Quarterly report

Munro Global Growth Fund

MAET.ASX

December 2022

Munro Global Growth Fund & MAET.ASX
December 2022 – Quarterly report

Munro Global Growth Fund
Fund quarter return
-3.2%

MAET.ASX
Fund quarter return
-3.2%

QUARTERLY HIGHLIGHTS

- The Munro Global Growth Fund and MAET.ASX returned -3.2% in the December quarter.
- After a rise of almost 14% in the S&P 500 during October and November, equity markets reversed course in December as investors became increasingly concerned about the effects of continued hawkishness from the Federal Reserve impacting the underlying economy after a 50bps rate rise was delivered in mid-December.
- Climate Area of Interest remains the largest exposure, followed by Innovative Health and Emerging Consumer. From a quarterly stock attribution perspective, positive contributions included Novo Nordisk and ASML while the main detractor was Amazon.
- We are positive about the year ahead. While volatility may continue in the first quarter, we are getting closer to the overall market adequately pricing this COVID-induced macro adjustment.

MUNRO MEDIA

Forbes Australia, 21 December 2022
The Agricultural circular loop of decarbonisation

Invest in the Journey podcast, 22 December 2022
Nick Griffin & Ronnie Calvert look in the rear view mirror

Firstlinks, 4 January 2022
Compelling Investment opportunities in Healthcare

CONTENTS

QUARTERLY COMMENTARY

Fund commentary

The Munro Global Growth Fund returned -3.2% in the December quarter (MAET.ASX -3.2%). The Fund's long positions contributed positively to returns in the fourth quarter. Short positions, hedging and a rising Australian dollar all detracted from performance in Q4.

Equity markets started the quarter with a strong bounce after acknowledging that potential systemic credit issues emanating from the UK were resolved and US earnings proved to be more resilient for companies exposed to the broader macro environment. Light positioning in equity markets from institutional investors also contributed to a bounce in October and November.

During Q3 earnings, sentiment from corporates was broadly positive, particularly for companies in the industrials, materials and energy sectors who are yet to show significant headwinds from the US Federal Reserve raising interest rates by 325bps in the first nine months of the year. In the technology sector, earnings were mixed as large cap companies were not able to show the market continued progress on their ambitions to right-size their cost structures.

Positive equity market sentiment was encouraged by the US CPI coming in sequentially weaker in October and November. US inflation has now decelerated from a high of 9.1% in June 2022 to 7.1% in November. Market participants were encouraged by this fall and are now increasingly comfortable that inflation is now under control through Federal Reserve action and tougher comparisons moving forward. After a rise of almost 14% in the S&P 500 during October and November, equity markets reversed course in December. Investors became increasingly concerned about the effects of continued hawkishness from the Federal Reserve impacting the underlying economy after a 50bps rate rise was delivered in mid-December. With inflation now sequentially declining, the focus shifted towards the impact on the economy, corporate earnings, and the potential for a policy mistake in too many rate hikes.

From a Fund perspective, our long positions added just over 214bps to absolute performance for the quarter. This was led by our investment in Novo Nordisk, which is benefiting from an earnings growth inflection driven by its new obesity and diabetes drugs. ASML also contributed as it delivered a strong long-term outlook at its November capital markets day. Our digital payment champions, Visa and Mastercard, also performed strongly over the quarter. Defence company Raytheon Technologies which sits in our Security Area of Interest rounds out the top five. Our biggest long position detractor was Amazon which delivered an outlook at their result which was below expectations and disappointed investors on management's ambitions to improve the cost structure.

Shorting detracted from fund performance during the quarter, largely giving back the gains made in Q3. This was driven by shorts on stocks more leveraged to the macro implications of the US Fed raising rates aggressively in 2022. Option hedging also detracted just under 100bps from performance during the quarter as we continue to manage for downside risks. Despite being positive for the earnings of our Emerging Consumer and Digital Payment companies, China's re-opening provided strong support to the Australian Dollar, which resulted in just under 250bps of negative performance for the Fund. We ended the quarter at approximately 60% hedged to Australian dollars.

In our market outlook, we review the key signposts we are looking for to become meaningfully more constructive on equity markets and the Areas of Interest where we see good opportunities to invest in companies growing their earnings in 2023.

QUARTERLY COMMENTARY

Market outlook

Global equity markets and, particularly growth equities, had a tough year in 2022. The end of COVID lockdowns and the resulting inflation shock has seen a dramatic rise in global interest rates, which pressured all asset prices, but higher multiple growth stocks fared worse than most.

Having recognised the change of environment in early 2022, the Munro Global Growth Fund (and MAET.ASX) have run most of the year with a more conservative tilt. Higher cash weightings and a focus on larger capitalisation growth companies with better valuation support to protect against the higher rate environment. We have noted three criteria since the first quarter of 2022 that need to play out before we can get more constructive on markets:

- Long-term interest rates to peak;
- Earnings estimates to come down; and
- Time

While two of these three factors have likely occurred, being interest rates have probably peaked and we are past the average duration of a bear market, the outlook for 2023 is more contingent on earnings estimates, which to date have remained stubbornly high. The Fund remains conservatively positioned as we enter 2023 with the expectation that earnings estimates need to be revised (now likely in the 1st half of 2023). Below we go into further detail as to why the earnings outlook still concerns us and where we want to invest for the year ahead.

Three things that we are looking to deploy cash

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Long-term interest rates have probably now peaked
The main driver of the rate rises throughout 2022 has been rising global inflation, which has led to central banks around the world increasing cash rates. Inflation looks to have peaked in June 2022, while recent inflation data points have been elevated, the comparative monthly numbers are increasing and so we expect inflation to continue to decelerate. The US 10-year bond yield has started to factor in growth slowing and rates peaking, with this key reference rate falling from 4.25% in October to 3.5% during December, which suggests the bulk of global rate rises required to contain inflation have now been done.

Central banks heavy lifting now looks done

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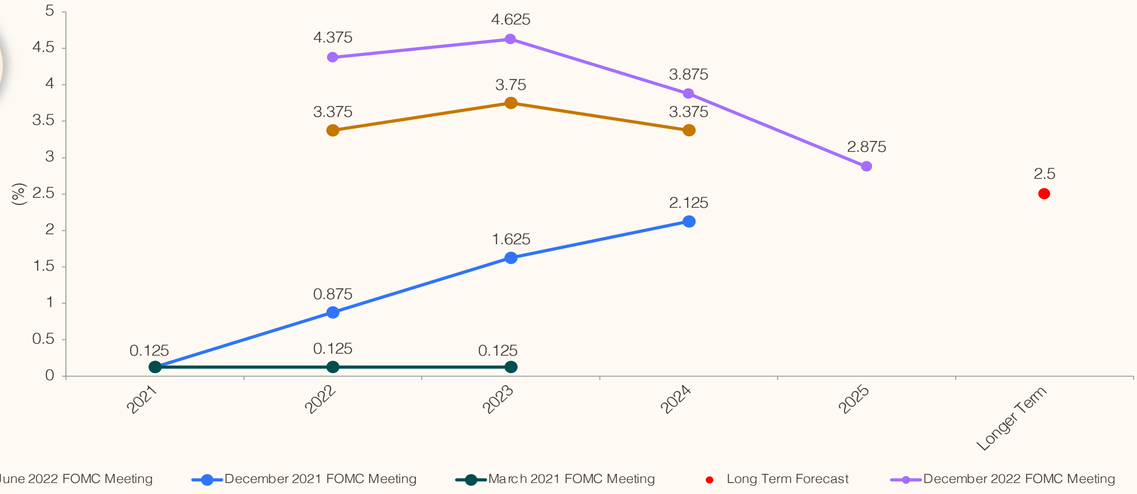
MEDIAN FOMC DOTS



Source: Bloomberg Finance L.P 6 December 2022

Time

Since 1928, the S&P 500 has experienced 21 bear markets (excluding the current bear market). The average length of a bear market, if you exclude the longest and shortest bear markets, is 330 days. The S&P 500 peaked on the 4th of January 2022, so on a purely statistical basis, we have now passed that mark. Macro forces can only dominate equity markets for so long before they are correctly priced. Having now passed the average bear market length, we should be cognisant that we are getting close to most of this bear market being priced in.

Earnings estimates to come down

Using the S&P 500 as a proxy for global markets, earnings estimates have come down from $241 in June to $227 in December, a fall of 6%. In some previous recessions and market drawdowns, earnings estimates have come down more than 20%. We do expect demand should soften as the impact of rate rises starts to bite and for margins to come under pressure as wage inflation likely remains elevated at least initially. For Munro, this is the last shoe to drop, we do expect the Q4 earnings season to lead to downward earnings revisions as companies are more likely to guide conservatively for 2023. Our biggest concern here is that the market level today does not price in any possibility of a hard landing for growth and appears to be fully priced under a mild slow-down scenario, hence we are still not comfortable with the risk-reward entering a period where companies need to set full-year guidance. Should earnings estimates begin to reset over the first quarter then we will be much closer to removing any further macro overhangs from our outlook and stocks can go back to what they do best, which is following their earnings growth.

S&P earnings estimates do not reflect a hard landing

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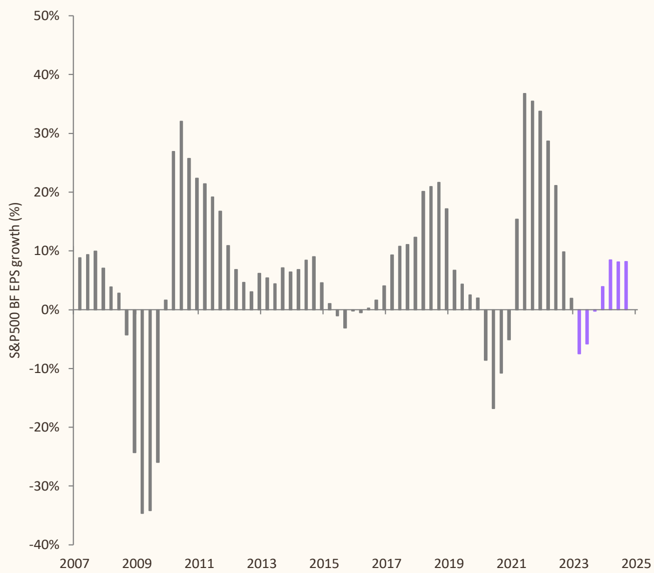
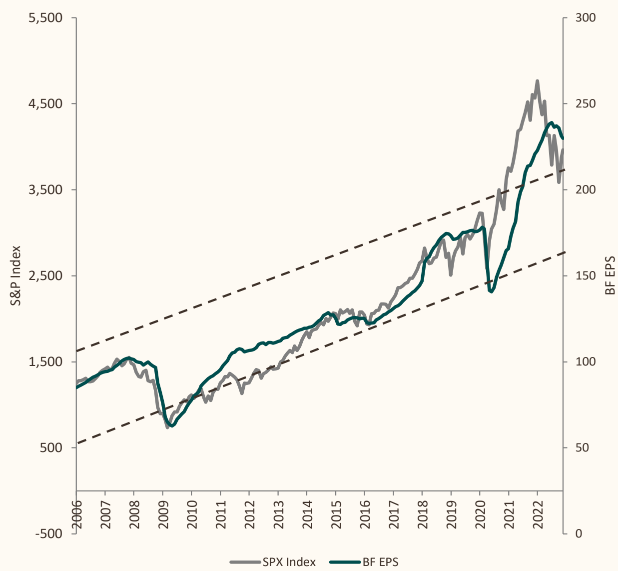
S&P 500 EARNINGS GROWTH YOY – REFLECTS A SOFT LANDING



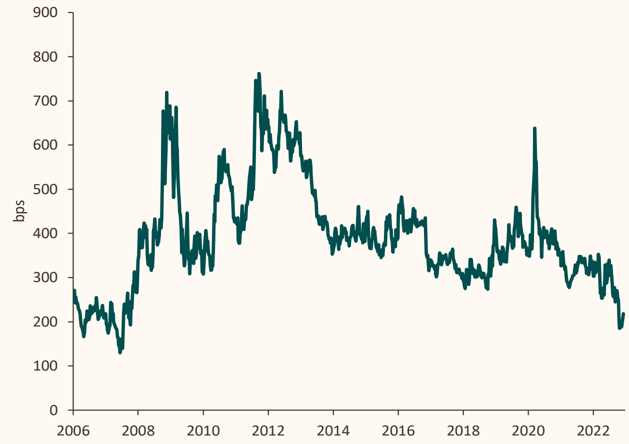
S&P 500 EARNINGS VS S&P INDEX – STILL OVEREARNING?



Source: Bloomberg Finance L.P 12th December 2022

S&P 500 & BLENDED FORWARD P/E RATIOVS S&P INDEX

EQUITY RISK PREMIUM IS LOW DUE TO HIGHER INTEREST RATES



Source: Bloomberg Finance L.P 12th December 2022

Fund Positioning
While the Fund will open the year positioned conservatively, we maintain a high conviction in the underlying fund thematics and potential for earnings growth over the years ahead.

The Climate Area of Interest remains our largest exposure and is where incremental capital is being invested today. The US Inflation Reduction Act (IRA),is effectively a $386bn climate spending regime, which will support the US renewables industry and other decarbonisation enablers for over 10 years. While some of the positivity around the IRA has been reflected in the sharemarket, we see further momentum as the ‘fine turning’ of policy provides further clarity for US corporates to place orders. With the US now leading the way with ‘carrots’ (not sticks), we expect this will act as an accelerator to other countries/regions (including the EU) to roll out their programs to incentivise decarbonisation investment.

Innovative Health is another key Area of Interest to which the Fund has high exposure. Two core holdings here are Novo Nordisk and Eli Lilly which are developing drugs combating the burgeoning global problem of chronic obesity. These pharmaceutical companies have shown that their glucagon-like peptide drugs (traditionally prescribed for diabetes) have the effect of reducing weight loss in the range of 15-20%. These drugs have the ability to not only improve the outcome for the patient by enabling them to avoid bariatric surgery but also reduce costs in global healthcare systems by treating obesity before other conditions develop such as heart or kidney disease. We believe the global obesity market opportunity could be more than US$50bn in years to come and is very under-penetrated today, creating a long runway for earnings growth.

Other Areas of Interest to note are Emerging Consumer and High Performance Compute. Within Emerging Consumer, we expect a tailwind from Chinese consumption as COVID-related restrictions are eased throughout the year; names like luxury goods company LVMH should be a key beneficiary. Finally, among technology, we see high performance semiconductors and their resulting supply chain as the best opportunity in the beaten-down sectors of 2022. Unlike other areas of technology, competitively nothing has changed in this sector from the influx of cheap capital leading up to 2022, they are merely suffering an inventory correction and are likely to emerge first as the macro forced bottom in 2023.

Conclusion
In conclusion, we are positive about the year ahead. While volatility may continue in the first quarter, we are getting closer to the overall market adequately pricing this COVID-induced macro adjustment. With interest rates peaking at still historically low levels, and earnings estimates likely to be rebased, this will ultimately set markets up for their next bull run. With the down cycle played out, individual share prices will go back to following their earnings growth, which is what they have always done. Structural changes in how we decarbonise the planet, cure diseases, shop and drive AI will ultimately become the key drivers of earnings growth and that earnings growth will drive share prices. We remain excited about the opportunities presenting themselves out of this recent adjustment and are merely exercising (and asking our investors too) to remain patient as the final phase of this adjustment plays out.

STOCK STORY: FROM LITTLE THINGS BIG THINGS GROW

ASML

STOCK NAME: **ASML**
AREA OF INTEREST: **High performance compute**
MARKET CAP: **$217.9B EUR**

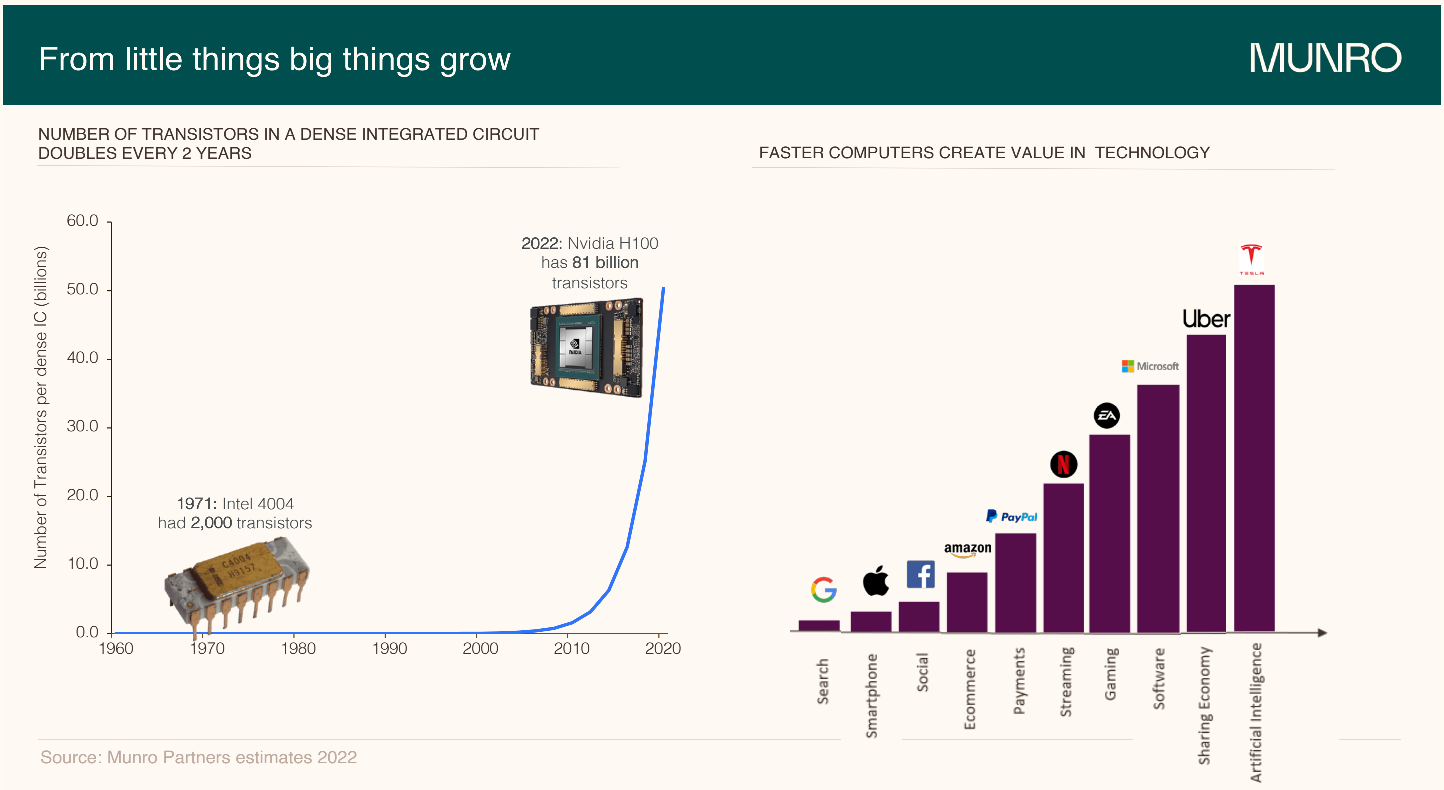
ASML contributed 49bps to Fund performance for the December quarter.

ASML, recently pitched by Nick Griffin at the Sohn Hearts & Minds conference (watch video here), is the key enabler of the semiconductor industry and sits as a core holding in our High Performance Compute Area of Interest.

ASML is producer of semi-conductor manufacturing tools, specifically leading-edge lithography tools. ASML's tools are essentially extremely advanced stencils that use extreme ultraviolet light to allow the miniaturisation of semiconductors, or Moore's Law, to continue. This process of shrinkage has been the key enabler of technological advancement in the modern world, and over time ASML has become a monopoly in high end lithography.

ASML's performance in the quarter was driven by the arrival of the company's capital markets day in November 2022. On this investor day, there was a meaningful focus on the company's growth and growth drivers going forward. Management significantly upgraded their target model for 2025 and 2030, driven by demand for high end semiconductors. The company now estimates sales of €30bn - €40bn by 2025, a significant upgrade from last year's guide of €24 - €30bn. With gross margins and operating model held constant, this implies an EPS range of €29 - €42 by 2025 versus previously implied €22 - €28. For 2030, management increased their sales expectation from €40bn to €44 - €60bn, implying a new EPS range of €42 - €68. The 2025 revenue guide increase came from stronger EUV and DUV sales due to higher uptake rates, tech sovereignty and the insatiable demand for more compute power. Their 2030 upgrade comes almost entirely from raised assumptions on demand for High NA EUV tools.

Assuming the company hits an EPS of approximately €14 in FY22, the midpoint of the company guide for FY25 / FY30 implies a compound annual earnings growth rate of 35% and 18% respectively. Alternatively put, the stock trades on 14x and 10x their FY25 & FY30 midpoint guides. It's clear that the current market value being ascribed to future growth potential is undervalued and we've accordingly used stock price weakness to increase exposure through the quarter.



STOCK STORY: WEIGHT REDUCTION PROVIDING SIZEABLE GAINS

novo nordisk

STOCK NAME: **Novo Nordisk**
AREA OF INTEREST: **Innovative Health**
MARKET CAP: **$2.1T DKK**

Novo Nordisk contributed 62bps to Fund performance for the December quarter.

Novo Nordisk is a key contributor to innovation within healthcare, placing particular focus on therapeutics employed in metabolic disease and endocrinology. The Danish company notably leads the market in diabetes with the broadest and most advanced portfolio spanning insulin and GLP-1s globally.

With a target of maintaining a third of this USD$55bn market going forward, this seemingly mature segment still has a stable runway with only 15% of the world's 537m diabetics currently receiving adequate treatment. Additionally, the World Health Organisation (WHO) expects prevalence to grow from its current 1/10 people with diabetes to 1/8 globally by 2045.

Recent enthusiasm around Novo Nordisk's prospects has come following the discovery that the company's diabetic GLP-1s could be used effectively and efficaciously in generating significant weight loss. In response, following off-label use of Ozempic which indicates solely for diabetes, Novo Nordisk launched Wegovy as an obesity drug capable of delivering a 15-20% reduction in Body Mass Index (BMI) in users over a several months stay period. Their pipeline Cargisema can bring a weight reduction of 15-20% which is akin to bariatric surgery.

The excitement around market potential has been understandable as only 2% of the 650 million people living with obesity seek treatment using anti-obesity medications (AOMs). As such, it is widely expected that GLP-1's for weight loss stands to become the pharma industry's next blockbuster drug category with sales potential ranging from USD$30-$50bn by 2030. The market structure also remains favourable as a duopoly, with the only two companies to sell GLP-1s for obesity being Novo Nordisk and Eli Lilly for the foreseeable future.

The stock's quarterly performance has been driven by the recommencement of supply for Wegovy and the expectation of strong results. Following Wegovy's launch in June 2021, Novo Nordisk suffered supply issues pertaining to the contract manufacture of the drug. Nullified capacity restricted growth, putting the visibility of Wegovy's potential on hold. Positive script data through December 2022 however shows that capacity has finally been restored and that the market can now look to 2023 as an expression of Novo's true potential within obesity.

We assume that uptake in diabetic GLP-1 along with Wegovy strength enables the company to grow earnings at an approximate three-year compound annual growth rate of 20% to 2025. Given that average pharmaceutical peers are expected to grow earnings at half of this at 10% p.a, we believe that their premium 30x multiple is well justified.

Obesity & Diabetes Disease Progression...the un-tapped opportunity

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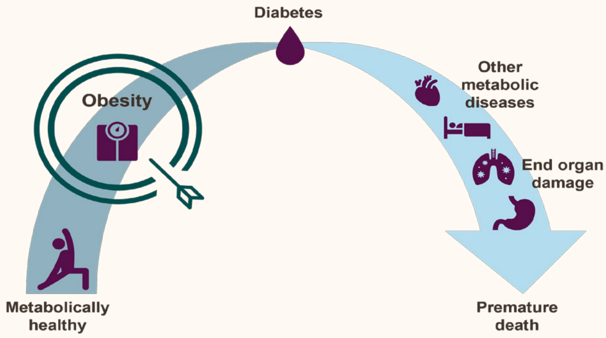
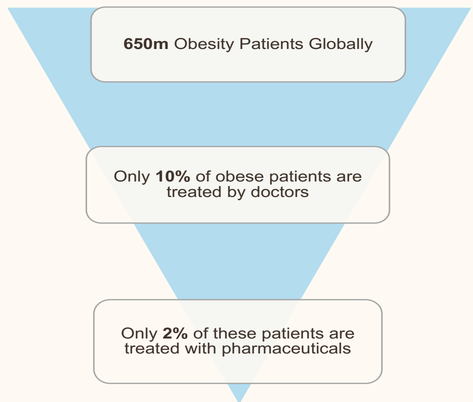
WHY TREAT OBESITY? DISEASE PROGRESSION



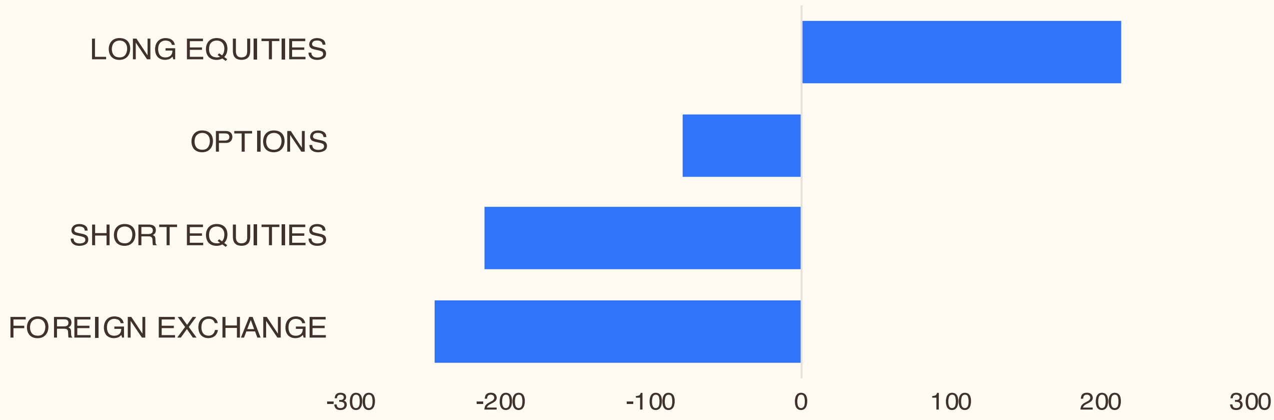
THE GLOBAL UN-TREATED OPPORTUNITY



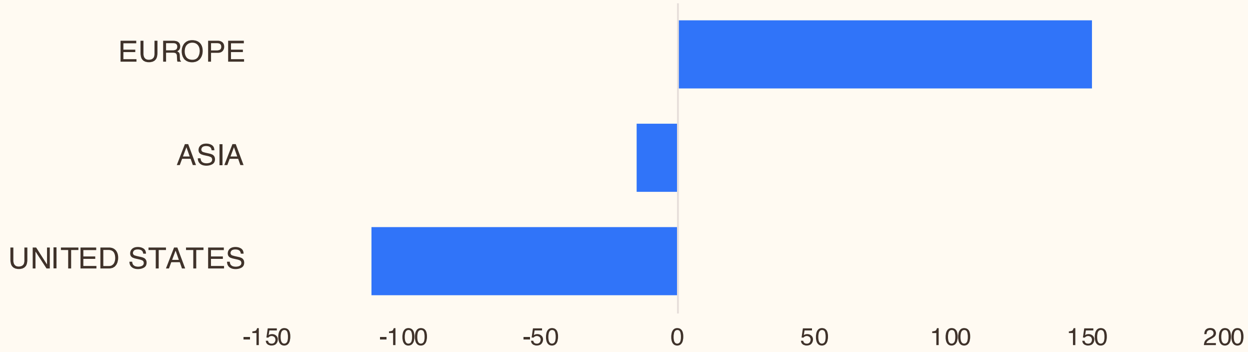
Source: Eli Lilly Capital Markets Day 15 December 2021 & Novo Nordisk Capital Markets Day 3 March 2022

QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

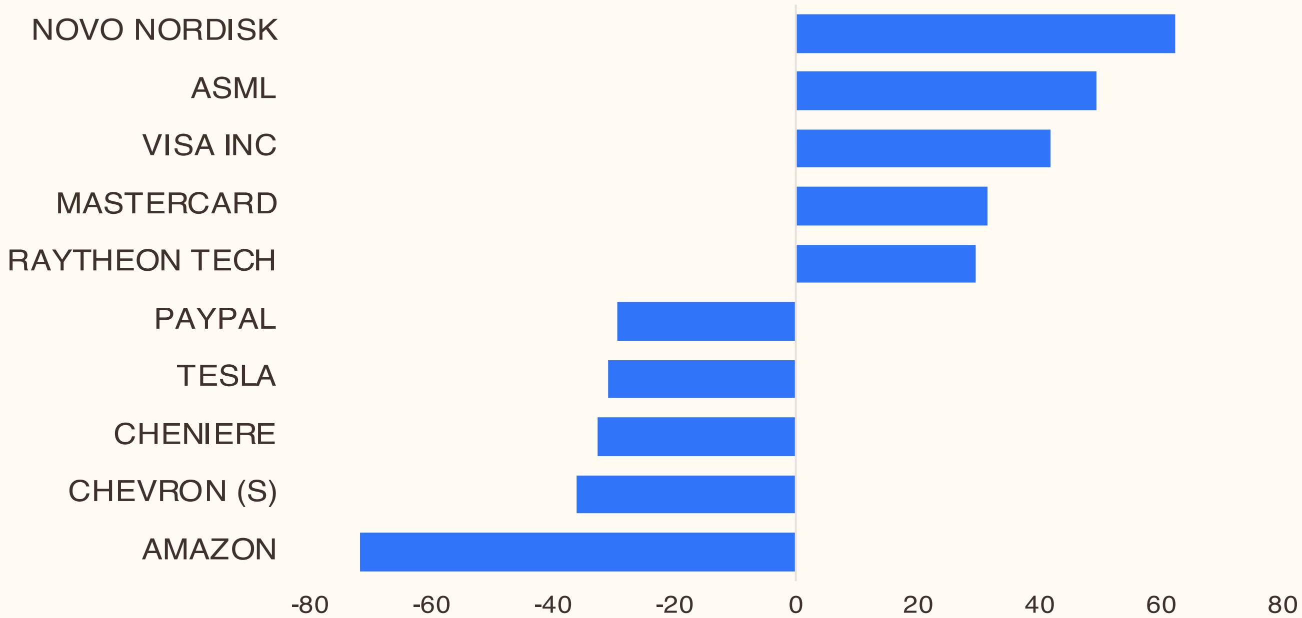
Security type



Region (equities only)



Top & bottom contributors (equities only)



QUARTER END EXPOSURE

Category

GROSS	84%
LONG	70%
SHORT	14%
NET	57%
DELTA ADJUSTED NET	52%
CURRENCY HEDGE (AUD)	60%

TOTAL POSITIONS	43
LONG POSITIONS	30
SHORT POSITIONS	13

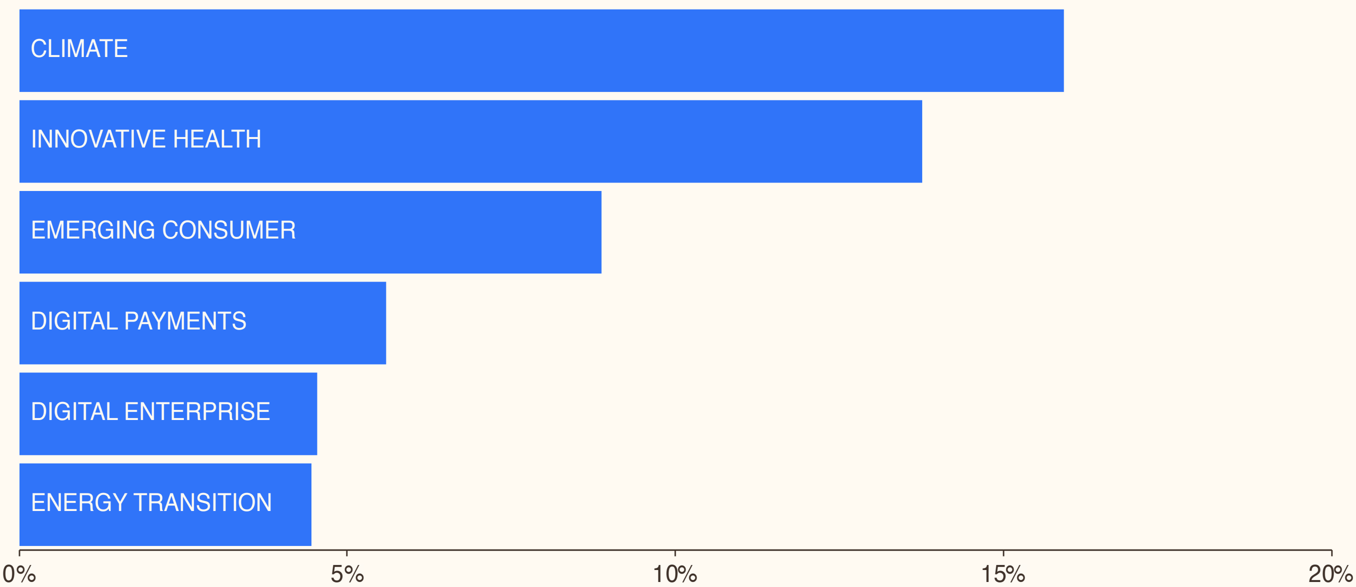
Region

CURRENCY REGION	GROSS EXP	NET EXP	CURRENCY EXP
AUSTRALIA	0.0%	0.0%	60.3%
UNITED STATES	63.7%	43.2%	40.0%
UNITED KINGDOM	0.6%	0.6%	0.0%
EURO AREA	13.2%	10.7%	-0.3%
FRANCE	4.5%	4.5%	
GERMANY	4.3%	1.8%	
NETHERLANDS	4.3%	4.3%	
DENMARK	4.4%	4.4%	-0.1%
SWEDEN	0.4%	-0.4%	0.0%
JAPAN	0.8%	-0.8%	0.0%
TAIWAN	1.0%	-1.0%	0.0%
EXPOSURE	84.0%	56.6%	100.0%
DELTA ADJUSTED EXPOSURE	88.5%	52.1%	

Holdings

TOP 10 HOLDINGS	
UNITEDHEALTH	4.9%
CONSTELLATION ENERGY	4.8%
COSTCO	4.4%
NOVO NORDISK	4.4%
ASML	4.3%
NEXTERA ENERGY	4.1%
VISA	3.5%
LVMH	3.5%
CHENIERE ENERGY	2.9%
LULULEMON	2.8%

Areas of interest (AOI)



Net Performance - MGGF

	3MTHS	6MTHS	1YR	2YRS (P.A.)	3YRS (P.A.)	5YRS (P.A)	INCEPT (P.A.)	INCEPT CUM.
MUNRO GLOBAL GROWTH FUND (AUD)	-3.2%	-0.6%	-19.5%	-5.2%	8.1%	7.8%	10.1%	85.0%

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
2017FY		1.2%	1.1%	-3.3%	2.2%	0.9%	1.9%	0.0%	2.1%	3.5%	4.2%	-1.3%	12.9%
2018FY	1.9%	3.3%	1.7%	6.7%	1.1%	-2.5%	6.0%	0.1%	-2.5%	0.0%	2.8%	1.1%	21.0%
2019FY	-0.4%	5.1%	0.9%	-5.4%	-3.1%	-1.4%	2.1%	3.1%	1.2%	3.3%	-4.1%	2.4%	3.1%
2020FY	0.9%	-0.6%	-1.4%	-0.3%	4.6%	0.7%	5.6%	0.6%	1.3%	4.2%	3.9%	2.1%	23.6%
2021FY	6.1%	4.7%	-0.8%	2.2%	2.7%	2.2%	1.5%	0.9%	-1.5%	2.7%	-3.5%	4.9%	24.2%
2022FY	3.9%	3.8%	-4.2%	2.0%	2.7%	-1.7%	-8.3%	-3.2%	-1.1%	-4.7%	-2.1%	-1.2%	-13.9%
2023FY	3.3%	-1.9%	1.3%	0.9%	1.1%	-5.1%							-0.6%

Net Performance - MAET.ASX

	3MTHS	6MTHS	1YR	2YRS (P.A.)	INCEPT (P.A.)	INCEPT CUM.
MAET.ASX (AUD)	-3.2%	-0.6%	-19.5%	-5.0	-2.2%	-4.6%

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL
2021FY					3.4%	2.2%	1.6%	1.0%	-1.5%	2.8%	-3.6%	5.1%	11.1%
2022FY	4.1%	3.8%	-4.1%	2.0%	2.7%	-1.7%	-8.3%	-3.2%	-1.1%	-4.7%	-2.1%	-1.2%	-13.7%
2023FY	3.3%	-1.9%	1.3%	0.9%	1.1%	-5.1%							-0.6%

IMPORTANT INFORMATION Past performance is provided for illustrative purposes only and is not a guide to future performance.
Differences in performance between the Munro Global Growth Fund (unlisted fund) and MAET (ASX quoted Fund) relate to their respective inception dates, the buy/sell spread around the iNAV for MAET, the timing difference between the issuing of units during the day on the ASX for MAET and the purchase of units in the Munro Global Growth Fund at the end of the day. This may result in reporting small differences in performance.