

MUNRO

Quarterly report

# Munro Concentrated Global Growth Fund

MCGG.ASX

September 2022



# Munro Concentrated Global Growth Fund & MCGG.ASX

## September 2022 – Quarterly report

### MCGGF Fund quarter return

1.3%

### MSCI quarter return

0.3%

### MCGG.ASX Fund quarter return

0.7%

### MSCI quarter return

0.3%

## QUARTERLY HIGHLIGHTS

---

- The Munro Concentrated Global Growth Fund returned 1.3% in the September quarter. MCGG.ASX returned 0.7% over same period.
- The third quarter of 2022 remained difficult for global financial markets. High inflation numbers were the key catalyst for the decline in markets, leading to the US Federal Reserve raising rates by a further 75bps in their July meeting and a further 75bps in September. The US 10-year bond yield spiked to an intra-quarter high of greater than 4% for the first time in more than a decade.
- We have worked hard to improve the overall quality, valuation profile and diversification of the companies in the Fund as well as researching new Areas of Interest and idiosyncratic growth opportunities.
- From a stock attribution perspective, positive contributions included energy transition stocks Constellation Energy and Cheniere Energy, and Danaher, the global leader in bioprocessing. Detractors included technology stocks Alphabet and ServiceNow, and wind turbine manufacturer Vestas Wind Systems.

## MUNRO MEDIA

---

ABC News The Business, 14 September, 2022  
[Interest rates and stock volatility will be higher for longer after US inflation shock](#)

Forbes Australia, 23 September, 2022  
[How to invest in innovative health](#)

Munro Partners Youtube, 15 September, 2022  
[Climate Tailwinds Video](#)

## CONTENTS

---

Fund Commentary	page 3
Market Outlook	page 4
Stock Story: Constellation Energy	page 6
Stock Story: Cheniere	page 7
Key Statistics	page 8

## QUARTERLY COMMENTARY

---

### Fund commentary

The Munro Concentrated Global Growth Fund returned +1.3% (-4.3% from equities and +5.6% from currency), while the MSCI World (Ex-Aus) returned +0.3% (-4.5% from equities and +4.9% from currency), in the September quarter (MCGG.ASX +0.7%).

The third quarter of 2022 continued the downtrend in global financial markets that had occurred in the first half. High inflation numbers were the key catalyst for the decline in markets, leading to the US Federal Reserve raising rates by 75bps in their July meeting and a further 75bps in September.

The MSCI All Country World Index rallied through the first half of the quarter until the Jackson Hole symposium in late August, when Federal Reserve Chair Jerome Powell reiterated the Fed's "overarching focus right now is to bring inflation back down to our 2% goal" and he warned that this will cause some pain to households and businesses. The Index closed the quarter at its low, declining 16% since the short-term peak in mid-August.

From an Areas of Interest (Aoi) perspective, we added to Innovative Health during the quarter. This Aoi has attractive structural growth trends and defensive characteristics through a downturn. Eli Lilly and Novo Nordisk were added to the Fund, these companies have a focus on diabetes care, but have recently found that their intellectual property can be applied to areas of weight loss, which is a large addressable market.

From a stock attribution perspective, positive contributions included energy transition companies Constellation Energy and Cheniere, and our cyclical-focused short positions. Detractors included Alphabet, Vestas Wind Systems and ServiceNow.

In our market outlook, we share the guideposts that we are focused on in plotting the path ahead. We remain confident in the ability of our portfolio investments to grow earnings through this uncertainty and ultimately deliver meaningful returns for our clients.



QUARTERLY COMMENTARY

## Market outlook

Global equity markets continue to be in a bear market. As a reminder, this is the third bear market we have seen in the six years we have been managing money at Munro and the fifth bear market in our collective experience as investment managers. To remind readers, a bear market is classified as a 20% fall from peak in equity indices (e.g. S&P 500).

Having experience in bear markets, we continue to stick to our mantra that discipline needs to outweigh conviction. This is what our risk management and stop loss processes were created for, and we have relied on them heavily through this period. We have flagged for some time now the three things we are looking for to help identify the end of this bear market - below we update our current thoughts and detail why we have become more defensive.

### Long term interest rates to peak

It has been our view that bond yields can only go up so much as there is simply too much debt in the world for long-term interest rates to get much higher than 3%. Initially, during July, there were signs that this was correct with US 10-year treasuries dropping from 3.5% to 2.5% on slowing economic data. This proved short lived. Persistently high inflation data, increasingly hawkish rhetoric from Fed president Jerome Powell and three 75bps rate hikes have seen long term interest rates back up to touch 4% in September. While interest rates might have indeed peaked now at 4%, the higher rates for longer will also likely lead to a more protracted economic slowdown.



Source: Bloomberg Finance L.P 3 October 2022

### Earnings estimates to come down

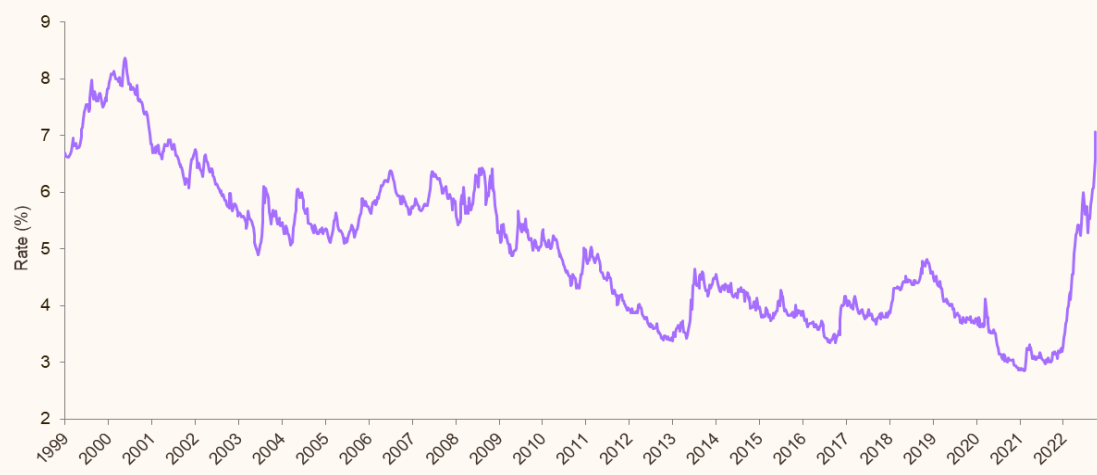
Higher interest rates have caused havoc to valuation multiples throughout 2022, however we have only just started to see the economic damage that higher rates will do. Earnings estimates have only come off marginally for 2022 and analysts still expect 8% earnings growth in 2023 for the S&P 500. This seems highly unlikely. A US 30-year mortgage has just hit 7%, having started the year at 3%. Even if the Fed stopped hiking interest rates tomorrow, it will be very difficult to avert a recession in 2023. Interest rates have simply moved too far too fast, if the Fed hikes further to kill inflation, then this will simply make the slowdown worse. The next few months is likely to see a significant and necessary reset of earnings expectations for 2023. Lower earnings estimates will eventually lay the foundation from which the market can sustainably recover.





QUARTERLY COMMENTARY

US 30 Year Fixed Mortgage Rate MUNRO

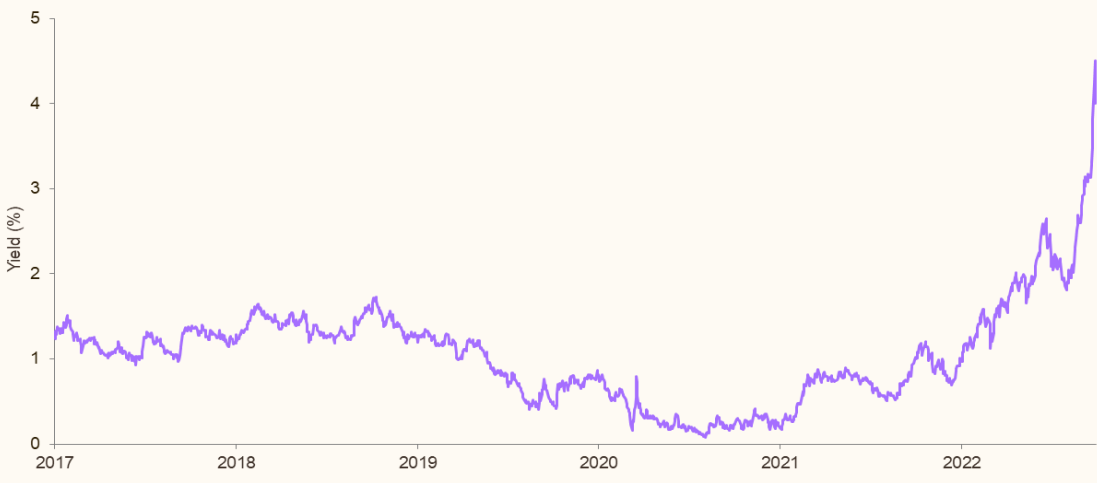


Source: Bloomberg Finance L.P 3 October 2022

**Time**

The average bear market lasts just over 300 days and falls 37% and if history is any guide, it pays to be patient in this environment. We continue to be wary of further exogenous shocks that could be precipitated by the higher interest rate environment. Obvious candidates include leveraged property players and leveraged countries. The UK's recent mini budget has seen an unprecedented sell off in UK bonds and points to the government being less likely to be able to fund their deficits. This is a warning shot to governments all over the world and suggests an era of fiscal austerity could be required exactly when most economies are going to require the opposite. Elsewhere the Russia / Ukraine and China are a source of much uncertainty and could provide further negative or positive shocks to markets should these issues worsen or be resolved.

UK 10 Year Gilt MUNRO



Source: Bloomberg Finance L.P 3 October 2022

**The sun will shine again.**

Longer term the sun will shine again, it always does. As time passes, the Fed will regain control of inflation, interest rates will peak, and the economy will bottom. Investors will eventually start looking over the valley of uncertainty and toward what normalised earnings look like for stocks and take a longer-term view. The average bull market lasts 64 months, and you do not need to pick the bottom to enjoy the good times when they return.

Across all our portfolios, we own large capitalisation stocks with fortress balance sheets. Longer term, we know that these companies are positioned to benefit from some of the most significant structural changes occurring in the world and hence remain confident that these companies can grow earnings through the current uncertainties. We remain excited about the opportunities presenting themselves out of this current bear market and are simply attempting to remain prudent, disciplined and patient in what is a difficult time for markets.



STOCK STORY: CONSTELLATION ENERGY



AREA OF INTEREST: **Climate**  
 MARKET CAP: **\$28.2B USD**



Constellation Energy contributed 115bps to Fund performance for the September quarter.

Constellation Energy (CEG) was recently spun out of Exelon Energy in January and is an independent power producer that owns and operates the largest nuclear fleet in the US, holding more than 55% of the nation’s unregulated capacity. With plants stretching from the Midwest across to New York, Constellation provides greater than 165 Terawatt-hours (TWh) of carbon-free electricity to Americans each year, which amounts to approximately 120mn metric tons of CO2 avoided annually.

We view nuclear as the cornerstone of the US energy transition. Without nuclear energy, it is highly unlikely that the US can meet their Paris Agreement targets to reduce carbon emissions by at least 50% by 2030 (see diagram below), with renewables only accounting for 18% of US power generation today. Nuclear energy also boasts the highest utilisation rates for carbon-free energy sources, and therefore, its ability to provide 24/7 baseload power to the grid is pivotal to ensuring energy security and reliability. This will be particularly important as the transition progresses, with variable weather conditions (wind speeds, sun shading etc.) impacting the utilisation rates of renewables.

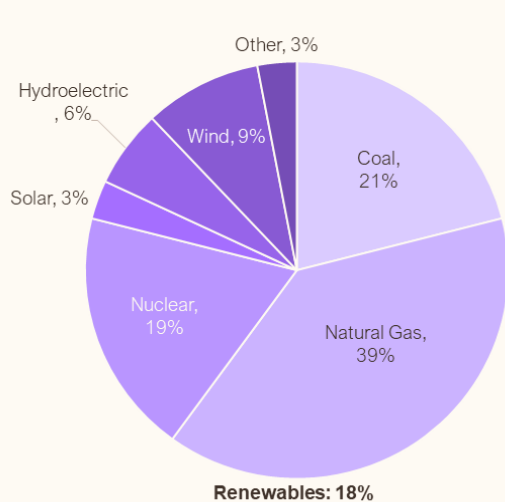
We like Constellation for their hedged exposure to rising power prices (that are determined by natural gas prices as the marginal cost of fuel), while their operating costs remain relatively constant, resulting in strong earnings growth and cash flow generation.

More recently, the Inflation Reduction Act (IRA) has drastically improved the prospects of nuclear energy in the US, providing production tax credits (PTCs) over the next 10+ years that give operators like Constellation long-term certainty by effectively setting a ‘floor’ on the power price they receive on their carbon-free generation.

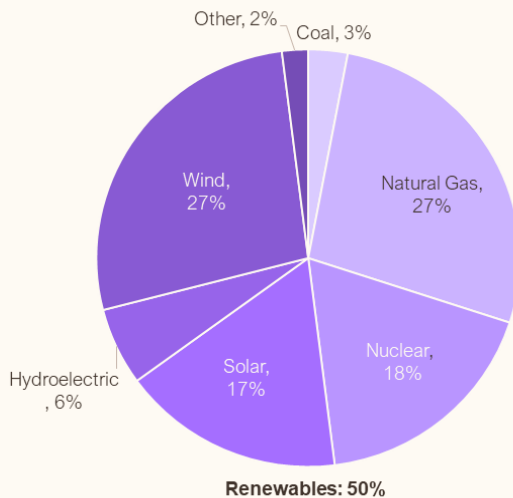
We see numerous options to the upside - from aggressive capital allocation plans to investment in pink hydrogen (where electrolyzers are powered by nuclear energy to produce clean hydrogen) - allowing Constellation to also claim the generous hydrogen PTCs as they lead the decarbonisation of today’s approximately 90 million ton fossil fuel hydrogen market.

Nuclear is pivotal for the US to meet Paris Agreement commitments MUNRO

US Power Generation by Fuel (2021)



US Power Generation by Fuel (2030)



Energy Information Administration, Morgan Stanley, Munro Partners estimates (September 2022)



STOCK STORY: CHENIERE



AREA OF INTEREST: **Climate**  
MARKET CAP: **\$43.1B USD**



Cheniere contributed 51bps to Fund performance for the September quarter.

Cheniere is the largest producer of liquefied natural gas (LNG) in the United States and the second largest operator in the world. They operate two world class liquification facilities with a collective capacity of 45 million tons per annum (mtpa) at Sabine Pass and Corpus Christi along the US Gulf Coast. Approximately 85% of the company's capacity is sold under long-term take-or-pay contracts to Asia and Europe, with the remaining 15% sold as spot cargos to whoever has the highest demand at the time.

Different to LNG producers in Australia or the Middle East Cheniere is not exploring or developing the gas fields itself, it instead buys the gas off the US grid where there are plentiful supplies thanks to the application of gas fracking. Consequently, Cheniere is more of an infrastructure company whose fortunes are linked to the global need for more LNG and their ability to supply it in a reliable and secure way.

We see LNG as a logical transition fuel in the decarbonisation of the planet. Clearly natural gas is still a fossil fuel, but it emits less than ½ of the CO2 of alternatives such as coal and oil. If developing nations such as China and India are going to wean themselves of coal, then LNG will have a role to play for decades to come.

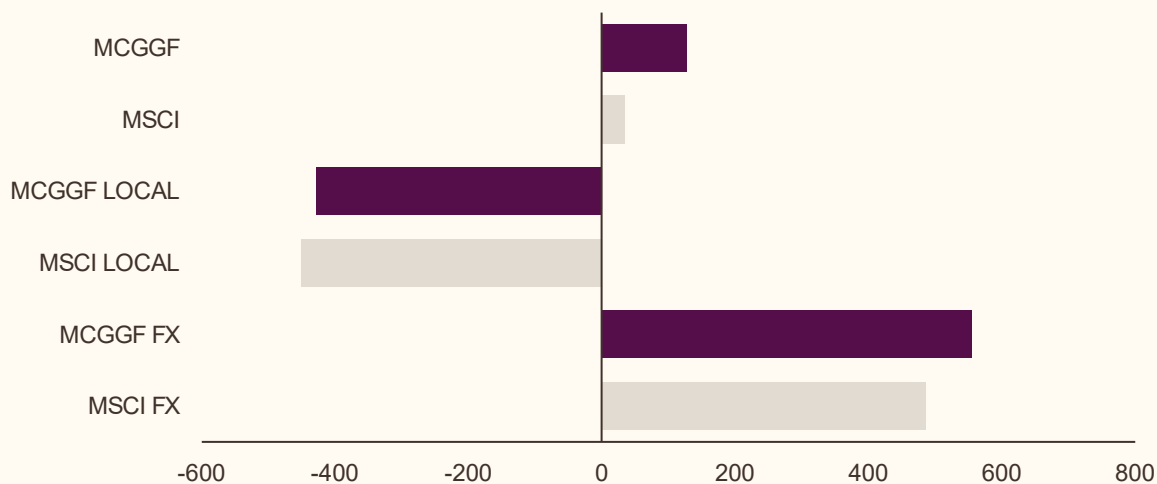
Cheniere, leveraging its access to cheap US natural gas, has grown to be the 2nd largest exporter of LNG from nothing in just 10 years. Recent stock performance has reflected Cheniere's key role in helping solve the European gas crisis, whereby gas prices in Europe have risen 10-fold due to the shutdown of Russian gas supplies.

As natural gas spreads between Europe and the US widen, the company benefits from selling its spot cargos into Europe, arbitraging the mispricing between the two regions. As such, the company recently increased its FY22 earnings expectations to \$11-\$11.5bn in EBITDA from a previous \$9.8-\$10.3bn. More importantly, windfall cash gain and expectations of tighter for longer market conditions have enabled the company to make significant progress to longer term capital allocation plans.

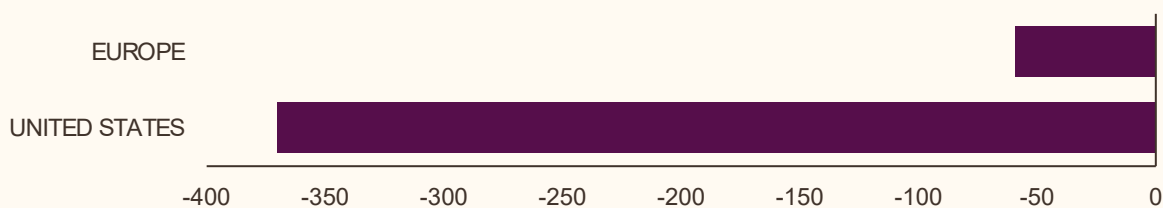
The company now expects \$20bn in distributable free cash flow through to 2026, up from an initial estimate of \$16bn. With the cash they will expand capacity to 60 mtpa by 2027, buy back \$4 billion of shares in the next three years and pay a dividend of \$1.58/share growing approximately 10% a year through 2027.

QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

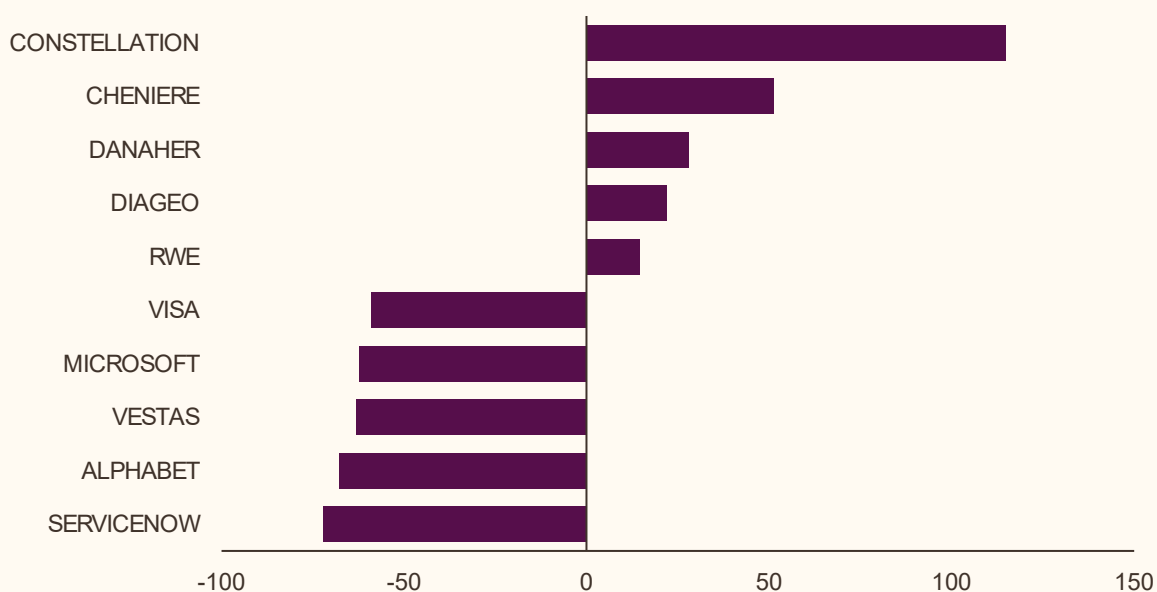
By investment category



By region (equities only)



Top & bottom contributors (equities only)





QUARTER END EXPOSURE

Category

LONG	91%
CASH	9%
NO. OF LONG POSITIONS	29

Sector

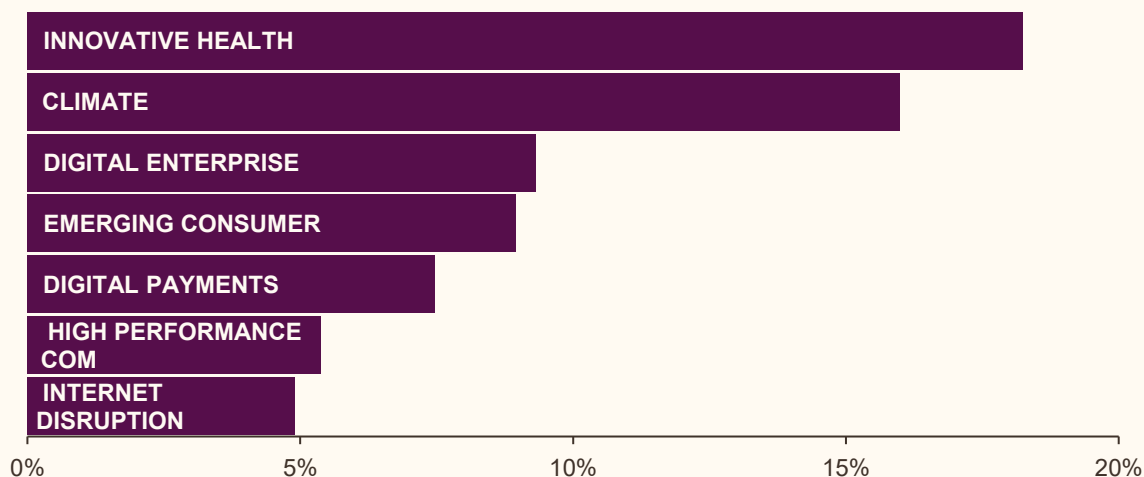
INFORMATION TECHNOLOGY	22.2%
HEALTHCARE	18.2%
UTILITIES	13.3%
CONS. DISC.	9.4%
OTHER	28.0%

Region

	LONG
UNITED STATES	73.6%
EUROPE	17.5%
DENMARK	4.2%
FRANCE	4.5%
GERMANY	4.0%
NETHERLANDS	2.4%
BRITAIN	2.4%
EXPOSURE	91.2%
CASH	8.8%

Holdings

TOP 10 HOLDINGS	
MICROSOFT	6.6%
NEXTERA ENERGY	5.4%
UNITEDHEALTH GROUP	5.1%
CONSTELLATION ENERGY	5.1%
ALPHABET	4.9%
VISA	4.5%
COSTCO	4.5%
DANAHER	4.1%
THERMO FISHER	4.0%
AMAZON	3.9%



## Performance - MCGGF

	3MTHS	6MTHS	1 YEAR	2YRS	INCEPT (P.A.)	INCEPT CUM.
<b>MUNRO CONCENTRATED GLOBAL GROWTH FUND (AUD)</b>	1.3%	-9.5%	-16.7%	-0.1%	9.7%	30.9%
MSCI WORLD (EX-AUS) TR INDEX (AUD)	0.3%	-8.1%	-9.8%	7.4%	6.4%	19.7%
EXCESS RETURN	0.9%	-1.4%	-6.9%	-7.4%	3.3%	11.1%

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
<b>2020FY</b>					4.9%	-1.2%	7.4%	-1.1%	-4.2%	6.7%	4.4%	1.3%	19.0%
<b>2021FY</b>	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%
<b>2022FY</b>	4.7%	4.6%	-4.7%	1.5%	5.1%	-1.4%	-7.9%	-4.7%	-0.2%	-5.7%	-0.9%	-4.3%	-14.2%
<b>2023FY</b>	7.2%	-3.2%	-2.4%										1.3%

## Performance - MCGG.ASX

	3MTHS	6MTHS	INCEPT CUM.
<b>MCGG.ASX (AUD)</b>	0.7%	-10.3%	-14.6%
MSCI WORLD (EX-AUS) TR INDEX (AUD)	0.3%	-8.1%	-12.4%
EXCESS RETURN	0.4%	-2.2%	-2.1%

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
<b>2022FY</b>								-4.4%	-0.3%	-5.7%	-1.3%	-4.3%	-15.2%
<b>2023FY</b>	7.3%	-3.8%	-2.5%										0.7%

Differences in performance between the Munro Concentrated Global Growth Fund (unlisted fund) and MCGG (ASX quoted Fund) relate to their respective inception dates, the buy/sell spread around the iNAV for MCGG, the timing difference between the issuing of units during the day on the ASX for MCGG and the purchase of units in the Munro Concentrated Global Growth Fund at the end of the day. This may result in reporting small differences in performance.

**IMPORTANT INFORMATION: Past performance is provided for illustrative purposes only and is not a guide to future performance.** Data is as at 30 September 2022 unless otherwise specified. 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 (MCGGF) and the Munro Concentrated Global Growth Fund (Managed Fund) (MCGG.ASX), collectively the Funds. GRES is the issuer of this information. The inception date of MCGGF is 31 October 2019. MCGG.ASX invests in MCGGF and cash, the inception date of MCGG is 3 February 2022. Returns of the Funds are net of management costs and assumes distributions have been reinvested. References marked \* relate to the MCGGF. Numbers may not sum due to rounding or compounding returns. The MSCI ACWI Index AUD refers to the MSCI All Country World Index Total Return Net Index in Australian Dollars. BPS refers to Basis Points. AOs refers to Areas of Interest. EM refers to Emerging Markets (including China). 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 Funds, investors should consider the appropriateness of this information, having regard to their own objectives, financial situation and needs and read and consider the target market determination (TMD) and the product disclosure statement for the relevant Fund. The MCGGF TMD is dated 20 July 2021, the Product Disclosure Statement (PDS) is dated 30 September 2022 and the Additional Information Booklet (AIB) dated 30 September 2022, the MCGG.ASX PDS is dated 30 September 2022 and the TMD dated 21 January 2022, these documents 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, their related bodies or associates nor any other person guarantees the repayment of capital or the performance of the Funds or any particular returns from the Funds. No representation or warranty is made concerning the accuracy of any data contained in this document. This document is issued on 12 October 2022.

