marketing (S&M), whilst letting some margin fall to the bottom-line.

Since COVID-19, we have increased our position size in DanaHER substantially. The arrival of COVID-19 gave the recent acquisition of Cytvia (GE's biopharma business) an added growth driver – vaccine development and production. DanaHER is the global leader in supplying instruments and consumables to the biopharma manufacturing industry (see chart below). The rush to develop and build increased capacity for COVID-19 vaccine development and production led to sales growth of >20% for DanaHER's operating businesses in this segment, up from a run-rate of high single digits. Assuming COVID-19 vaccines are developed and production occurs at large scale, growth for DanaHER should continue to remain elevated for years to come.



FY21 PCR + ANTIGEN TEST REVENUE OPPORTUNITY  
USD\$26.8BN

Source: JP Morgan, 2020

#### INNOVATIVE HEALTH AoI - THERMO FISHER



AREA OF INTEREST: INNOVATIVE HEALTH  
MARKET CAP: US\$170B

Thermo Fisher contributed 104bps to Fund performance during the quarter.

Thermo, like DanaHER, is a leading life sciences equipment manufacturer. We invested in Thermo alongside DanaHER because of how well positioned it was to benefit from some of the most important trends in healthcare, including the advancement of biologics, the advent of cell and gene therapy and personalised medicine, molecular diagnostics and, in materials science, the development of nanotechnology. The company's leading market share across many of its addressed markets, combined with the depth of its product offering, enhances its ability to support growth and gain share.

We also increased our position in Thermo Fisher considerably on the back of the COVID-19 pandemic. Like DanaHER, Thermo is a key supplier of instruments and consumables to the bioprocessing industry and so will benefit from the vaccine development and production. However, in the nearer term, the biggest tailwind from COVID-19 is on the testing side. Whilst DanaHER also has some exposure via their Cepheid business, Thermo has a larger exposure to this end market (see chart above).

Thermo saw a \$1.5bn COVID tailwind in 1H20 and expects another \$3bn in 2H20, driven by the sale of COVID related tests (now making over 10m kits per week, which will step up to 20m tests a week in October) and related reagents and consumables. This additional \$4.5bn of revenue equates to an uplift of 18% on their 2019 revenue base of \$25.5bn. This testing tailwind, along with the vaccine development tailwind, will persist for years to come for Thermo Fisher.



FY21 BIOPROCESSING/TOOLS REVENUE OPPORTUNITY  
USD\$20.4BN

Source: Citi, 2020

DanaHER and Thermo Fisher together look set to benefit for years to come from increased demand for their testing products as the virus remains, increased demand for their biopharma manufacturing equipment as the vaccine is developed and finally, from a step change in overall healthcare spending as governments seek to prevent further pandemics in the future.



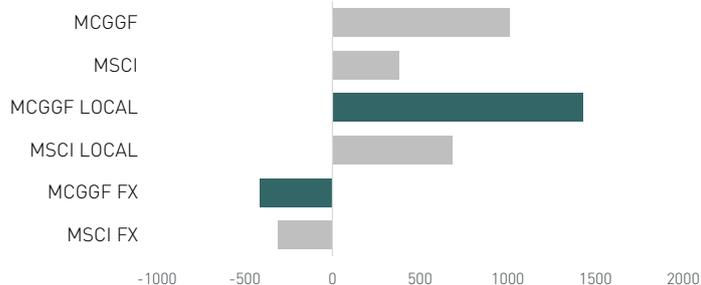
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## RELATIVE RETURNS

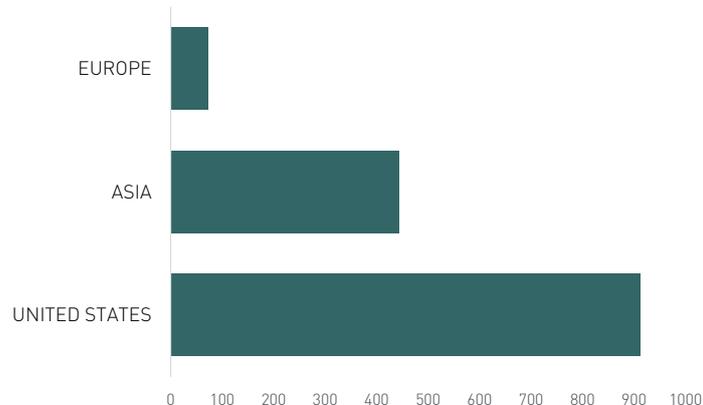
### SEPTEMBER 2020 QUARTERLY UPDATE

#### QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

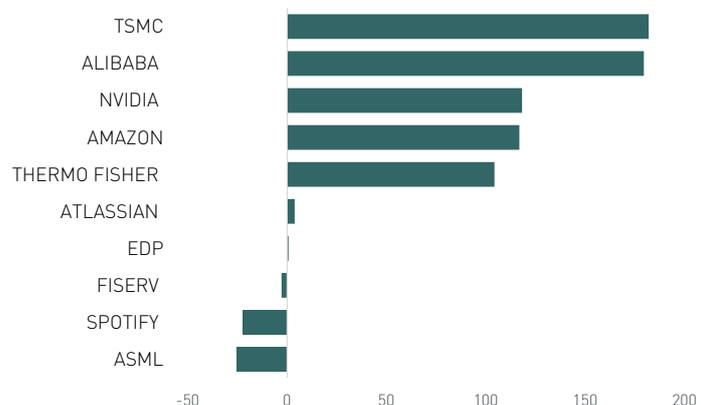
##### BY INVESTMENT CATEGORY



##### BY REGION



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



#### QUARTER END EXPOSURE

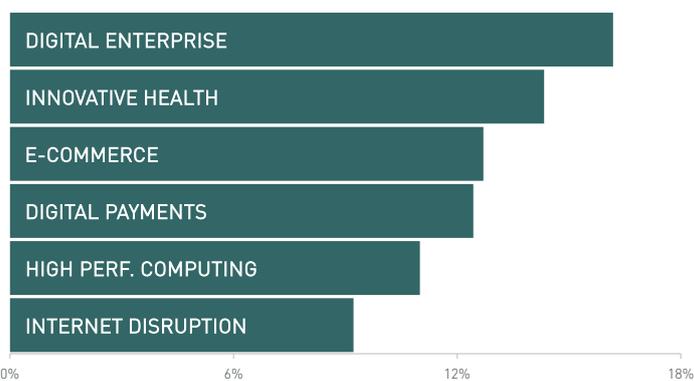
##### BY INVESTMENT CATEGORY

|                       |     |             |     |
|-----------------------|-----|-------------|-----|
| LONG                  | 96% | INFO TECH   | 45% |
| CASH                  | 4%  | COMM SERV   | 16% |
| NO. OF LONG POSITIONS | 28  | CONS DISC   | 15% |
|                       |     | HEALTH CARE | 14% |
|                       |     | OTHER       | 6%  |

##### BY REGION

| Region          | Exposure (%) |
|-----------------|--------------|
| LONG            | 96.2%        |
| AUSTRALIA       | 0.0%         |
| UNITED STATES   | 63.5%        |
| HONG KONG/CHINA | 9.5%         |
| EURO AREA       | 6.6%         |
| GERMANY         | 2.4%         |
| NETHERLANDS     | 4.2%         |
| DENMARK         | 5.4%         |
| SWITZERLAND     | 2.5%         |
| SWEDEN          | 2.2%         |
| TAIWAN          | 3.8%         |
| JAPAN           | 2.7%         |
| CASH            | 3.8%         |

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



| PERFORMANCE                                 | 3 MTHS | 6 MTHS | 9 MTHS | INCEPTION CUMULATIVE |
|---|--------|--------|--------|----------------------|
| MUNRO CONCENTRATED GLOBAL GROWTH FUND (AUD) | 10.1%  | 24.3%  | 26.5%  | 31.1%                |
| MSCI AC WORLD (EX-AUS) TR INDEX (AUD)       | 3.8%   | 9.9%   | 0.0%   | 3.9%                 |
| EXCESS RETURN                               | 6.4%   | 14.4%  | 26.4%  | 27.2%                |

|        | 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%        |
| 2020FY | 4.4% | 4.4% | 1.0% |     |      |       |      |       |       |      |      |      | 10.1%        |

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