QUARTERLY REPORT

The September quarter saw the fastest and sharpest sell-off in the medical devices sector that we can recall in our careers. Over the quarter, the Cordis Global Medical Technology Fund returned -15.2%, against a flat benchmark. While prevailing sentiment drives share markets in the short-term, we remain steadfastly focussed on the long-term growth potential of medtech to safely, effectively and economically treat the ageing population.

The catalyst for the underperformance in the quarter has been the rise to prominence of a class of weight loss drugs called GLP-1s, more commonly referred to by their brand names – Wegovy, Ozempic, Mounjaro and others. A simplistic explanation of the mechanism of the drug is that GLP-1s 'trick' the body into believing that it has just ingested a large, calorie-rich meal, reducing the urge to eat more. While these drugs certainly aren't new to the medical community (which has been prescribing and using them for over 15 years) a mid-year string of positive trial data across the GLP-1 landscape triggered an almighty rush of investors into GLP-1 manufacturers on the hope of not missing out on the newest iteration of healthcare's elusive miracle drug.

The data is clear that these drugs are able to delay the onset of type 2 diabetes for a particular set of patients, but there is no evidence that health outcomes improve outside of the diabetic population. While the data also shows that GLP-1s are effective for weight loss in a certain segment of the population when used under the right conditions, that does not in and of itself equate to healthier patient outcomes. Therefore, we do not see them as the panacea that many in the media are portraying them to be today. While originally designed to be a treatment for diabetes, they picked up the "vanity drug" moniker when they gained widespread use for weight loss. In reaction to this wide-spread social use, insurers in the U.S. are actually now reducing their reimbursement coverage, rendering the ~US$1,000 monthly price tag prohibitive to most potential users.

While we continue to closely monitor and track data on GLP-1s, we remain steadfast in our belief of the trajectory of medical technology. The number one comorbidity for the most critical chronic diseases remains age, and therefore, any new drug or treatment that prolongs life actually expands the pipeline for further medical device interventions. As the world continues to age, we expect demand for medtech treatment to continue to grow exponentially.

The labour shortages which we discussed last quarter continue to rear their head for hospital administrators, as the largest health care worker strike in US history was brewing at the end of the quarter. More than 75,000 unionized employees of Kaiser Permanente, one of the US's largest not-for-profit health providers, were planning to walk off the job for a 3-day strike, with threats of longer efforts behind that. What at first glance seems to be a problem for hospitals – fewer medical professionals to treat and look after patients – is actually a tailwind for medical technology, due to its faster procedure times and shorter in-hospital recoveries, often measured in hours rather than days. Therefore, the staffing shortages are forcing hospital efficiency out of necessity, driving faster adoption of minimally invasive surgeries and proven medtech treatments. This trend towards minimally invasive surgeries has been under way for some time but is accelerating in the current environment.

During the quarter we also took the opportunity to add a new holding to the fund, deploying capital into Thermo Fisher Scientific (NYSE:TMO). Thermo is the world leader in providing lab based technology for the healthcare sector, with annual revenue over US$40 billion. The company has a long track record of excellent customer satisfaction as it built a itself into a world leader in scientific and medical technology through strong research & development and acquisition strategies. We have followed Thermo for some time, and patiently waited for a valuation that we saw as a fair entry point into this best-in-class free cash flow compounder.

During the quarter we continued to work behind the scenes to improve our offering to clients. We were added onto the Colonial First State Wrap and Edge platforms, improving the Fund's accessibility. We were also rated in the 2nd quartile of the ERIG (Evergreen Responsible Investment Grade) Index, which speaks to the sustainable credentials of our investment process and portfolio.

While we believe that the medtech sub-sector of healthcare is primed to outperform both healthcare and the broader index over the long run, we acknowledge that this thematic focus will create periods of significant divergence to the benchmark. We are never happy with periods of underperformance but given the current divergence between the long-term outlook for medtech and the short-term price action, we are confident in how the portfolio is placed today. We have taken the opportunity presented by this quarter's volatility to reposition the portfolio, adding and increasing many positions in wonderful companies that were previously too expensive. We believe that over the next few quarters many of these companies will return to favour as the GLP-1 market becomes better understood by investors.

Looking forward, we are excited about the growth potential of our portfolio of companies over the long-term, and confident in its ability to continue to take advantage of the demographic tailwinds driving its adoption.

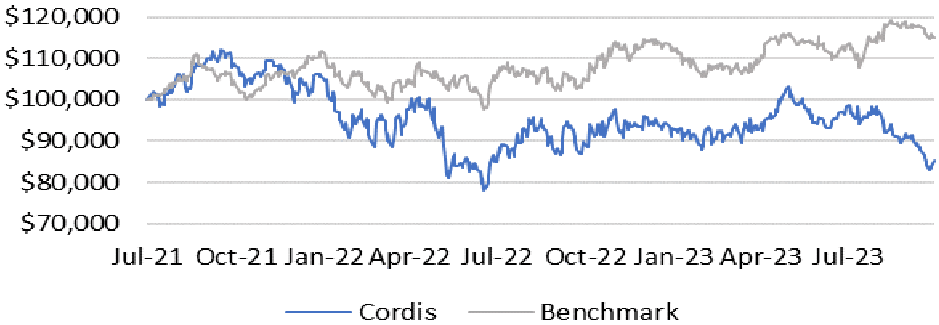
CORDIS ASSET MANAGEMENT

Cordis Global Medical Technology Fund
September 2023

PERFORMANCE

	1 Month (%)	3 Months (%)	6 Months (%)	1 Year (%)	Since inception* (% p.a.)
Cordis	-7.81	-15.24	-11.51	-5.43	-7.72
Benchmark**	-3.00	-0.12	2.79	8.70	5.90
Outperformance	-4.81	-15.12	-14.30	-14.13	-13.62

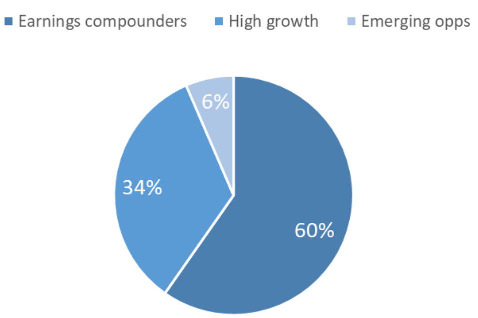
Growth of A$100k since inception



*Inception 1 July 2021. Performance reported in AUD net of fees. Numbers may not add due to rounding.

**Benchmark is the S&P 1200 Global Healthcare Index, reported in AUD.

PORTOLIO CONSTRUCTION



Earnings compounders – businesses that are highly profitable and we expect to compound earnings at double-digit rates over many years

High growth – businesses with disruptive medical technology that we expect to generate better than mid-teens revenue growth. These businesses may not yet be profitable but we believe can be highly profitable within 1-3 years

Emerging opportunities – businesses that are currently rolling out a new treatment paradigm that we expect to become standard of care over the course of the next business cycle

TOP 3 HOLDINGS

Earnings Compounders

Boston Scientific
Edwards Lifesciences Corp
ResMed

High Growth

DexCom
Inari Medical Systems
Silk Road Medical

Emerging Opportunities

Artivion
TransMedics
XVIVO Perfusion

RATINGS

Superior
SQM RESEARCH

PLATFORMS

Colonial First State
HUB24
netwealth
DASH
MACQUARIE
MASON STEVENS

ABOUT THE FUND

The Fund invests in global listed healthcare businesses that make medical devices to treat critical chronic diseases. The Cordis thesis proposes that the MedTech industry is at the inflexion point in its transition to the gold standard of treatment in chronic conditions. Alongside the key tailwinds driving the wider Healthcare sector, we believe that we are in the early stages of a secular shift. In addition, the devices and the businesses that supply them have exceptional economic moats around them, including high barriers to entry, making it difficult to disrupt a leading device and the business that manufactures it.

The investment strategy for the Fund to exploit these drivers is based on observable technological advances and demographic changes that are fundamentally changing society. Cordis believes these tailwinds will drive robust growth in the earnings of these businesses for the next decade or more.

The Cordis investment team is advised by our Medical Advisory Panel of leading clinical physicians and medical device specialists, which provides inimitable insight from frontline of medical practice and principles. It is this resource that differentiates our research process from our competitors and provides us with a sustainable competitive advantage.

Our intense focus and specialisation in the sector allows us to understand the nuances of Healthcare, and ultimately generate sustainable returns over the long-term.

FUND FACTS

Fund Manager: Cordis Asset Management Pty Ltd
Issuer: Equity Trustees Limited as Responsible Entity for Cordis Global Medical Technology Fund
Structure: Australian Unit Trust
Admin & Custodian: Mainstream Fund Services Pty Ltd
Sub Custodian: J.P. Morgan Chase Bank, N.A. (Sydney)
APIR Code: ETL4642AU
ISIN: AU60ETL46421
Fund Auditors: Ernst & Young
Minimum Investment: A$50,000
Liquidity: Daily

BENCHMARKS AND FEES

Benchmark: S&P Global 1200 Healthcare Index in AUD
Management Fee: 1.2% p.a (including GST/RITC) of the monthly Net Asset Value
Performance Fee: 15% (incl GST/RITC) of the increase in net asset value of the Fund above the Benchmark, calculated and accrued monthly, paid annually in arrears, subject to highwater mark

INVESTMENT PORTFOLIO

Number of Securities: 20-40
Maximum Cash Holding: 10%
Currency Exposure: Unhedged

To invest: Ask your advisor or see us at https://cordisam.com

Disclaimers