



GLOBAL
CONCENTRATED
QUALITY

22 December 2021

Dear Family & Friends,

I am writing to introduce you to GCQ Funds Management.

GCQ has grown out of a private investment partnership that I set up in early 2021 with two long-time colleagues, Justin Hardwick and David Symons. This partnership was initially created to be the primary investment vehicle for our families over the coming decades.

I couldn't be more pleased to share the news that GCQ will welcome external investors for the first time from February 2022. The decision to open our fund to external investors was made after several family office groups heard what we were up to and asked whether they could invest alongside us.

Until now, we have had to say no to these requests as we simply weren't set up to manage external capital, but it did bring forward our thinking about opening up our fund. We are firm believers that the most important ingredient for sustainable long-term investment success is a team of excellent people. We expect that welcoming external investors who share our investment philosophy will be beneficial for us all, enabling us to add more great people to the team and invest further in our research process.

Preparing for this next stage of our partnership has required some changes to our structure, and we have added to our resourcing. We are now ready to go. I am personally very proud of our team and tremendously excited about the opportunity we have in front of us.

This letter explains a little about what you may expect if you join us as an investor in our fund, the GCQ Flagship Fund. It also provides an overview of our partnership's current portfolio and performance over 2021.

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INVESTING IN THE GCQ FLAGSHIP FUND

Your experience as an investor in the GCQ Flagship Fund will reflect both our investment strategy and our organisational culture. Before deciding to invest with us, it is important for you to understand our approach in both areas.

The GCQ Flagship Fund Investment Strategy

We have named our firm GCQ with the goal of transparently stating what we do. We hope this will assist in attracting investment partners who are aligned with our approach, which is:

- **GLOBAL:** We aim to identify the best investments globally, with a strong bias towards developed markets with established shareholder protections.
- **CONCENTRATED:** We undertake thorough independent research on each of our investments and concentrate capital in our best ideas.
- **QUALITY:** We believe the greatest long-term risk-adjusted returns can be achieved by investing in the world's best companies, at attractive valuations.

Investing in some of the world's best companies

At the heart of the strategy is a portfolio of approximately 20 investments in what we believe to be the highest quality listed companies in the world.

We define a quality business as one which:

- is positioned to predictably grow over many years;
- operates in an industry, and possesses competitive advantages, which support high returns on incremental capital being sustained over long periods of time; and
- has a balance sheet, culture and management team supportive of long-term prosperity.

Our reasons for focusing on quality businesses are simple. Most importantly, these businesses are, by definition, less exposed to disruption and extreme downside risk.

Secondly, we analyse all potential investments with a long time horizon. While short-term equity market prices are driven by unpredictable news events and changes in market sentiment, long-term investment returns are driven by the fundamental performance of businesses. Our strategy is to build enduring wealth over the long-term by focusing our efforts on businesses that we expect to deliver predictable and persistent fundamental outperformance.



Long-term investment in high quality “compounders” has the additional advantage of being very tax efficient.

I have set out an overview of our investment partnership’s current portfolio later in this letter. You will see that our focus is on industries that display *monopoly*, *duopoly* or *oligopoly* characteristics, and firms that own highly valuable brands with pricing power.

Opportunistic short selling

GCO will also opportunistically short sell companies that we expect to experience material share price declines. The GCO team has considerable experience in shorting companies that we think have highly questionable accounting practices and/or possess structurally flawed business models, and we have generated meaningful absolute returns from this activity in the past. Short selling has the added benefit of generating returns that are typically inversely correlated to our long investments, protecting capital during market downturns.

The role of short selling in our strategy will vary over time. For example, our investment partnership has not undertaken any short selling in 2021 as bull market conditions, fuelled by fiscal and monetary stimulus, have meant that it has been more difficult than usual to identify catalysts for share prices to decline.

What we won’t do

Just as we want you to understand how we will invest our collective capital, it is important that you understand some of the things that we won’t be doing.

Firstly, we will not try to time the market, and we believe it is a mistake to manage your cash balance. You should think of the GCO Flagship Fund as part of your high-quality equity portfolio and expect us to be fully invested most of the time.

Secondly, we believe it is a misallocation of resources for our team to spend more than a minimal amount of time and energy analysing the macroeconomic outlook. This is not an area where we have any special competitive advantage, so while we will be mindful of the macroeconomic backdrop, you should not expect us to talk in any detail about macroeconomics in our letters, or when we speak with you directly. We will simply be focused on owning the highest quality companies in the world that will continue to compound through macroeconomic cycles.

Relatedly, we don’t claim any special insights into how to best manage currency exposure that arises from the GCO Flagship Fund’s investment in global securities. Therefore, we are giving our investors the choice of investing in the GCO Flagship Fund A class, or the GCO Flagship Fund B (Hedged) class.



Investors who do not wish to be exposed to fluctuations in the Australian dollar (which impacts the portfolio's value measured in Australian dollars through movements in the currencies in which the underlying investments are denominated) may choose to invest in the GCQ Flagship Fund B (Hedged) class of units. We intend to fully hedge all currency exposures for this unit class back to Australian dollars.

The other choice is to invest in the GCQ Flagship Fund A class units, which will initially be unhedged but with GCQ having the option to hedge, most likely when the Australian dollar is closer to historical lows, if we believe this is likely to result in stronger returns.

GCQ culture and philosophy

We know that our long-term success relies on the GCQ team achieving alignment with our investors, effectively communicating with our investors, and maintaining a healthy internal culture.

Alignment between the investment manager and investors in the GCQ Flagship Fund

As mentioned earlier, GCQ was set up as a vehicle to manage our own families' wealth over the long-term. Therefore, it goes without saying that we will be invested alongside you.

We believe that our focus on the long-term fundamental outlook for a business provides us a competitive advantage in an equity market that is increasingly short-term oriented. We have therefore chosen to structure GCQ to maintain this long-term approach, taking care to align our own outcomes with the best long-term outcomes for investors.

Central to this is our approach to fees. GCQ is meeting all costs associated with establishment of the fund from our own resources, and we intend to keep the management fee relatively low at 1.25% per annum. Our plan is to invest the entirety of this fee back into our research activity and operations.

GCQ will only earn a performance fee on returns that exceed what you might expect in an average year in equity markets. The way we see it, our investors are taking equity risk and therefore GCQ should only earn a performance fee if we have delivered a return at least commensurate with this risk.



This philosophy has guided our performance fee structure, which sees GCO entitled to a performance fee of 15% of any returns generated in excess of a hurdle rate. This hurdle is set as the per annum rate that is the lower of 7% or the United States federal funds rate plus a 4% equity risk premium. The performance fee is accrued monthly and payable annually and is subject to a high-water mark. Therefore, if the fund returns 12% in a year when the federal funds rate is 2% (having normalised from current emergency settings), the performance fee payable by investors would be 0.9%. This is calculated as 15% of the amount by which the fund return (12%) exceeds the hurdle (6%).

For our very early investors, we are electing to waive performance fees until the end of June 2023. We know that making the decision to invest in a fund always requires time and thought, and waiving performance fees for this initial period is one way of showing our appreciation to the people who have chosen to partner with GCO over the long-term.

Investor engagement

We live in an age where funds management is increasingly concentrated in larger institutions. For these firms, investor communication is largely confined to a monthly performance summary and an occasional Zoom call.

That approach undoubtedly gives many investors what they need, but it's quite different to how we want to operate at GCO.

When I look back over the years, many one-on-one meetings and conversations with investors stand out in my mind. Managing money for other people is a great responsibility and a privilege, and our investors deserve transparency on how the substantial savings they have entrusted to us are being invested. We also believe that explaining decisions to people helps make us better investors. If we can't explain a portfolio decision to you clearly, then it possibly wasn't the right decision in the first place!

The investors that I have gotten to know over the past 20 years generally value a personal connection with their portfolio manager. I've lost track of the number of times I have been told by investors in the last few months that they miss the days when they could call me up to talk about their portfolio. With this in mind, we have set the minimum investment in the GCO Flagship Fund at \$2 million in order to support our capacity to maintain personal relationships with all of our investors. Following a number of requests, we will also be making available a handful of individually managed accounts with a minimum of US\$25 million. I very much look forward to resuming my conversations with investors at GCO.



Outside of your direct conversations with us, you should expect a monthly performance update and a detailed letter discussing the performance of the GCQ Flagship Fund every six months. While we will disclose detail of the portfolio to our investors in these letters and updates, we will not be making this information available to the general public.

GCQ culture

The founding partners of GCQ love the process of investing and intend to be managing our collective capital for many decades. This requires building a firm with a culture that stands the test of time.

Too often, we have seen businesses built with culture as an afterthought, leading to organisations that fail to achieve enduring success. This is particularly true of investment firms.

We are lucky to be starting out with an excellent culture, assisted by the strong pre-existing relationships that exist between our founding partners. I have worked with Justin (who is our Head of Research at GCQ) for ten years and with David (our Chief Executive Officer) for eight years and we have highly complementary skills. More recently, Kathy Wu joined GCQ as Chief Operating Officer and we are benefiting enormously from her 14 years' experience in operational roles around the world at Morgan Stanley.

We will be adding to our ranks early in 2022, taking care to maintain a strong workplace culture as we grow. We are confident that this will lead to the best and most sustainable long-term outcome for investors in the GCQ Flagship Fund.



Current Portfolio and Investment Partnership performance in 2021

When the GCQ Flagship Fund opens to investment in February 2022, we intend that the fund's holdings will largely replicate the existing private investment partnership alongside a number of new positions.

Therefore, the current portfolio (as at 14 December 2021, set out in the table below) provides a helpful starting point for understanding the likely construction of the initial GCQ Flagship Fund portfolio.

Company	Portfolio Weight	Market Capitalisation (USD bn)	Total Shareholder Return (1 year)	Total Shareholder Return (5 year)
Visa	7.7%	460	2%	175%
S&P Global	7.5%	115	49%	337%
Meta Platforms (Facebook)	7.3%	930	22%	178%
Fair Isaac Corporation	7.2%	11	(20%)	244%
WD-40 Company	6.8%	3.2	(8%)	130%
Hermes International	6.2%	188	88%	324%
Coloplast A/S	6.0%	35	14%	159%
CME Group	6.0%	82	32%	123%
Amazon.com	5.9%	1,720	7%	341%
Moody's Corporation	5.6%	74	46%	330%
Spotify Technology	5.1%	43	(30%)	N/A
Cboe Global Markets	5.0%	14	50%	83%
Automated Banking Services	5.0%	0.3	102%	N/A
Mastercard	4.8%	339	5%	244%
Microsoft Corporation	3.8%	2,548	60%	482%
MSCI	3.8%	51	48%	719%
Alphabet	2.6%	1,942	67%	268%
Brunello Cucinelli SpA	2.0%	4.2	54%	208%
Cash (held in AUD)	1.6%			
TOTAL PORTFOLIO	100.0%			



We look forward to discussing individual businesses in detail in future letters. However, for this introductory letter, I will limit my comments to broader observations.

While there are a number of companies that we plan to add to the portfolio in early 2022, this reflects our views on where we would like to deploy capital rather than being required as the quantum of funds under management grows.

The only current investment that would be out of place in a billion-dollar portfolio is Automated Banking Services – a monopoly provider of payments services in Israel that meets our quality criteria and is trading at a fraction of our assessment of its true value. However, with a market capitalisation that is less than one-tenth the size of the next smallest company in the portfolio, Automated Banking Services is simply too small for its weight to be maintained as the fund grows.

The right-hand columns of the table show the returns that shareholders in each company have enjoyed over the last year, and over the last five years. This illustrates the appeal of our investment strategy for patient investors – high-quality businesses deliver outstanding returns to shareholders who stay the course, as revenue and profits grow steadily at rates higher than lesser businesses can achieve. While we don't invest by looking in the rear-view mirror, 15 out of the 16 portfolio holdings that have been listed for five years have outperformed the MSCI World Index over this period. We believe these businesses will grow steadily for many years to come.

The impact of inflation on company performance is topical at present. We believe that at all times, investors should consider the impact of inflation on their portfolio. Life savings can be rapidly eaten away by inflation if investors do not select the right assets or asset manager. The GCO portfolio is invested in companies that can continue to perform in an inflationary environment, either because their revenue model directly benefits from price increases in the broader economy (Mastercard and Visa are two companies in this category), or because they have the ability to increase the price of their products and services at a rate that at least offsets inflation (for example, luxury brands).



Investment partnership performance in 2021

Finally, a brief comment on the performance of the portfolio in 2021. The portfolio delivered an adjusted return of +51.1% for the period from 1 January 2021 to 14 December 2021¹. The investment partnership's return from all investment activity totalled +61.0% for the period¹. One highly profitable investment opportunity (that has now been exited) that the partners believe was too illiquid to be repeatable in a larger fund in future years has been excluded from the adjusted portfolio returns.

While it is pleasing that the partnership has made such a strong start, we think that the performance of a fund manager should be assessed over a period much longer than one year. We readily admit that our investment returns have benefited from several tailwinds in 2021, including rising global equity markets (the MSCI World Index (USD) was up +19.1% over the same period), favourable foreign exchange movements (the AUD depreciated -7.3% against the USD), in addition to some unusually attractive investment opportunities that we have unearthed.

We aim not to disappoint, and hope that those investing with us will have realistic expectations around the level of investment performance that can be achieved over the long-term in a low interest rate environment. Looking to the future, we will be pleased if we can achieve compound returns of 8% to 12% per annum through the full investment cycle.

In closing

I am excited by the opportunity that we have in front of us at GCO and have no doubt that staying true to our strategy, no matter what challenges the market throws our way over the decades to come, will position us to deliver on our goals for the GCO Flagship Fund.

Before I sign off, I would like to acknowledge the part played by the prime broking team at Morgan Stanley in Hong Kong and Sydney in getting us to this stage in our investment partnership. This team has deftly guided many of our operational decisions, and with their help we have selected a panel of top-tier service providers.

Please keep in mind that we are always on the lookout for great people for our investment, operations and finance teams. If you know anyone with the right skills who may be interested in joining GCO, please get in touch!

¹ Past performance information is included for illustrative purposes only and should not be relied upon as (and is not) an indication of future performance.



I look forward to welcoming many of you as investors in the GCQ Flagship Fund in the coming months, and to discussing the performance of the fund in future letters and conversations.

Yours faithfully,

A handwritten signature in dark ink, appearing to read 'Douglas Tynan', with a long horizontal flourish extending to the right.

Douglas Tynan, CFA

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