



MUNRO

Quarterly report

Munro Global Growth Small & Mid Cap Fund

March 2024



Munro Global Growth Small & Mid Cap Fund

March 2024 – Quarterly report

SMID Fund quarter return

20.8%

MSCI quarter return

9.7%

QUARTERLY HIGHLIGHTS

- We are excited to share our inaugural quarterly report of the Munro Global Growth Small & Mid Cap Fund, marking our first complete quarter since the Fund's inception at the close of October 2023.
- The Fund has returned 20.8% for the quarter, outperforming the MSCI ACWI SMID Net Index's return of 9.7% by 11.1%. This brings the Fund's return to 33.0% since inception compared to the index return of 20.3%.

MUNRO MEDIA

What happens when you smash open Nvidia's H100?
25 March 2024

[Read the article here](#)

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QUARTERLY COMMENTARY

Fund commentary

Why Did We Start the Fund

The Fund is driven by two core beliefs. Firstly, we are passionate about identifying long-term structural trends or Areas of Interest (Aols). We believe we are very early in the “S-curve” of a number of our Areas of Interests (Aols) such as High Performance Computing and Climate. We aim to identify and invest in early winners in these Aols to generate superior returns for the Fund. Ideally, some of these stocks will eventually grow their market cap large enough for our ‘all cap’ mandates to be able to have meaningful holdings.

Secondly, we see a compelling opportunity in the current market. Many promising small-and-mid-cap growth companies experienced significant declines in 2022 when their share price dropped circa 50% or more due to interest rate normalisation from very low levels. As a whole, the smaller capitalisation companies are the ‘cheapest’ they have been in over 20 years compared to their larger peers. While qualifications vary, we believe there is a large number of undervalued gems waiting to be discovered. We have built an initial portfolio of 25 high quality stocks. All of which are profitable, with the majority of the Fund holdings having strong balance sheets with net cash.

Our Investment Process

The Fund’s investment process is identical to the process for all of Munro’s funds. The investment universe is within the Munro investment universe, encompassing approximately 1,000 structurally growing companies globally. The Fund leverages Munro’s existing in-depth research into various Aols.

The investment process is guided by six key criteria: revenue growth, earnings growth, earnings durability, good ESG practice, control (aligned management); and positive customer perception.

Moreover, the Fund adheres to Munro’s established risk management framework, incorporating the same stop-loss measures and trigger review mechanism instrumental in mitigating risks and protecting our clients’ capital.

Market Outlook

We hold an optimistic outlook as interest rates approach their peak in major economies. This shift should lead to a more fundamental-driven market, where stock prices follow a company's earnings potential rather than being swayed by broader economic factors. The Fund's holdings have reasonable valuations and strong potential for earnings growth. This combination positions the Fund well for further growth regardless of whether interest rate decline or stabilise.

Quarterly Attribution and Fund Positioning

Four key Areas of Interest contributed to performance, Digital Media (AppLovin'), Security (Rheinmetall), and Climate (Comfort Systems, Vertiv and NexTracker), and High Performance Computing (ASM International and Onto Innovations).

Within Digital Media, Applovin' had another strong quarterly result (see [page 5](#) for our investment thesis on Applovin'). Its newly launched algorithm-based advertising tool, Axon 2.0, meaningfully improved the performance over its predecessor Axon1. With the continued decline of linear TV and degradation of browser cookies, we believe Applovin's advertising tool will be more useful than ever and deliver superior returns for advertisers not only within the mobile app industry but also in the broader market segments such as eCommerce. In our view, Applovin' is also one of the most undervalued software companies. Software accounts for 80% of the company's revenues and growing at growing at over 75% and with incremental margins of ~80% yet Applovin' is trading under 25x P/E.

Our Climate holdings experienced an exceptionally robust quarter, with performances from Comfort Systems and NexTracker that significantly surpassed consensus expectations. The rapid rise in interest rates throughout 2022 and the first half of 2023 led to a sharp decline in many climate-focused industrial companies. Our research within the Climate Aol uncovered several companies exhibiting accelerating earnings growth and maintaining clean balance sheets. Yet, these companies witnessed substantial declines in their share prices over the past 18 months. We included several of these smaller, rapidly growing companies in our Fund and were pleased to observe a strong earnings season.

As of the end of the March quarter, the top five Aols for the Fund by weight were High Performance Computing, Climate, Consumer, Digital Media and Digital Enterprise.

STOCK STORY: APPLOVIN



AREA OF INTEREST: **Digital Media & Content**

MARKET CAP: **USD \$22.8 bn**

Applovin contributed 261 bps to performance for the March quarter.

Applovin was founded in 2012, and operates in the mobile gaming industry, generating revenue from an 'apps' business (a studio of mobile gaming applications) and a software business that enables advertisers to reach consumers across mobile applications, mostly gaming. We believe Applovin's software business is the main driver of earnings over the medium term, and feel the company is under-appreciated for this highly profitable revenue stream.

During 2023, Applovin released a new advertising tool, called 'Axon 2.0', which essentially uses artificial intelligence and machine learning to power the advertising tools available on the Applovin platform. Advertisers are able to drive a superior return on ad spend and therefore are increasingly spending more on Axon 2.0 in order to reach consumers. According to the company, there are approximately 1 billion daily active users on the Applovin platform, and now with Axon 2.0, advertisers can reach these users more effectively. The release of this product has accelerated Applovin's revenue growth, with the software business growing 28%, 65% and 88% on a year-on-year basis in each of the last three quarters. We expect this strong growth to continue as Applovin continues to monetise more of those 1 billion daily active users.

Applovin's software business generates over 70% EBITDA margins, with a significant portion of this flowing through to free cashflow. Management have indicated that stock buybacks are a priority for this cash generation. We believe Applovin can grow its earnings in a sustainable way as it leverages its software platform to monetise that 1 billion user base. The earnings growth opportunity remains under-appreciated by the market at only 27x forward earnings.

STOCK STORY: COMFORT SYSTEMS



AREA OF INTEREST: **Climate**MARKET CAP: **USD \$11.3 bn**

Comfort Systems contributed 199 bps to performance for the March quarter.

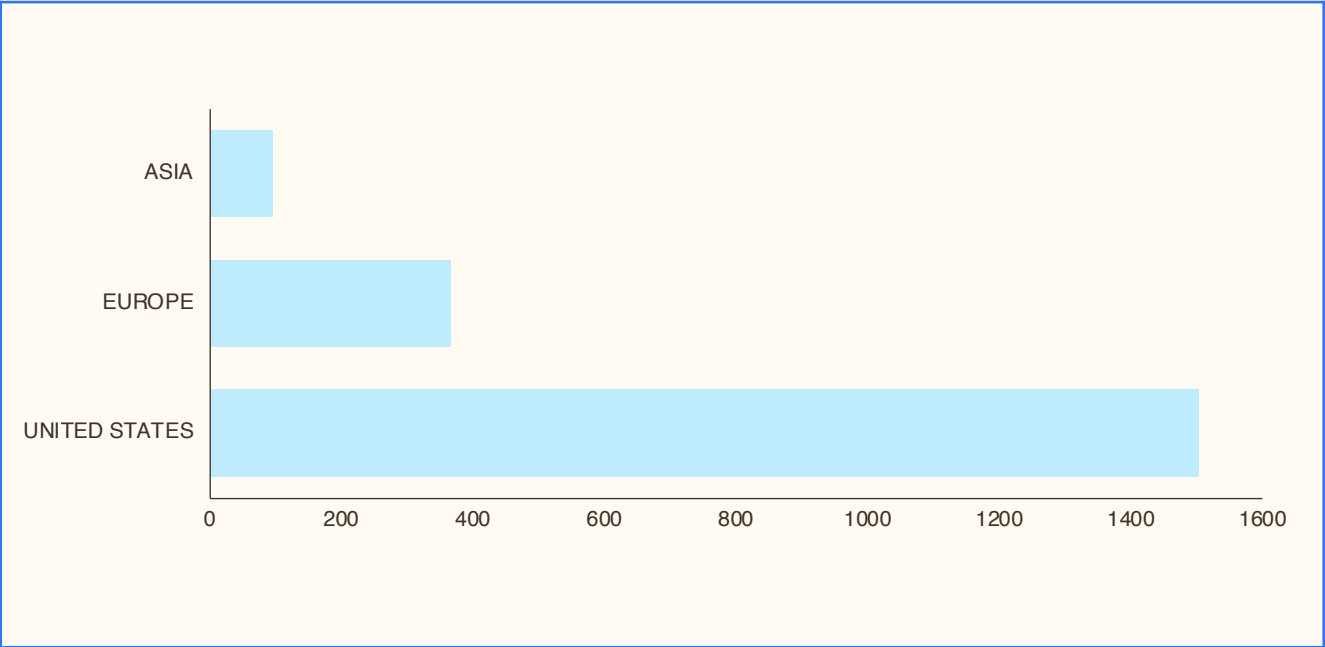
Comfort Systems (Comfort) provides mechanical and electrical contracting services, including heating, ventilation, air conditioning, plumbing, piping, and off-site construction. The company primarily operates in commercial end markets, and most of its services are provided to the manufacturing, healthcare, education, office, technology, and government end markets. Comfort Systems benefits from the need to upgrade and install more climate effective solutions, as well as re-shoring of manufacturing back to the US, and data center and technology buildouts.

In February, Comfort Systems reported a strong result, with total revenues growing over 20%, but what surprised the investment community was the significant growth in backlog, which underwrites future revenue growth for the company. The reported backlog figure of over USD 5bn grew 20% sequentially, a significant acceleration driven by increased spending in the technology, life science and food end markets. This increase demonstrated to the market that growth is sustainable into the future. In addition, the company provided guidance that revenue growth in 2024 will be in the mid-teens range on an organic basis, another positive surprise compared to consensus estimates, leading to strong future earnings growth.

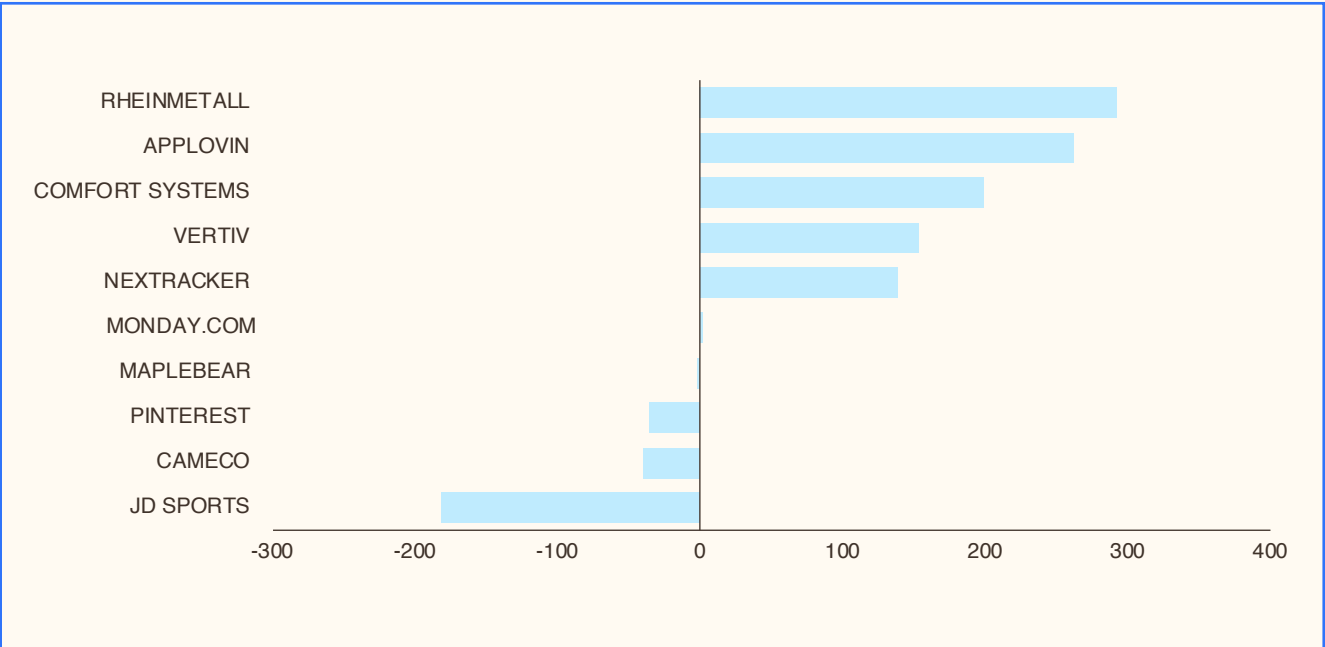
Comfort engages heavily in M&A activity to add to this expanding organic growth profile. The business operates in a relatively fragmented industry and has a strong track record of acquiring family-run and owned businesses and generating significant cashflow over time. Recently, Comfort purchased two larger businesses, Summit Materials and J&S Mechanical Contractors, both of which will contribute meaningfully to Comfort's earnings in the future. In our view, the earnings growth opportunity that Comfort Systems provides has been under-appreciated by the market, and initially, we invested in Comfort for around 20x forward earnings.

QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

Region (equities only)



Top & bottom contributors



QUARTER END EXPOSURE

Category

EQUITIES	94.6%
CASH	5.4%
NO. OF POSITIONS	29

Sector

INFORMATION TECHNOLOGY	34.7%
INDUSTRIALS	28.0%
CONSUMER DISCRETIONARY	13.2%
FINANCIALS	8.3%
COMMUNICATION SERVICES	5.4%
CONSUMER STAPLES	3.0%
OTHER	2.0%
CASH	5.4%

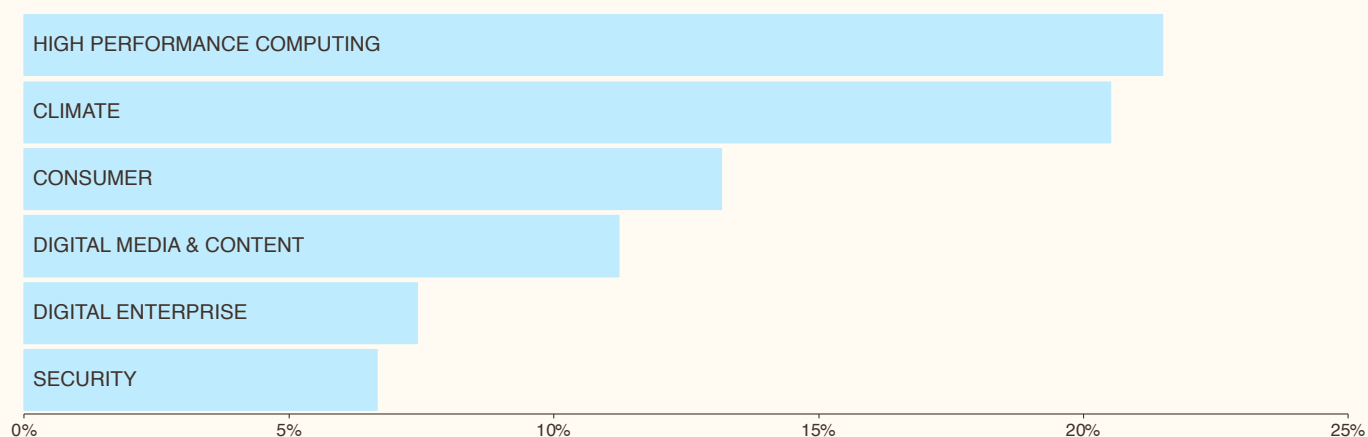
Region

	LONG
NORTH AMERICA	66.1%
EUROPE	26.4%
ASIA	2.0%
CASH	5.4%

Holdings

TOP 5 HOLDINGS	
APPLOVIN'	5.8%
COMFORT SYSTEMS	5.3%
RHEINMETALL	5.1%
ASM INTERNATIONAL	5.0%
ONTO INNOVATION	5.0%

Sub-areas of interest



Net Performance - SMID

	1 MTH	3 MTHS	INCEPT CUM.
MUNRO GLOBAL GROWTH SMALL & MID CAP FUND (AUD)	3.0%	20.8%	33.0%
MSCI ACWI SMID NET INDEX (AUD)	3.2%	9.7%	20.3%
EXCESS RETURN	-0.2%	11.1%	12.7%

INCEPTION: 31 OCTOBER 2023

IMPORTANT INFORMATION: Past performance is provided for illustrative purposes only and is not a guide to future performance. As at 31 March 2024 unless otherwise specified. Inception date is 31 October 2023. Returns of the Munro Global Growth Small & Mid Cap Fund are net of management costs and assumes distributions have been reinvested. MSCI ACWI SMID Cap NR AUD refers to the MSCI All Country World Small and Mid Cap Index Net Returns in Australian Dollars. BPS refers to Basis Points. Aol refers to Areas of Interest. EM refers to Emerging Markets (including China). GSFM Responsible Entity Services Limited ABN 48 129 256 104 AFSL 321517 (GRES) is the responsible entity of the Munro Global Growth Small & Mid Cap Fund ARSN 670 777 885 (Fund) APIR GSF0874AU 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 (PDS) for the Fund dated 21 December 2023 and the Additional Information to the Product Disclosure Statement (AIB) which may be obtained from www.gsfm.com.au, www.munropartners.com.au or by calling 1300 133 451. GSFM Responsible Entity Services has produced a Target Market Determination (TMD) in relation to the Munro Global Growth Small & Mid Cap Fund. The TMD sets out the class of persons who comprise the target market for the Fund and is available at www.gsfm.com.au. 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 newsletter was issued on 11 April 2024.

