Quarterly report

Munro Global Growth Fund

MAET.ASX

June 2023

Munro Global Growth Fund & MAET.ASX
June 2023 – Quarterly report

Munro Global Growth Fund
Fund quarter return
7.2%

MAET.ASX
Fund quarter return
7.1%

QUARTERLY HIGHLIGHTS

- The Munro Global Growth Fund and MAET.ASX returned 7.2% and 7.1% respectively in the June quarter.
- Top contributors for the quarter included AI winners, from Nvidia the semiconductor chip manufacturer to infrastructure providers Microsoft, Amazon and Alphabet. Obesity drug manufacturer Eli Lilly was also a strong performer for the quarter.
- Events in the market during the quarter included the positive AI sentiment driven by Nvidia's very strong earnings and outlook commentary; the US debt ceiling resolution; and fears over a banking crisis abating.

MUNRO MEDIA

The Ideas Exchange, 31 May 2023
AI technology opening new investment opportunities

Livewire Markets, 1 June 2023
The $50 trillion opportunity Munro is chasing

GSFM Conversations, 18 June 2023
Conversations: Silver Linings, Episode 5 with Mike Harut

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QUARTERLY COMMENTARY

Fund commentary

The Munro Global Growth Fund returned 7.2% net in the June quarter (MAET.ASX 7.1% net). The Fund's long positions contributed positively, while short positions, hedging, and to a lesser extent, currency detracted from performance.

Equity markets performed well over the quarter, with earnings from Big Cap Tech fuelling the rally for the perceived winners in artificial intelligence (AI). The biggest needle mover came from Nvidia, the graphics processing unit (GPU) chip manufacturer. The company saw earnings expectations increase by more than 80%, driven by high demand for the chips going into data centers to increase compute power required to run large language models (LLMs) used in generative AI (GenAI). Microsoft – the early front runner in AI services in the Cloud – also reported strong results, stating that their AI Services customers had increased 10-fold from the previous quarter.

Throughout the quarter, several key 'banana skins' or risks, were avoided. Most importantly, US President, Joe Biden, signed legislation to lift the debt ceiling, averting a catastrophic default on the federal government's debt. Other avoided risks included no further large bank failures, meaning a systemic banking crisis is less likely from here. And finally, the expectation of a much-awaited US recession was pushed further out to late 2023/early 2024, as recent rate hikes have yet to significantly slow the economy.

From a Fund perspective, our long positions added to absolute performance for the quarter. This was led by stocks that benefited from artificial intelligence. As well as Nvidia and Microsoft mentioned above, the key beneficiaries of AI are the underlying infrastructure companies – Amazon (85bps) and Alphabet (66bps); and the electronic design automation and semiconductor companies – ASML (33bps), Synopsys (31bps), Applied Materials (19bps), Taiwan Semiconductor (17bps) and Advanced Micro Devices (8bps). Holdings in obesity drug manufacturers Eli Lilly (83bps) was also a key contributor, with strong sales and encouraging efficacy data on their GLP-1 medication. Our largest long detractor was Enphase Energy (-26bps), the solar energy equipment manufacturer, following their earnings outlook, which saw demand outlook soften on weak sell through trends in the distributor channel and inflexible cash advance terms to installers.

Short selling detracted from performance during the quarter, given that the Automotive market held up better than expected despite higher interest rates pressuring household budgets. Option hedging also detracted from performance during the quarter as the market saw off key risk events, such as the US debt ceiling issue, with the signing of legislation to lift the ceiling. There was little change in the key Australian-US dollar currency pair over the quarter. We ended the quarter approximately 54% hedged to Australian dollars.

QUARTERLY COMMENTARY

Market Outlook

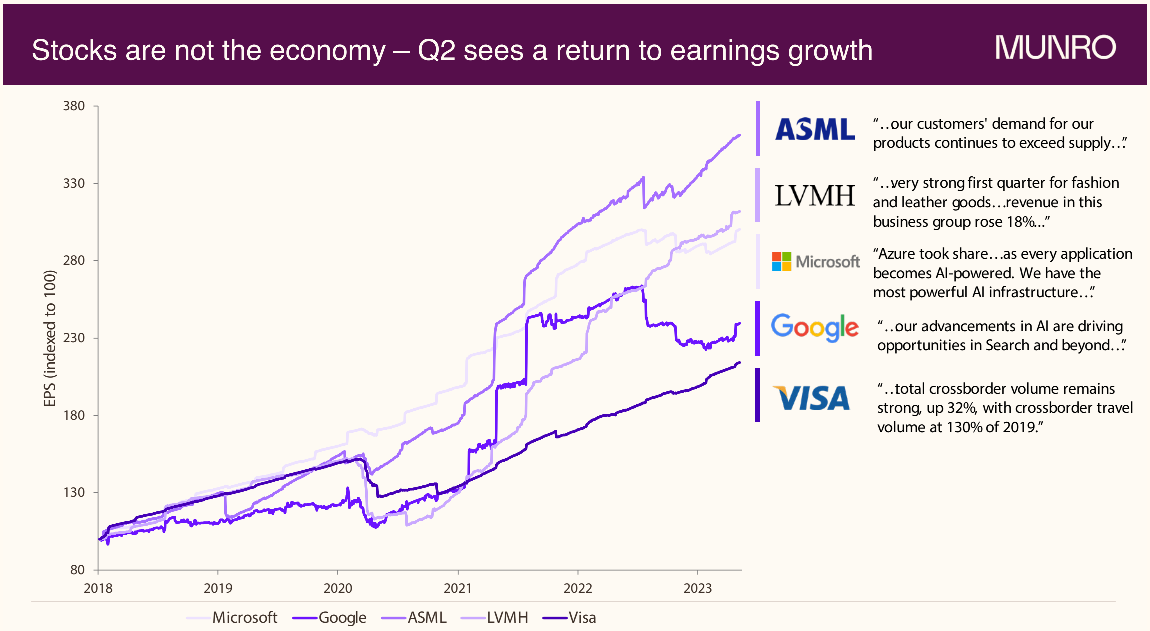
Global markets have made a solid start to the year, with the second quarter building on gains from the first quarter. As discussed last quarter, we are comfortable that we are close to the peak in long-term interest rates, and a significant amount of time has now passed since the beginning of the bear market. The last key indicator that we had previously been focused on was for earnings estimates to come down. Over the course of the year, we have grown more confident that earnings estimates have come down enough for the growth companies that we are investing in, and in fact, earnings estimates have started to increase again. This dynamic is due to several factors, including an acceleration in AI, the Chinese consumer being reacquainted with global travel and discipline on cost structures. For the broader market, we believe there is still some macro uncertainty that relates to a 'hard' or 'soft' landing and its effect on broader market earnings.

Headwinds that would see the economy have a hard landing include constrained household spending and lower business expansion from higher rates. Tailwinds, or drivers of a soft landing, include the proliferation of productivity growth driven by a new AI super-cycle, along with growth out of the Chinese economy as it re-opens following the COVID lockdown measures last year; and industrial growth driven by spending plans in the US including the Inflation Reduction Act and the CHIPS Act. Regardless of the outcome, with long-term rates peaking, the market has been returning to a more normalised environment, whereby share prices follow earnings – which bodes well for our process of looking for earnings growth opportunities backed by a structural tailwind.

The Fund's investments related to AI cut across a few different Areas of Interest (AoI), with High-Performance Compute the most significant exposure. Within the High Performance Compute AoI, Nvidia is the key semiconductor designer standing to benefit, along with semiconductor equipment companies required to manufacture these chips, such as key foundry TSMC, with long-term holding ASML that provides the critical tool and relatively newer holding Applied Materials. Finally, we have also invested in Electronic Design Automation (EDA) software vendor Synopsys which will benefit in two ways: firstly, system companies looking to make their own chips (hyperscalers and automotive companies) are a new and expanding customer base; and secondly, the Group also has their own AI capabilities that should see average selling price (ASP) increase for their software automation tools.

Revisiting our China reopening thesis at the half-way point of the year – it is playing out as we expected. Whilst results in the market have been mixed, those consumer goods companies more exposed to global travel retail have underperformed. The Fund's investments in Richemont and LVMH have seen positive results stemming from China. Lululemon has also seen rapid growth in the Chinese market from a lower base, driven by continued store opening throughout last year despite the difficult backdrop. In the recent quarter, Lululemon reported 80% year-on-year sales growth, this compared very favourably relative to Nike and Adidas, which recorded significantly lower growth rates.

In conclusion, the Fund is exposed to many different idiosyncratic growth drivers, such as AI and a rebound in Chinese consumption of luxury goods, so we feel well positioned for the 2H of 2023 and beyond.



Source: Company earnings calls, Bloomberg Finance L.P. 8 May 2023

NVIDIA

AREA OF INTEREST: **High Performance Compute**
MARKET CAP: **USD 1TR**

Nvidia contributed 170bps to performance for the June quarter.

We believe the semiconductor market is entering the AI era and will grow towards a 1 trillion-dollar industry in a relatively short period of time. As this AI driven growth in the semiconductor industry plays out, we expect Nvidia to be a key enabler of AI technology, given they design and sell some of the most powerful semiconductors available.

During the first quarter results reported in May, the company beat consensus revenue expectations by approximately 10%, as orders for Nvidia chips started to ramp up to enable AI, in particular the development of large language models. However, a positive surprise came as management guided the market to revenue expectations of $11bn for the company's fiscal second quarter, easily beating consensus expectations of just over $7bn. The upgrade to expectations was driven by the data center business, where revenues are expected to grow more than 100% year-on-year in the second quarter. The company's data center division makes up over half of the company's total revenues, and it is also where management is seeing an acceleration in demand for their product to power AI applications.

Moreover, the data center is where the compute processing will occur to enable AI applications, and will need to move to a new form of computing to be ready for the AI era. To ensure that AI is relevant, i.e. that consumers utilise it in their everyday lives, it ultimately needs to function correctly, meaning there is a step change required in the complexity of the compute power enabling AI. Traditional forms of computing that we have seen in the PC and mobile eras over time are insufficient to process AI applications, so data centers need to move to a world of 'accelerated computing'. In simple terms, this combines a traditional central processing unit (CPU), a graphics processing unit (GPU), and finally, software, to allow computers to process more complex tasks simultaneously. Jensen Huang, the CEO of Nvidia, acknowledges that the primary use case for the data center in the future will be AI. To ensure that data centers have the ability to process those AI applications, they need to be equipped to perform accelerated computing. Nvidia offers a solution for data centers that enables them to be ready for accelerated computing, and, therefore ready for AI. On the Nvidia earnings call, Jensen pointed out that only a fraction of the 1 trillion dollars spent on data center infrastructure is enabled to perform accelerated computing today and is estimated that approximately 14% of data centers are accelerated. Over time, we expect this percentage to grow, which provides a long-term structural backdrop for Nvidia to sell its semiconductor solutions to effectively re-tool the world's data center infrastructure to be ready for AI.

In the accelerated compute market, we believe Nvidia has close to an 80% market share, which places them in a strong position to capture this earnings upside, not only from re-tooling data centers, but also by providing accelerated computing solutions to new data centers being built. As we have seen in many different forms, technology is often a 'winner takes most' market. To ensure AI is relevant and that it works, the best technology needs to be operating behind the scenes enabling it to happen. Given Nvidia provides a complete solution for the move to accelerated computing and can do it at a lower total cost of ownership compared to peers, the company is well positioned to grow with this structural backdrop for many years to come.

New S-Curves - The 4th era of computing has arrived – AI

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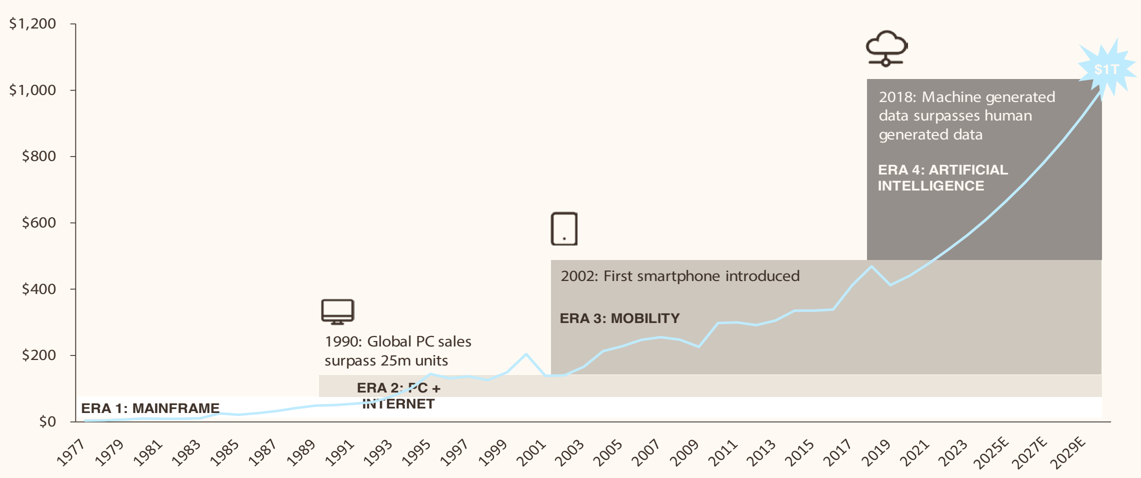

Source: World Semiconductor Trade Statistics, June 2023, Applied Materials

Microsoft

AREA OF INTEREST: **Digital Enterprise**
MARKET CAP: **USD 2.5TR**

Microsoft contributed 121bps to Fund performance for the June quarter.

Microsoft is the largest vendor of computer software in the world. It is also a leading provider of cloud computing services, video games, computer and gaming hardware.

Microsoft's performance in the quarter was driven by its Q3 earnings result and the commentary given. The Office Commercial software business was a stand-out, with growth accelerating in the quarter. The company's commentary around Azure, their cloud computing business, was taken positively, suggesting that new workloads migrating to the cloud had restarted and that cloud optimisation activity can only be optimised so far, suggesting we could see an acceleration in that key business unit in FY24.

The other key highlights from the earnings call related to AI. Microsoft said that 1% of Azure's growth in the next quarter was a result of AI services. Whilst 1% might not seem significant, this equates to a $500m annual run rate for a business that is in its infancy. AI Services saw customers grow 10x quarter-on-quarter from 250 in the preceding quarter to 2500 and then to 4500 in a recent update in mid-May. This validates the exponential growth we expect from Microsoft's AI Services business. Microsoft also suggested that their recently demonstrated Co-Pilot offerings for Office would likely have a similar level of price increase to their Git Hub Co-Pilot (double the price of the standard offering).

Pricing power for AI applications

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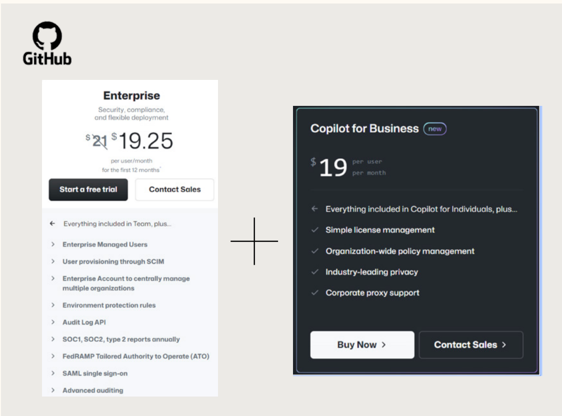
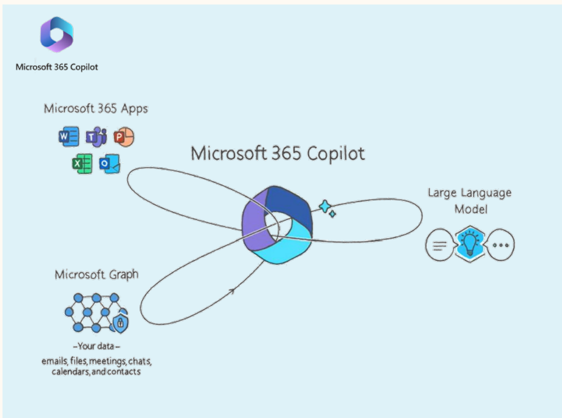
"RECENT GITHUB DATA SHOWS THAT AMONG DEVELOPERS WHO HAVE USED GITHUB COPILOT, 88% SAY THEY ARE MORE PRODUCTIVE"



GitHub pricing is the test case for Microsoft Copilot



Microsoft Copilot expected release in 2023 – opening up $billions in potential revenue

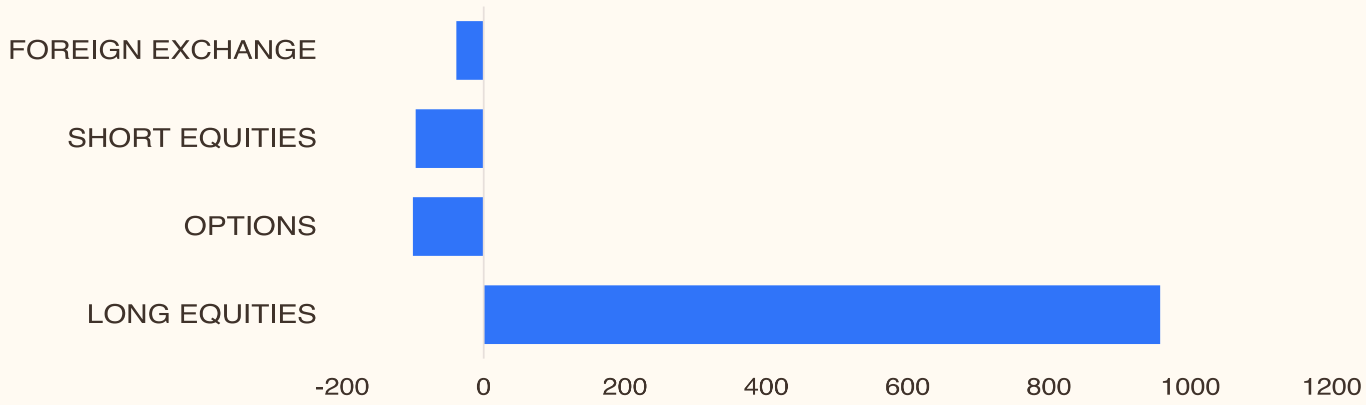
Source: Microsoft company earnings call, May 2023

Since the earnings call, Microsoft has had a string of events and product announcements that have been very bullish leaning. Amy Hood, the CFO, conducted an interview with Kevin Scott (EVP of AI & CTO) that was posted on the company's website, which talked about AI being the next evolution of technology after personal computing, the internet and the mobile revolution. In the interview, they stated that their next-generation AI business will be the fastest business to grow to $10bn in the company's history.

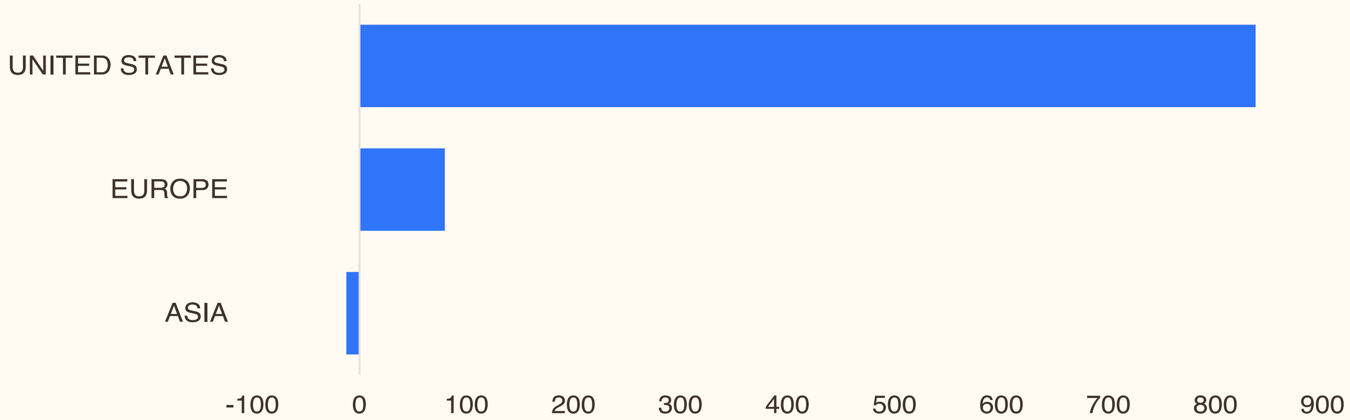
Whilst Microsoft's multiple has re-rated in recent months, we believe the consensus earnings are significantly underestimating the impact that AI will have on the company's earnings. The majority of sell-side analysts have not factored in any significant increase in earnings to date. Based on our estimates, the stock is trading below 25x June-2025 earnings, which we think is cheap for the leading AI cloud infrastructure and software application company on the planet.

QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

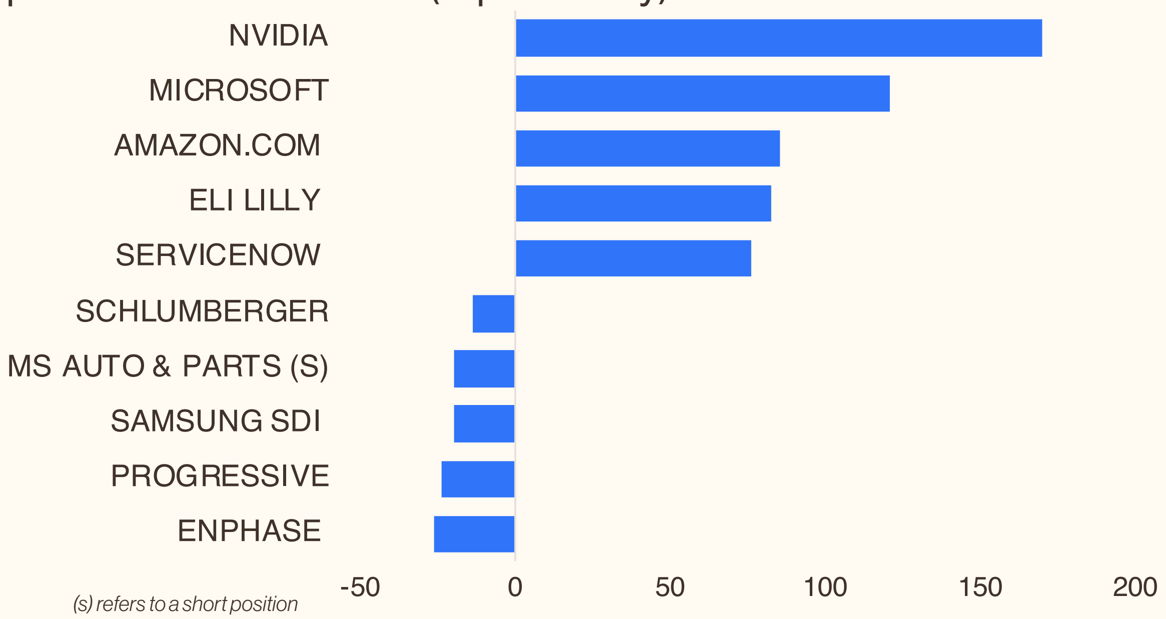
Security type



Region (equities only)



Top & bottom contributors (equities only)



(s) refers to a short position

QUARTER END EXPOSURE

Category

GROSS	110.0%
LONG	102.1%
SHORT	7.9%
NET	94.2%
DELTA ADJUSTED NET	94.2%
CURRENCY HEDGE (AUD)	54.4%

TOTAL POSITIONS	42
LONG POSITIONS	35
SHORT POSITIONS	7

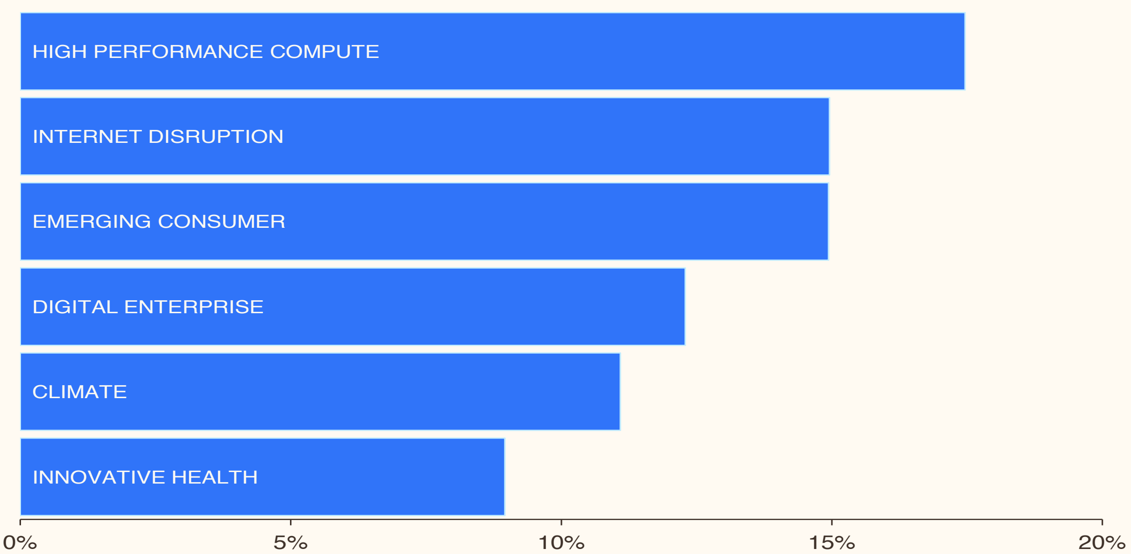
Region

CURRENCY REGION	GROSS EXP	NET EXP	CURRENCY EXP
AUSTRALIA	0.0%	0.0%	54.4%
UNITED STATES	80.5%	65.7%	45.4%
EURO AREA	19.3%	18.3%	0.1%
FRANCE	6.5%	6.5%	
NETHERLANDS	5.4%	4.3%	
GERMANY	3.3%	3.3%	
IRELAND	4.2%	4.2%	
DENMARK	2.1%	2.1%	0.1%
SWITZERLAND	4.0%	4.0%	0.0%
SOUTH KOREA	1.8%	1.8%	0.0%
TAIWAN	2.3%	2.3%	0.0%
EXPOSURE	110.0%	94.2%	100.0%
DELTA ADJUSTED EXPOSURE	110.0%	94.2%	

Holdings

TOP 10 HOLDINGS	
MICROSOFT	7.6%
NVIDIA	5.8%
ALPHABET	5.0%
AMAZON	4.9%
ASML	4.9%
SERVICENOW	4.6%
VISA	4.3%
RICHEMONT	4.0%
LIBERTY MEDIA: F1	3.9%
LVMH	3.9%

Areas of interest (AOI) by long positions



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)	7.2%	9.4%	8.7%	-3.2%	5.1%	8.2%	10.7%	102.3%

	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%	-0.3%	-2.1%	4.6%	0.8%	4.6%	1.6%	8.7%

Net Performance - MAET.ASX

	3MTHS	6MTHS	1YR	2YRS (P.A.)	INCEPT (P.A.)	INCEPT CUM.
MAET.ASX (AUD)	7.1%	9.2%	8.6%	-3.2%	1.6%	4.2%

	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%	-0.3%	-2.2%	4.6%	0.8%	4.6%	1.6%	8.6%

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.

RG240 DISCLOSURE

The fund is classified as a hedge fund in accordance with ASIC RG240. The following disclosures are provided in accordance with the requirements of RG240 covering the financial year to 30 June 2023.

Investment Strategy:
The Funds (Munro Global Growth Fund and MAET.ASX) are concentrated long/short global equities products that are fundamentally driven with a focus on growth. The investment strategy has not changed since the date of its inception (1 August 2016 for the Munro Global Growth Fund and 2 November 2020 for MAET.ASX).

Asset Allocation
In accordance with the Fund's investment strategy, asset classes invested in by the Fund over the course of the 2023 financial year were listed international equities, swaps on listed international equities, exchange traded options, with the balance in cash. The percentage of assets held by class, at the close of business on 30 June 2023 was:

Australian listed equities	0.0%
International listed equities	94.2%
Swaps on international listed equities	0.0%
Exchange traded derivatives	0.0% [1]
Cash	5.8%
Total	100.0%

[1] *Exchange traded derivatives used are predominantly equity options, futures contracts / options and foreign currency futures / swaps. These are used for hedging against losses on specific Long Positions, against the overall portfolio and / or managing foreign currency risk.*

Asset allocation by class and industry sector are reported on a monthly basis in the monthly updates. The swap exposure data provided above includes the underlying market value of swap positions, the cash exposures have been adjusted to allow for this.

Liquidity
The Fund is invested in asset classes whereby it can reasonably be expected to realise at least 80% of its individual positions, at the value ascribed to those assets in calculating the Fund's NAV, within 10 days at all times. The liquidity profile of the Fund was met throughout the 2023 financial year. At 30 June 2023, 100% of its assets are capable of being realised within ten business days.

Leverage & Maturity Profile
The maximum gross exposure limit set for the Fund taking into account leverage is 200% of the NAV of the Fund. Leverage levels were well within this maximum limit during the 2023 financial year. Based on the Fund's closing position at 30 June 2023, the Fund is long 102% and short 7.9%. The resultant gross exposure is 110.0%, and net exposure is 94.2%. The Fund had no other borrowings over the course of the financial year.

Key Service Providers:
There were no changes to key service providers in the 2023 financial year.