



MUNRO

Quarterly report

Munro Concentrated Global Growth Fund

September 2021



Munro Concentrated Global Growth Fund

September 2021 – Quarterly report

Fund quarter return
4.3%

MSCI quarter return
4.0%

QUARTERLY HIGHLIGHTS

- The Munro Concentrated Global Growth Fund returned 4.3% in the September quarter.
- Equities markets in local currency were broadly unchanged over the quarter, but volatility returned with a market reversal in September.
- We remain positive equity markets medium term, however near term there are some hurdles that need to be overcome. The fund has raised its cash holdings.
- The fund sold all its Chinese stocks between January and May this year and will look for more clarity on governance and regulation before considering a return.

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WEBINAR INVITATION

Together with GSFM, we would like to invite you to attend our virtual webinar and Q&A session.

DATE: **Wednesday 27 October**
TIME: **12.00pm AEST**

To receive the zoom link, please register your details [here](#).

AREAS OF INTEREST

Munro Partners recently launched our new brand and website. The new website features a deep-dive into our current Areas of Interest (Aol). Follow the links below to learn more about:

- [Climate](#)
- [High Performance Computing](#)
- [Digital Enterprise](#)
- [Emerging Consumer](#)

You can find all the Aols on our [website](#).

FEE ADJUSTMENTS

We are pleased to announce that the Management Fee for the Munro Concentrated Global Growth Fund has been reduced from 1.10% to 0.70% p.a.

This is effective from 1 October 2021.

IMPORTANT INFORMATION: Past performance is provided for illustrative purposes only and is not a guide to future performance. Data is as at 30 September 2021 unless specified otherwise. 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. AOl 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 21 July 2021 (PDS) and the Additional Information to the Product Disclosure Statement (AIB) which may be obtained from www.gsfc.com.au, 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.



QUARTERLY HIGHLIGHTS

Fund commentary

The Munro Concentrated Global Growth Fund returned 4.3% in the September quarter (1.1% from equities and 3.2% from currency, while the MSCI World (Ex-Aus) returned 4.0% (0.6% from equities and 3.4% from currency).

Equities markets in local currency were broadly unchanged over the quarter, but volatility returned with a market reversal in September.

While the Fund had avoided much of the risk around the COVID Delta wave and China throughout the quarter, the headwinds started to spill over to the broader market towards the end of September. Supply chain bottlenecks are occurring as we learn that it is harder to re-open than close-down the economy, Chinese demand is weakening on the back of regulatory and property sector risks, and inflationary pressures are staying stubbornly high due to raw materials and transport prices. The combination of these issues is likely to pressure the near-term corporate earnings outlook.

For the quarter positive contributors came from the Innovative Health, Digital Enterprise and High-Performance Compute 'Areas of Interest'. The Fund's Innovate Health investments stand to benefit from increasing drug and vaccine development in the years to come. Digital Enterprise stocks are the recipients of corporates accelerating investments in productivity tools to assist their workforces. High Performance Compute names are being driven by data centre growth to help power everything from AI to gaming.

Negative contributions came from Digital Payments, as the market frets about cross border travel taking longer to return to normal and possible disruption risks from digital wallets.

From a stock attribution perspective for the quarter, positive contributions came from Innovative Health company DanaHER, Service Now (see page 3) and ASML (see page 3). Detractors for the quarter included PayPal and Amazon.

Market outlook

We remain positive equity markets medium term. Earnings growth is likely to continue, while the structural trends driving many of our investments continue to build momentum.

Near term however, there are some hurdles that need to be overcome. Input cost inflation has continued and looks likely to negatively impact corporate profit margins. Elsewhere emerging markets continue to struggle with Covid-19 creating added supply chain bottlenecks. Finally, the make-up of the Federal Reserve is entering a period of uncertainty as some members have recently left due to insider trading allegations, coinciding with Chair Jerome Powell renomination. The sitting Democrats could now potentially reshape the Fed in line with their progressive agenda, which, if acted upon, could unsettle markets further.

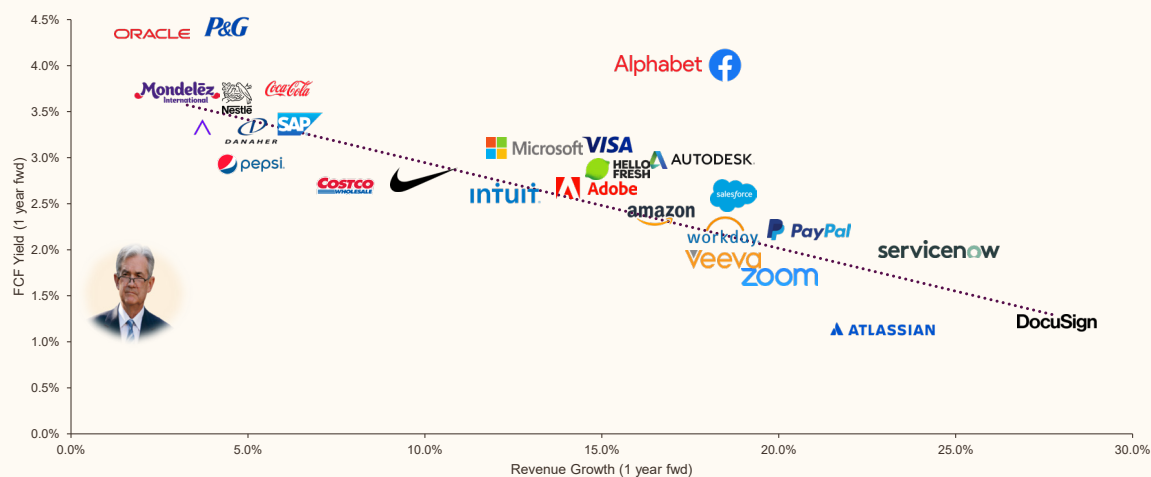
We have solidified the Fund's positioning in the highest quality growth stocks. We see our core holdings as being well placed to deal with a decelerating economic growth backdrop and potentially tighter financial conditions from the Fed. While valuations at the more speculative end of the market remain high and are consequently vulnerable to higher rates, we see larger cap structural growth stocks at reasonable levels. This is particularly the case for dominant businesses that trade on attractive free cash flow yields relative to a continuing low interest rate environment (see chart on next page).

QUARTERLY HIGHLIGHTS

Seeking cash returns... bonds, staples or the new staples?

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FREE CASH FLOW YIELD VS REVENUE GROWTH



Source: Bloomberg Finance L.P. 7 July 2021

China

We have been closely monitoring China, particularly in the last 12 months, and have become increasingly concerned with the suspension of the Ant Group IPO, the Chinese government's rhetoric regarding common prosperity and then more broadly, the regulatory crackdown on the technology and education sectors.

In response, the Fund sold its China stocks between January and May of this year.

Munro is not overly negative on the Chinese economy, but rather has some key capital market concerns with how shareholder capital is being used to pay fines, contribute to government initiatives and bail out problem companies with limited legal recourse or shareholder consultation.

We ultimately concluded that these actions meant we had limited visibility as to the long-term earnings potential of our investments and stepped to the sidelines. Post our sell down, the situation has worsened considerably and while valuations have become significantly more attractive, the above concerns remain and we will look for more clarity on governance and regulation before considering a return.

STOCK STORY: SERVICENOW



AREA OF INTEREST: **Digital Enterprise**
 MARKET CAP: **\$122B**



ServiceNow added 63bps to quarterly performance.

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.

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 reported its 2Q21 results generating revenue of \$1.41b, comfortably ahead of consensus estimates of \$1.36b. This represented YoY growth of 31.6%, accelerating at a faster rate relative to Q1's YoY growth of 30%.

This pleasing top-line performance was driven by multiple factors.

Firstly, existing customers were sharply growing their usage of ServiceNow products – which includes ITSM (IT Service Management), ITOM (IT Operations Management), Employee Workflows and Creative Workflows. This was underscored by the high renewal rate of 97%, as well as the increase in the number of customers with annual contract values above \$1m to 1,201 from 1,142 the previous quarter.

Secondly, they introduced a new pricing tier – offering a good (standard) / better (pro) / best (enterprise) product option to their customers. The introduction of the new Enterprise stock keeping unit (SKU) has pushed many customers to move to the Pro product – giving them the flexibility to make the upgrade to the top rung in the future. It is estimated that for the ITSM and ITOM products only 30% and 35% of customers respectively are on the Pro SKU or above. There is still a large opportunity ahead to drive higher customer engagement and to help them adopt the more powerful SKUs.

Looking ahead, the company forecasted contract revenue 34% higher than a year prior and provides good visibility of growth in upcoming quarters.

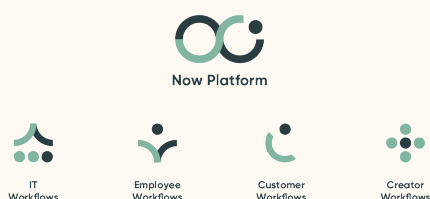
Given the strength of these results, we are confident of the momentum behind ServiceNow's push to become a \$10bn+ revenue company by 2024, which would make them the fastest growing software company in history to reach this milestone and would likely lead to meaningful upside to its current market valuation of \$125bn.

Watch videos on [Digital Enterprise](#) and [ServiceNow](#) on our YouTube channel.

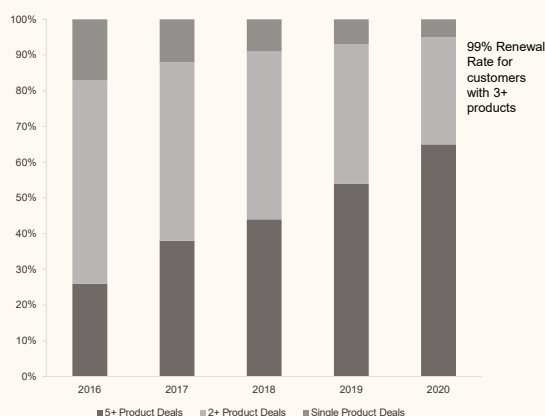
ServiceNow: the dominant workflow platform

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SERVICENOW PLATFORM: EXPANDING PRODUCT SUITE



LAND & EXPAND: MORE PRODUCTS LEAD TO HIGHER RETENTION



Source: ServiceNow Capital Market's Day, 10th May 2021

STOCK STORY: ASML

ASML

AREA OF INTEREST: **High Performance Computing**MARKET CAP: **\$301B**

ASML contributed 58bps of performance for the Fund during the quarter.

ASML, “the most important company you’ve never heard of”, is a key enabler of high performance computing.

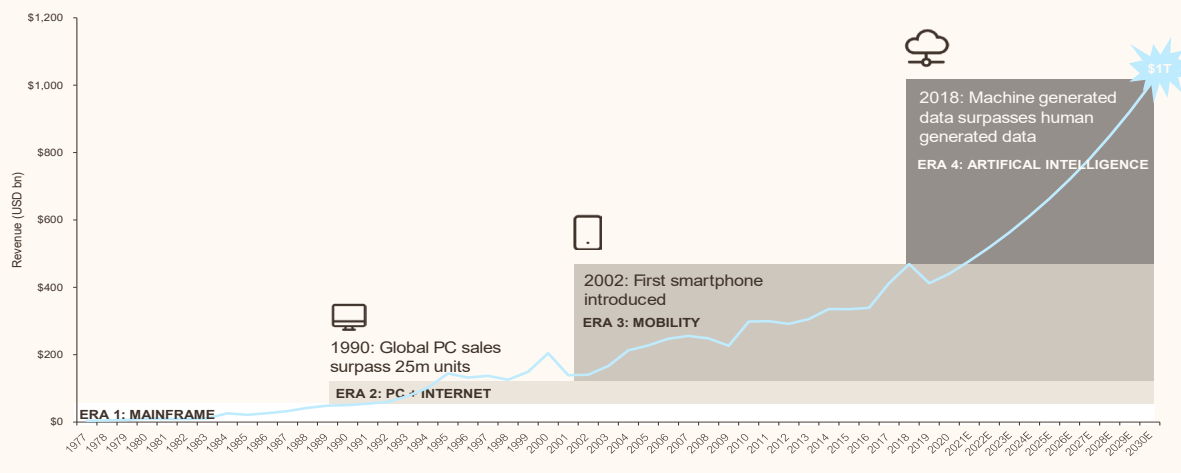
The company manufactures lithography equipment for the semiconductor industry. Their tools use extreme ultraviolet light to project ultra-small circuits onto silicon, enabling chip makers to condense tiny transistors onto chips. This process is called shrinkage and has been the key enabler to technological advancement in the modern world.

Importantly, for technological evolution to continue, chip makers unrelentingly need to advance technological nodes following a relationship coined Moore’s Law. Herein we’ve now reached a fascinating juncture whereby the only means of continued advancement is through ASML’s EUV machines. They are now effectively a monopoly, but more importantly, a social necessity.

ASML’s performance in the quarter was driven by the arrival of the company’s capital markets day in September. The company painted a bullish picture on the semiconductor industry, now estimating \$1 trillion in annual sales by 2030 driven by mega trends in cloud, AI, 5G, gaming etc.

The 4th era of computing has arrived – AI

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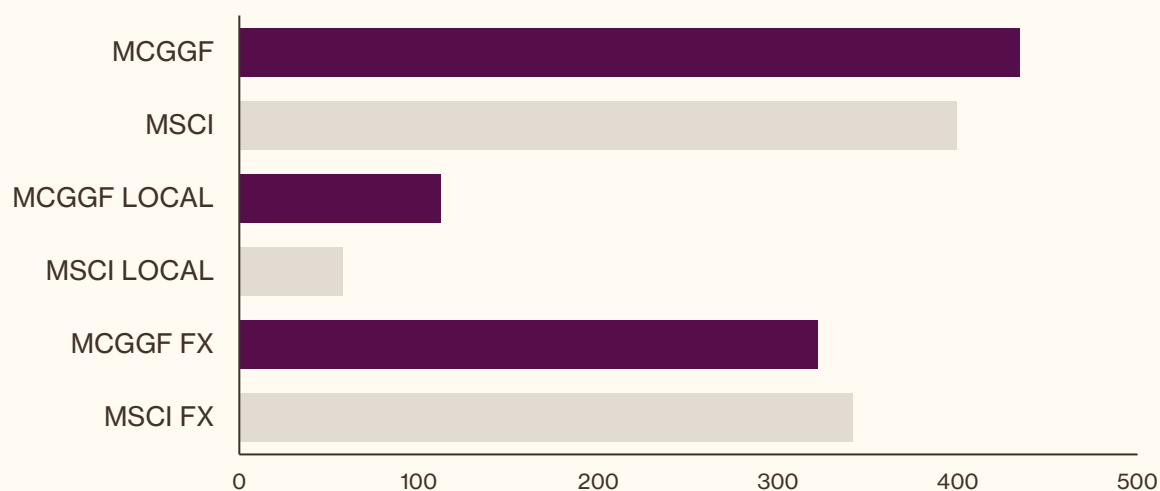
Source: World Semiconductor Trade Statistics, April 2021, Applied Materials

The company highlighted a growing focus on ‘technological sovereignty’; governments earmarking civil capital aimed at reshoring semiconductor capacity to yield an eventual Wafer Fab Equipment capex spend of \$150bn p.a. Within that lithography capex growth expectations were raised to 13.8% p.a to 2025 from an initial 7.5% p.a. issued at their preceding investor day. The event culminated with a revised target financial model. With conservatism explicitly embedded, ASML raised their expected FY25 revenue guidance to €24bn-€30bn and implied a 2030 goal of €40bn-€50bn. Which when compared to the 14bn of revenue generated in 2020, highlights the structural growth of the semiconductor industry and the dominate position the key enablers like ASML hold.

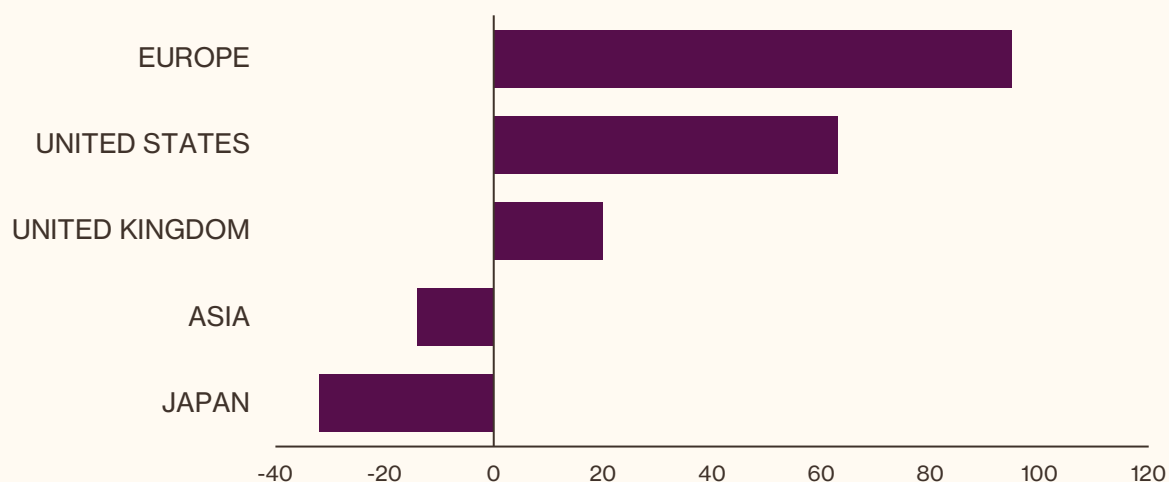
Watch videos on [High Performance Computing](#) and [ASML](#) on our YouTube Channel.

QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

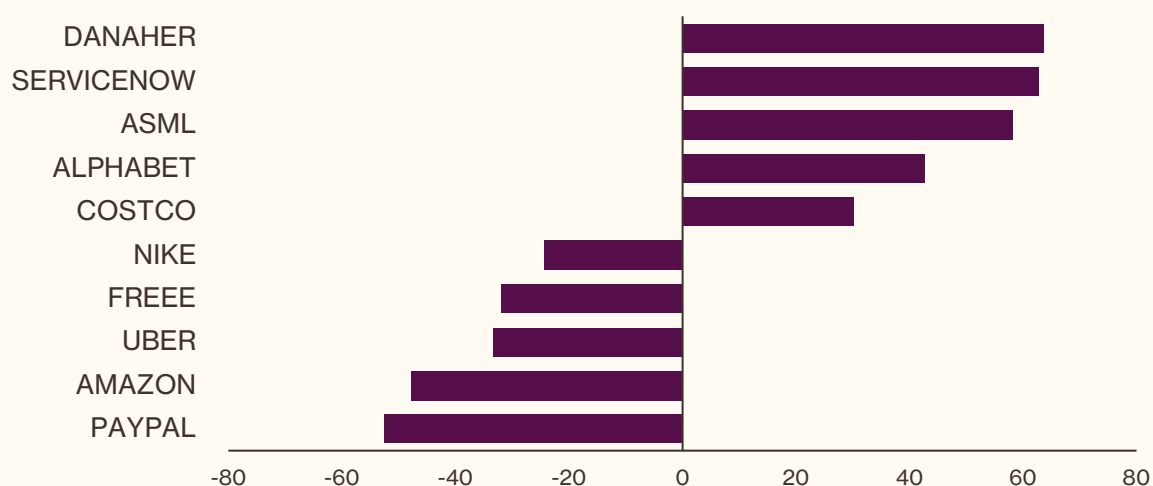
By investment category



By region (equities only)



Top & Bottom contributors (equities only)



QUARTER END EXPOSURE

By investment category

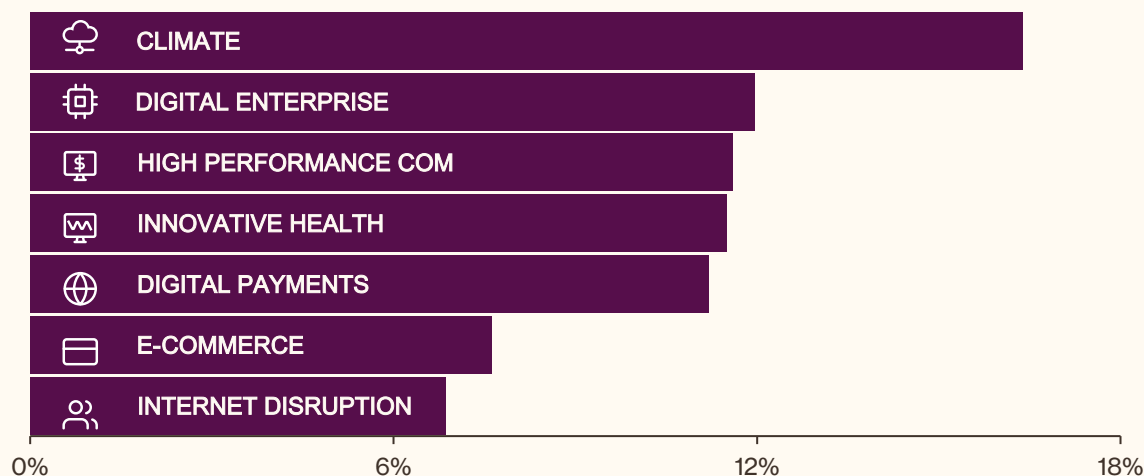
| | |
|-----------------------|-------|
| LONG | 92.0% |
| CASH | 8.0% |
| NO. OF LONG POSITIONS | 31 |

| | |
|------------------------|-------|
| INFORMATION TECHNOLOGY | 37.6% |
| CONSUMER DISCRETIONARY | 12.4% |
| INDUSTRIALS | 13.6% |
| HEALTHCARE | 11.5% |
| OTHER | 16.9% |

By region

| | |
|---------------|-------|
| | LONG |
| UNITED STATES | 66.3% |
| EUROPE | 20.7% |
| GERMANY | 4.2% |
| FRANCE | 5.0% |
| IRELAND | 1.9% |
| SPAIN | 3.4% |
| NETHERLANDS | 3.7% |
| DENMARK | 2.5% |
| TAIWAN | 2.9% |
| HONG KONG | 2.0% |
| EXPOSURE | 92.0% |
| CASH | 8.0% |

By areas of interest (AOI)



Performance

| | 3MTHS | 6MTHS | FYTD | 12MTHS | INCEPT (P.A.) | INCEPT CUM. |
|---|-------|-------|------|--------|---------------|-------------|
| MUNRO CONCENTRATED GLOBAL GROWTH FUND (AUD) | 4.3% | 12.8% | 4.3% | 19.9% | 26.6% | 57.1% |
| MSCI WORLD (EX-AUS) TR INDEX (AUD) | 4.0% | 13.7% | 4.0% | 27.8% | 15.9% | 32.7% |
| EXCESS RETURN | 0.4% | -0.9% | 0.4% | -7.9% | 10.7% | 24.4% |

| | 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% |
| 2021FY | 4.4% | 4.4% | 1.0% | 2.0% | 3.1% | 0.5% | 1.2% | -0.4% | -0.2% | 3.6% | -2.2 | 6.6% | 26.5% |
| 2022FY | 4.7% | 4.6% | -4.7% | | | | | | | | | | 4.3% |

IMPORTANT INFORMATION #Past performance is provided for illustrative purposes only and is not a guide to future performance.