

MUNRO

Munro Partners

# The Annual

December 2023

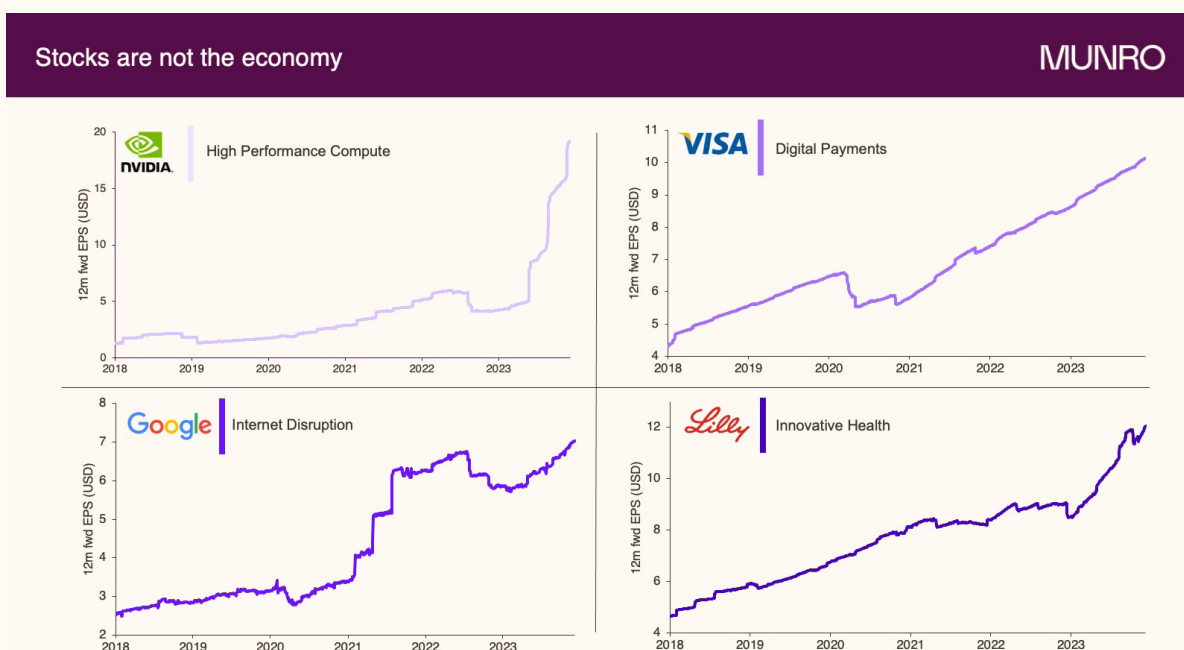


## 2023 in Review - Recovery!

Despite numerous concerns heading into the year, 2023 ultimately proved to be a recovery year for equity markets, with the US market and US technology stocks driving most of the global performance; partly reversing many of the losses the same stocks and markets had incurred in the previous year.

Considering the rapid and unprecedented rise in global interest rates through 2022, many expected 2023 to be a year of earnings collapse as the inevitable economic slowdown hit corporate earnings. However, despite the worst predictions to date, the economy remains out of recession, and the world's largest companies continue to grow.

In our view, this is another reminder that the stock market is not the economy. For example, the S&P 500, which represents the 500 largest publicly listed equities in the US, is dominated by large companies at the forefront of human innovation, and whether its advances in artificial intelligence (AI) technology, breakthroughs in obesity drugs or the never-ending march of digital payments, it's these structural trends that ultimately drive earnings and earnings drive stock prices.



Source: Bloomberg Finance L.P. as of December 6, 2023. For illustrative purposes, the companies shown may or may not be held in the Munro Funds.

Having started the year with the portfolios conservatively positioned, we quickly realised our largest investments were in earnings recovery and that the coming wave of AI investments would accelerate that recovery. The Munro Funds pivoted through the first and second quarters, investing heavily in what we see as the largest beneficiaries of AI investment. This saw the Funds lift exposure to the Digital Enterprise and High-Performance Computing Areas of Interest (Aols) - raising exposure to the hyperscale cloud providers, Amazon, Microsoft, Google and the beneficiaries of their increased spending in semiconductor companies, Nvidia, TSMC, ASML and Applied Materials. Since then, we have continued adding to software beneficiaries in ServiceNow, Adobe and Intuit, while also going further down the semiconductor 'food chain' with some additions of smaller market cap companies.

These investments were funded from cash on hand and our climate holdings, where higher interest rates and a worsening economic environment slowed some decarbonisation investments. Elsewhere, the Funds have continued to add a range of smaller and medium sized companies including, Wise, Uber and Chipotle Mexican Grill, where the volatility of 2022 provided a good entry point to companies we have long admired yet until recently considered overvalued.



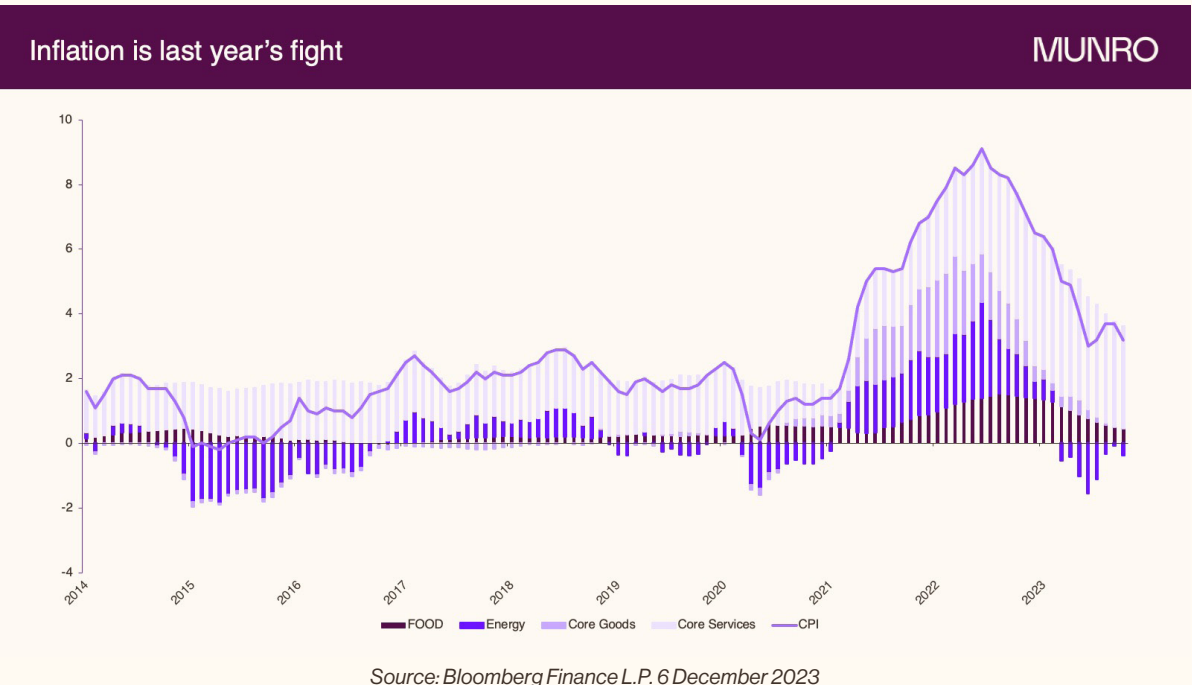
Exiting the year, we are pleased to see that these adjustments are working, with all the Munro mandates tracking above double digit returns for the calendar year. The Funds are all fully invested and positioned across a range of exciting growth trends we expect to play out not just over the coming quarters, but the next decade. Despite what has been a difficult couple of years for growth equities, we suspect we will look back at this period as a time where the normalisation of interest rates caused a normalisation in valuations, that first needed to be navigated, but secondly provided us with the opportunity to set the Funds up for this anticipated growth. Below, we detail the source of our optimism.

## 2024 Outlook – Our optimism

We understand it's difficult to be optimistic when global economies are slowing, geopolitics are continuously challenging, and many are struggling to pay their monthly mortgage bills. It is worth pausing to reflect on how much investors have endured over the last few years and how we expect to see this improve.

COVID essentially created a vicious economic cycle where one otherwise probably wouldn't have existed. Interest rates went to zero initially and then rapidly up to 5%. Deflation flipped to rampant inflation and now to disinflation. Many company and business owners had to endure extreme labour and component shortages, only to finally procure what they needed just in time for their customers not to be able to afford to buy their products anymore.

All of this is now behind us. We believe interest rates, while high, have peaked for this cycle. Inflation should continue to normalise. Supply chains are open again, and inventories are now being worked through every quarter. The economic outlook is far from rosy, but it is important to remember that central banks have 500 basis points of interest rate cuts up their sleeve if required. In fact, central banks now see themselves in the strongest position they have been in a decade, having seemingly normalised interest rates without collapsing the economy. Consequently, this should ultimately enable them to manage a long and sustained economic upswing, which, barring any unforeseen events, should hopefully begin sometime in the second half of 2024. While there may still be some volatility in the near term, we see many reasons to be optimistic in the medium term.



Meanwhile, human innovation has continued, and while investors remain focused on last year's battles, we see large structural changes occurring in the world that continue to present compelling investment opportunities. This is where we have positioned the Funds not just for 2024 but for the sustained upcycle ahead. We see four key topics to focus on for 2024.



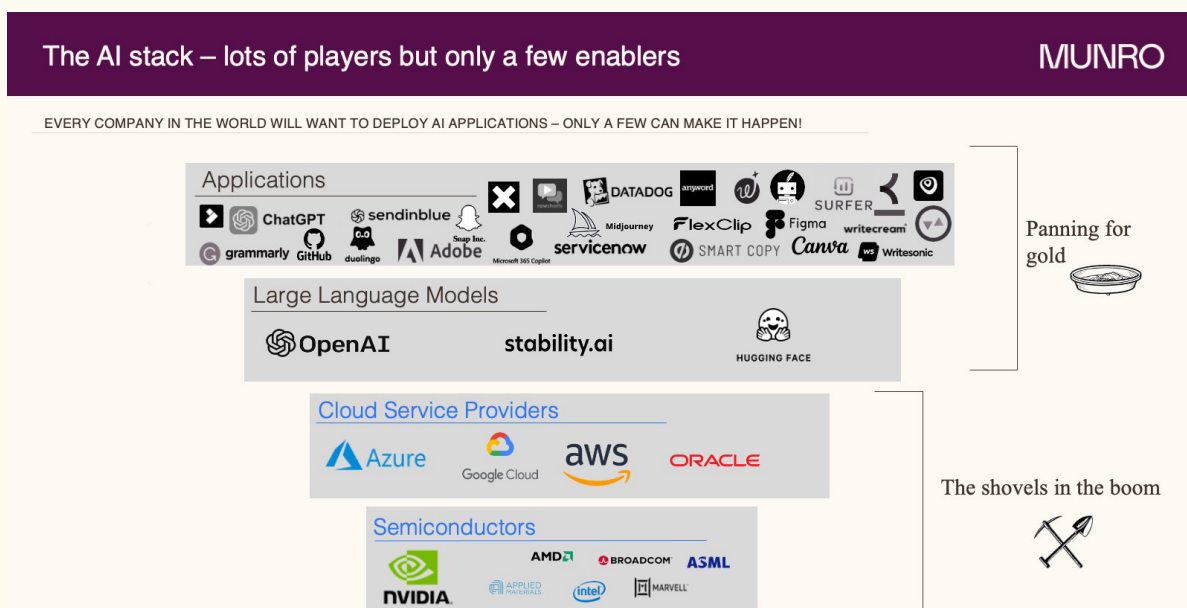
# Artificial Intelligence

We see AI as having its iPhone moment in 2023. Artificial intelligence has been around since 2017 but was mainly used by large internet players and was expensive to implement. Generative AI or Large Language Models such as Chat GPT have changed everything. Now, AI models can create amazing results and can be seemingly plugged into everything. In the same way, the iPhone made the mobile internet work for everyone, generative AI will make AI work for everyone.

It's only been a year since Chat GPT came into many of our lives, and we are already seeing products come to market. GitHub predicts code for developers, making them up to 60% more efficient. Adobe Firefly allows creatives to build pictures from words. Fathom, Otter.AI, and plenty of other applications will be able to listen and summarise your meetings. Microsoft Co-Pilot is currently predicting each sentence as I try to write this outlook.

We see a global boom brewing here as companies across the globe invest to either develop their own AI tools or invest in protecting themselves against getting disrupted by others AI tools. We expect to see a sustained upswing for the shovels in this boom, be it the cloud infrastructure providers and the semiconductor companies that supply them. Large software companies also look uniquely positioned here as they essentially have a whole new way of selling their customers' data back to them. As an example, existing accounting software keeps invoices and accounts in order, but in the future, the software will be able to help with budgeting and planning. While clearly, these products are not perfect today, we argue that neither was the first iPhone. We see this as just the beginning of a huge investment trend and one that we are positioned to benefit from today and hopefully well into the future.

The graphic below is one we have stood behind for the better part of 2023 it depicts our approach to investing in AI, focus on the enablers initially as they are uniquely positioned to benefit from the coming wave of adoption. As we enter 2024, exciting products will appear, and we expect to broaden our exposure to newer, application-based ideas that should help sustain the explosive growth in AI seen in just this year alone.



*For illustrative purposes, the companies shown may or may not be held in the Munro Funds*

## Changes in how Semiconductors are made

Ever since the birth of semiconductors in the 1950s, the key to improving their performance and cost has been to shrink the size of individual chips. Generative AI, however, requires new architectural designs for the chip making process. The speed and volume of computing required are much higher than before. This necessitated a process called parallel computing and propelled the rapid rise of the demand for Nvidia's graphics processing units (GPU). However, GPUs cannot function alone. For them to be effective, they have to operate in close proximity to central processing units

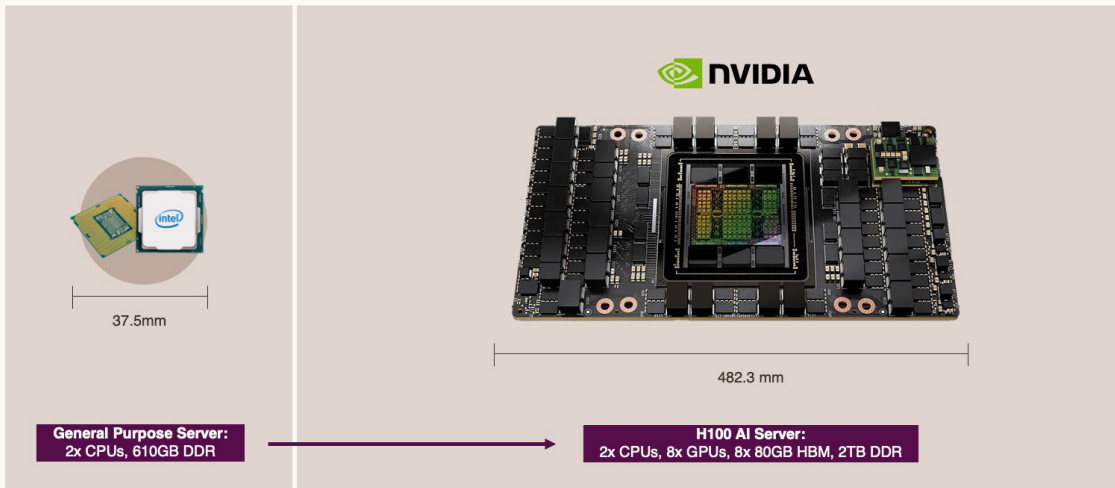


(CPU), and a special type of memory chip called the High Bandwidth Memory. In fact, these different components need to be placed so closely to each other that they have to be integrated into a single piece of silicon. For the first time in decades, the semiconductor industry is achieving higher performance and lower costs by advanced packaging solutions without shrinking the size of the chips themselves.

This profound re-architecture of chip designs is already powering the large data centres in the world. And we expect them to make their way into enterprise servers, PCs and even smartphones in the years to come, as generative AI goes from data centres to edge computing devices.

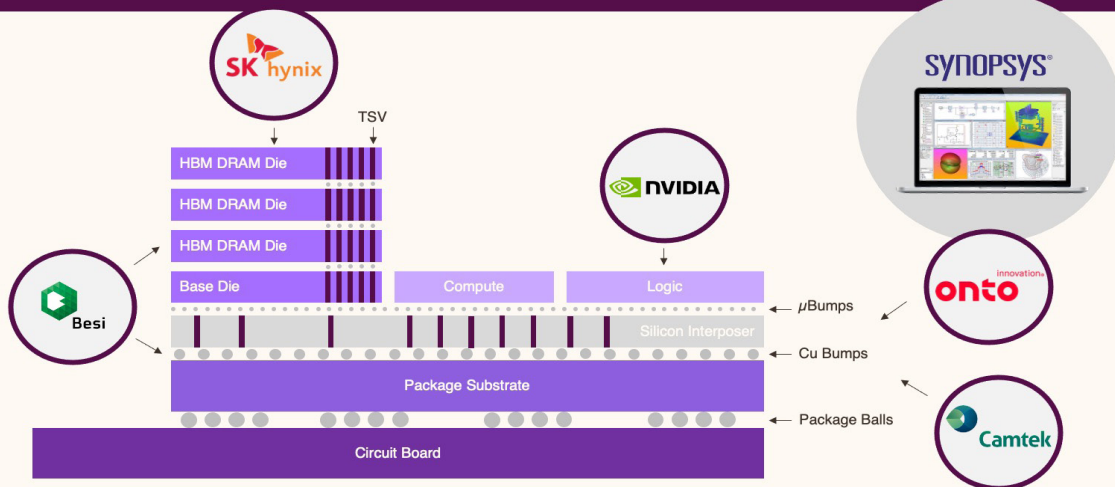
We have aligned our portfolio holdings with this new architecture. We hold large positions in the leading chip designer, Nvidia, the leading foundry in TSMC, the leading equipment providers ASML, Applied Materials, the software enabler Synopsys, and advanced packaging metrology providers Onto and Camtek, in our High Performance Computing Aol. This is our largest thematic as we enter 2024, as we think that the world is just beginning to realise how useful these AI products will be and how profoundly the semiconductor industry will need to change (and speed up) in order to power these compute-hungry products.

**Advanced packaging drives chip performance** MUNRO



Source: Bloomberg Finance L.P 23 November 2023, Nvidia 8 December

**Advanced packaging value chain** MUNRO



Source: Jefferies, November 2023. For illustrative purposes, the companies shown may or may not be held in the Munro Funds.



## Looking for the next emerging winners

The normalisation of interest rates was particularly hard on smaller and mid-sized capitalisation companies. Having been overvalued by investors through 2020 and 2021, the bear market of 2022 was brutal on the space, with many companies suffering share price falls of more than 50%. Others had overextended themselves with leverage on their balance sheets. Exiting 2023, small and mid-sized companies had been the cheapest relative to their big cap peers in nearly two decades. With interest rates now peaking and valuation multiples bottoming, the Fund has taken this opportunity to invest in several smaller companies we have long admired but where valuation was previously not offering a compelling risk-reward.

We see this as particularly relevant in the Consumer and Internet Disruption Aols, where the Funds have taken the opportunity to initiate positions in what we consider are mid tier internet companies such as Uber and Airbnb, while on the consumer side, we have invested in quick service restaurant company, Chipotle Mexican Grill, and athleisure winners, Lululemon and On Running. Finally, in the digital payments Aol, the weakness in smaller companies has given us the opportunity to build a stake in UK-listed Wise, which again, we have long admired as a virally growing cross-border payments platform.

Considering the valuation opportunities presenting themselves, we also chose this timing to launch our fourth strategy, the Munro Global Growth SMID Cap Fund (SMID) in Australia in October 2023. The new Fund draws the best candidates from Munro's areas of interest with market capitalisations of below \$30bn and follows Munro's proprietorial investment and risk management process. The SMID Fund is managed by Portfolio Manager, Qiao Ma, and is supported by the entire investment team. Currently, the top Aol's for the Fund are High Performance Compute, Consumer and Climate. We've linked some resources below if you'd like to find out more.

### SMID Resources

[Munro Global Growth Small & Mid Cap information webpage](#)

[SMID November 2023 Monthly report](#)

[Introducing Qiao Ma](#)

[Investment Process](#)

## Climate

Our Climate thematic was impacted by higher interest rates and an economic growth slowdown in 2023. This particularly impacted more cyclical areas of Climate like the electric vehicle supply chain and residential areas, including solar and water. These areas tend to rely more on consumer financing and are more impacted when rates rise. Elsewhere, the implementation of the US Inflation Reduction Act was a little slower than we expected, with some delays in releasing key details on tax incentives and domestic content rulings from the US Treasury, meaning some decarbonisation projects were pushed out. This negatively impacted some of the order books in the clean energy supply chain. Investment trends not playing out as quickly as anticipated can be reasonably common in growth investing, but this does not mean the trend will not play out. The climate crisis is worsening, and companies and investors are still committed to their net zero ambitions. The adjustment of the growth outlook should present some good opportunities for climate investing in 2024.

In the meantime, we increasingly see an uptick in demand for existing products and technologies available today that can help solve the climate crisis. We would point to existing companies and products, including nuclear energy generation companies (Constellation Energy), building insulation businesses (Kingspan), recycling companies (Waste Management) and hazardous waste management firms (Clean Harbours). The stocks in these areas provided the Funds with positive returns in 2023. We see further investment opportunities "hiding in plain sight" heading into 2024, as outlined below.



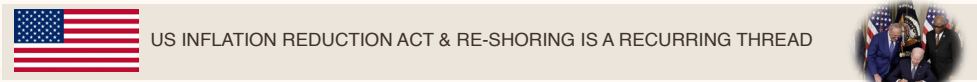
ENERGY EFFICIENCY



CIRCULAR ECONOMY



CLEAN ENERGY



For illustrative purposes, the companies shown may or may not be held in the Munro Funds

## Conclusion - We think the sun is shining again!

We believe we are on the other side of a difficult period for growth equity investing. In our view, the interest rate normalisation of 2022 and the resulting valuation adjustment was a necessary evil to help unwind the excesses of the COVID era. With rates now seemingly normalised and valuations adjusted, this sets up growth equities to go back to doing what they have always done, which is follow their earnings growth.

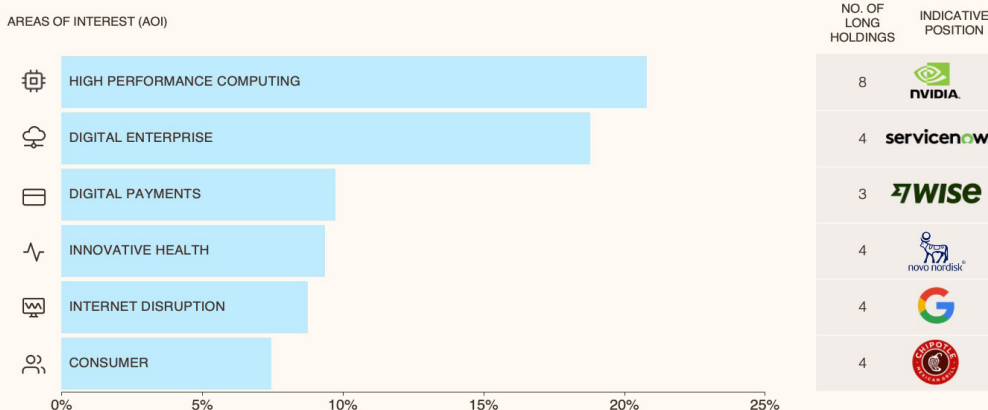
We anticipate artificial intelligence will be the largest technology shift since the advent of the mobile phone and it will provide ample opportunities to find structural earnings growth as the winners in this arms race emerge. Elsewhere, innovations in healthcare, efforts to decarbonise the planet and changes in consumer preferences will continue to fuel structural earnings growth. We see this as an opportunity to lean into our process, identify the areas of structural growth, identify the winners, and set our funds up for improved returns in the years ahead. Below we show how the Munro Global Growth Fund is invested by Aol as we enter 2024.

We thank you for your continued support.

Nick Griffin  
 CIO & Founding Partner  
 Munro Partners

## Investments by theme MUNRO

LONG POSITIONING OF THE MUNRO GLOBAL GROWTH FUND BY 'AOI' - 30 NOVEMBER 2023



Source: Munro Partners, 30 November 2023



## Performance

November 30, 2023

### MGGF

Inception 1 August 2016	1YR	3YRS (P.A.)	5YRS (P.A.)	INCEPT (P.A.)	INCEPT CUM.
<b>MUNRO GLOBAL GROWTH FUND (AUD)</b>	7.7%	1.4%	9.7%	10.7%	110.0%

### MCGGF

Inception 31 October 2019	1 YR	3YRS (P.A.)	INCEPT (P.A.)	INCEPT CUM.
<b>MUNRO CONCENTRATED GLOBAL GROWTH FUND (AUD)</b>	17.4%	6.4%	13.2%	66.1%

### MCCL

Inception 29 October 2021	1 YR	INCEPT (P.A.)	INCEPT CUM.
<b>MUNRO CLIMATE CHANGE LEADERS FUND (AUD)</b>	2.5%	-2.9%	-5.9%

### SMID

Inception 31 October 2023	INCEPT CUM.
<b>MUNRO GLOBAL GROWTH SMALL &amp; MID CAP FUND (AUD)</b>	7.4%

IMPORTANT INFORMATION: Past performance is provided for illustrative purposes only and is not a guide to future performance. Data is as at 30 November 2023 unless otherwise specified. GSFM Responsible Entity Services Limited ABN 48 129 256 104 AFSL 321517 (GRES) is the responsible entity of the Munro Global Growth Fund ARSN 612 854 547 APIR MUA0002AU (MGGF), the Munro Concentrated Global Growth Fund ARSN 630 173 189 (Fund) APIR GSF9808AU (MCGGF), the Munro Climate Change Leaders ARSN 654 018 952 APIR GSF1423AU (Fund) (MCCL), and the Munro Global Growth Small and Mid Cap Fund ARSN 670 777 885 (Fund) APIR GSF0874AU (SMID), collectively the Funds. GRES is the issuer of this information. The inception date of MGGF is 1 August 2016, MCGGF is 31 October 2019, MCCL is 29 October 2021 and SMID is 31 October 2023. 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 MGGF TMD is dated 9 November 2022, the PDS is dated 30 September 2022 (PDS), the MCGGF TMD is dated 19 December 2023, the PDS is dated 30 September 2022 (PDS) and the Additional Information Booklet (AIB) dated 30 September 2023, the MCCL TMD is dated 9 November 2022, the PDS and Additional Information Booklet are dated 10 December 2021, the SMID TMD is dated 17 October 2023, the PDS is dated 21 December 2023 and the Additional Information Booklet (AIB) is dated 21 December 2023, 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 21 December 2023.

