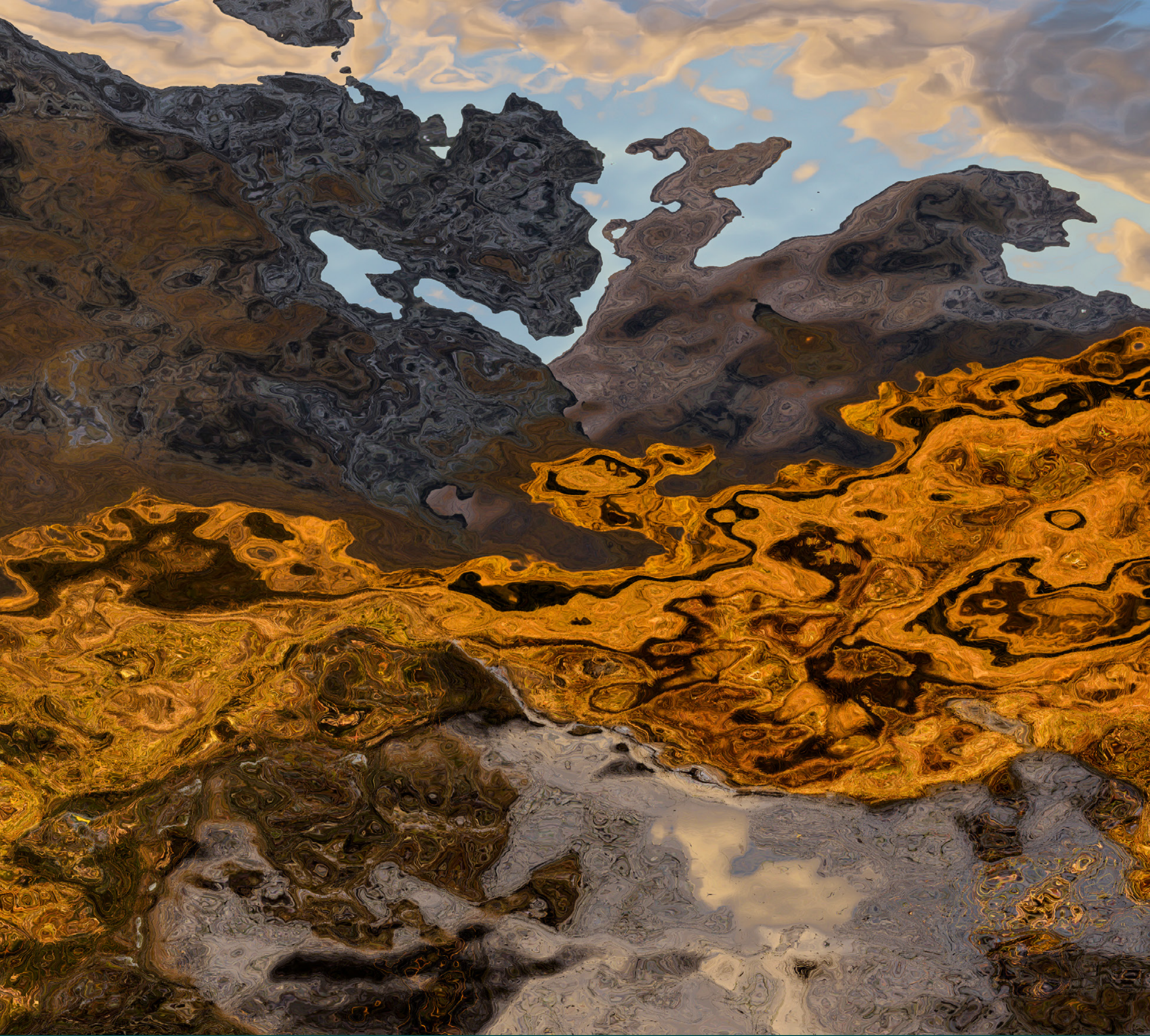


Quarterly report

# Munro Concentrated Global Growth Fund

## MCGG.ASX

June 2023

# Munro Concentrated Global Growth Fund & MCGG.ASX
## June 2023 – Quarterly report

**MCGGF Fund quarter return**
9.7%

**MSCI quarter return**
7.6%

**MCGG.ASX Fund quarter return**
9.4%

**MSCI quarter return**
7.6%

QUARTERLY HIGHLIGHTS

- The Munro Concentrated Global Growth Fund returned 9.7% in the June quarter. MCGG.ASX returned 9.4% over the same period.
- 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

CONTENTS

QUARTERLY COMMENTARY

# Fund commentary

The Munro Concentrated Global Growth Fund returned 9.7% in the June quarter (9.1% from equities and 0.5% from currency), while the MSCI World (Ex-Aus) returned 7.6% (7.3% from equities and 0.3% from currency).

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 (83bps) and Alphabet (66bps); and the electronic design automation and semiconductor companies – ASML (32bps), Synopsys (32bps), Applied Materials (3bps),and Taiwan Semiconductor (15bps). Holdings in obesity drug manufacturers Eli Lilly (96bps) was also a key contributor, with strong sales and encouraging efficacy data on their GLP-1 medication. Our largest detractor was Progressive (-24bps), a leading auto insurance company in the US. Shares fell after the company reported earnings results that came in below estimates due to higher-than-expected costs. The company is currently grappling with an increase in claims in Florida ahead of the changes to legislation that will likely prove transitory.

# Market Outlook

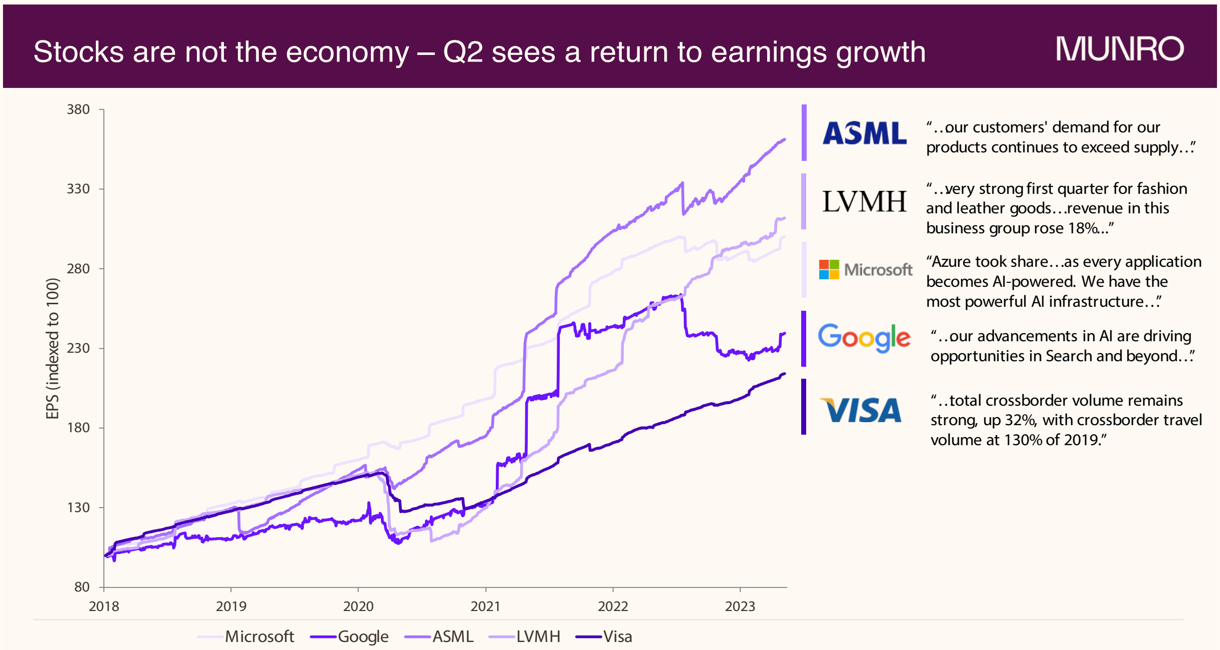
Global markets have made a solid start to the year, with the second quarter building on gains from the first quarter. As discussed last quarter, we are comfortable that we are close to the peak in long-term interest rates, and a significant amount of time has now passed since the beginning of the bear 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

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

Nvidia contributed 169bps to performance for the June quarter.

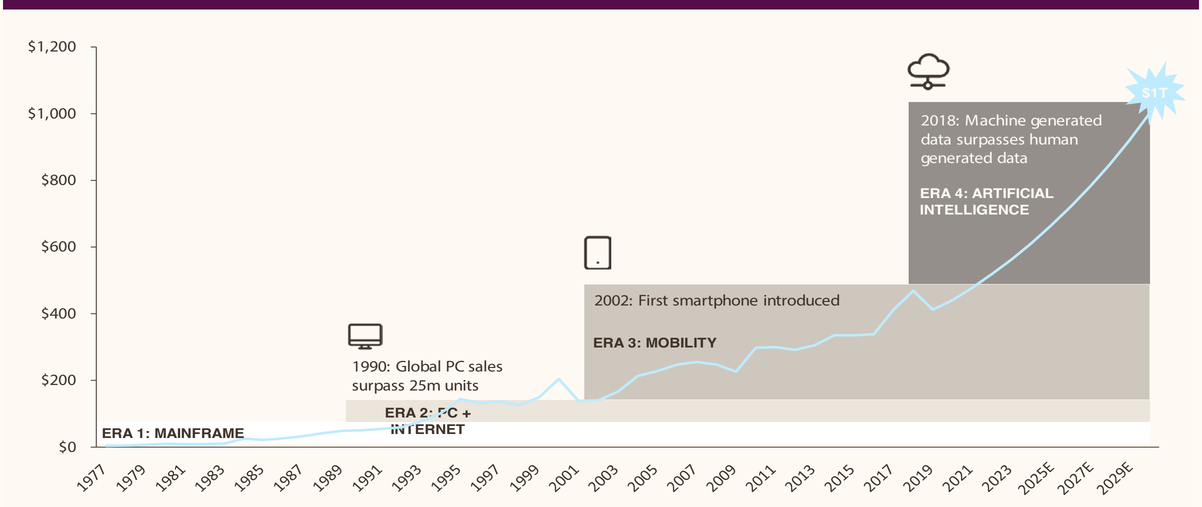
We believe the semiconductor market is entering the AI era and will grow towards a 1 trillion-dollar industry in a relatively short period of time. As this AI driven growth in the semiconductor industry plays out, we expect Nvidia to be a key enabler of AI technology, given they design and sell some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




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

STOCK STORY: MICROSOFT

# Microsoft

AREA OF INTEREST: **DIGITAL ENTERPRISE**

MARKET CAP: **$2.5TR**

Microsoft contributed 118bps 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.

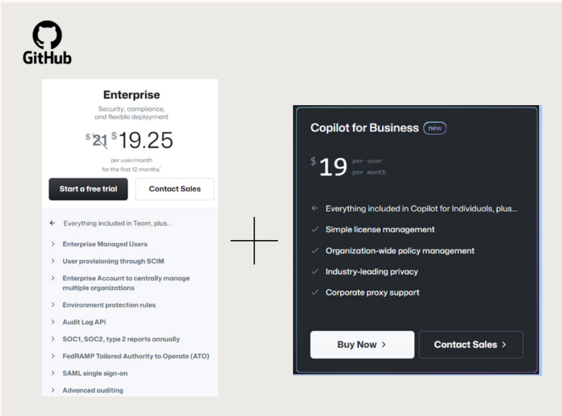
Microsoft's performance in the quarter was driven by its Q3 earnings result and the commentary given. The Office Commercial software business was a stand-out, with growth accelerating in the quarter. The company's commentary around Azure, their cloud computing business, was taken positively, suggesting 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).

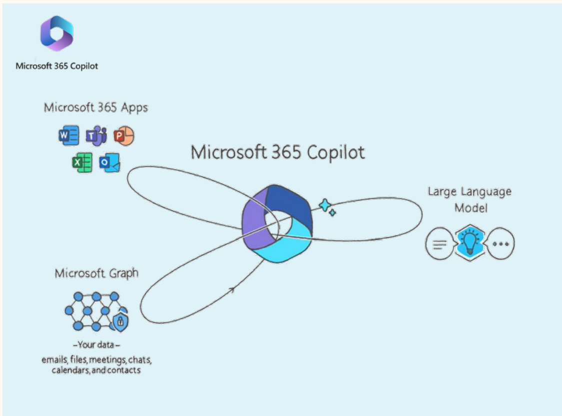
## Pricing power for AI applications

MUNRO

"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

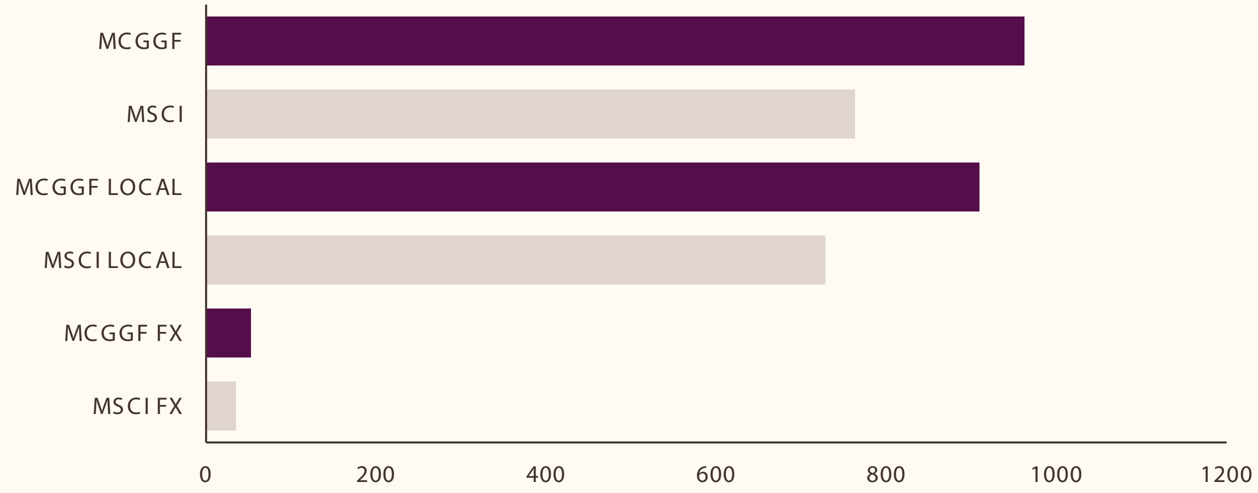
Source: Microsoft company earnings call, May 2023

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.

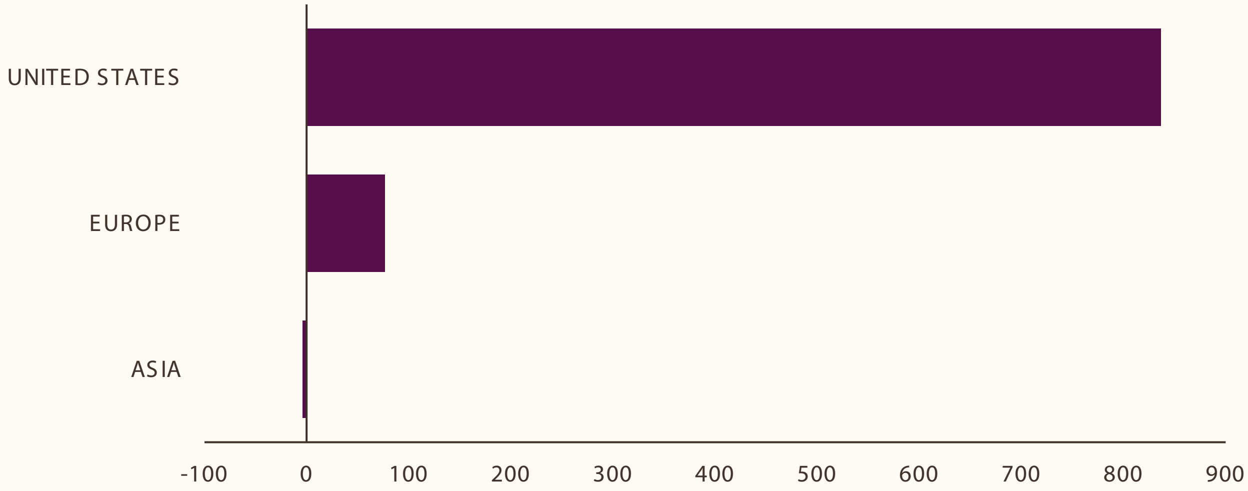
Whilst Microsoft's multiple has re-rated in recent months, we believe the consensus earnings are significantly underestimating the impact that AI will have on the company's earnings. The majority of sell-side analysts have not factored in any significant increase in earnings to date. Based on our estimates, 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)

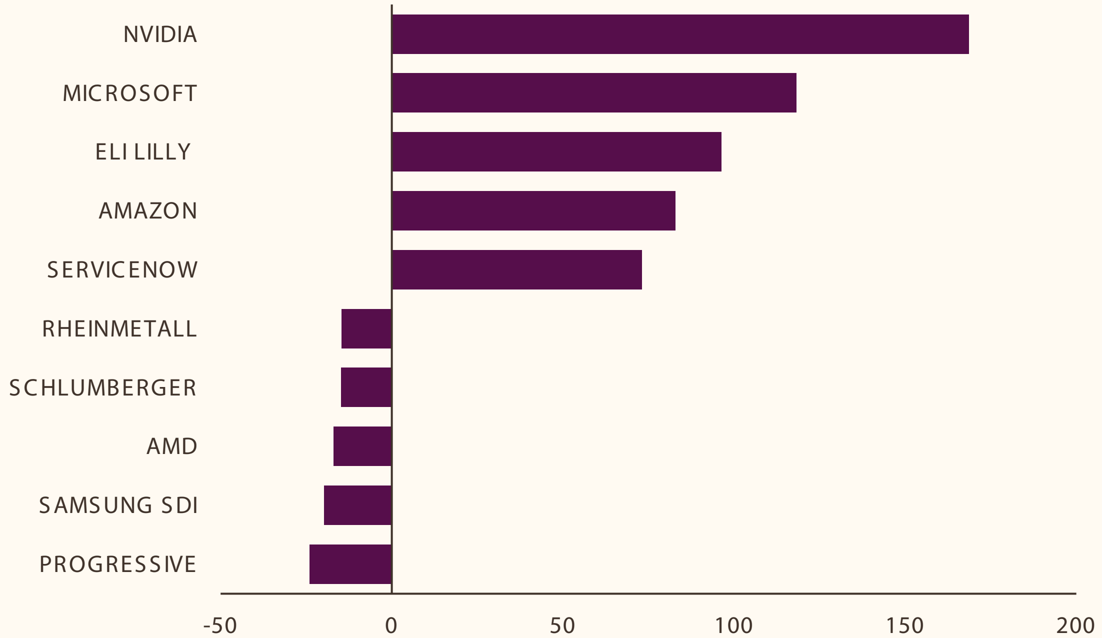
## By investment category




## By region (equities only)




## Top & bottom contributors (equities only)



QUARTER END EXPOSURE

## Category

| | |
|---|---|
| EQUITIES | 97.3% |
| CASH | 2.7% |
| NO. OF LONG POSITIONS | 33 |

## Sector

| | |
|---|---|
| INFORMATION TECHNOLOGY | 33.2% |
| CONSUMER DISCRETIONARY | 22.0% |
| COMMUNICATIONS SERVICES | 11.2% |
| FINANCIALS | 8.9% |
| INDUSTRIALS | 8.0% |
| OTHER | 14.0% |

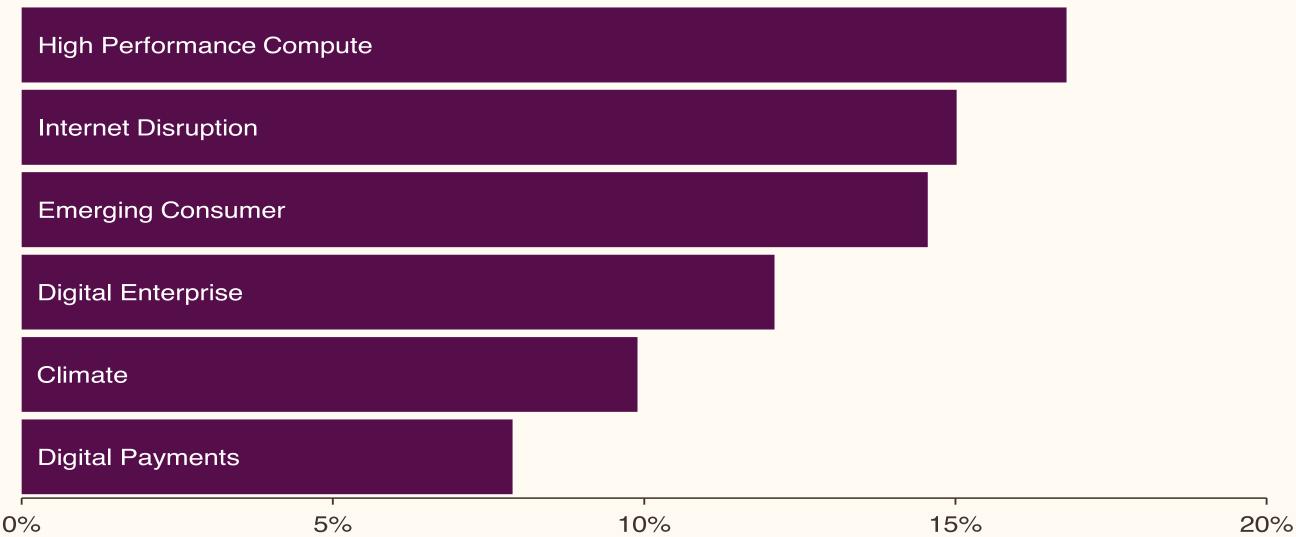
## Region

| | LONG |
|---|---|
| UNITED STATES | 69.6% |
| EUROPE | 24.0% |
| FRANCE | 6.3% |
| NETHERLANDS | 4.7% |
| GERMANY | 3.2% |
| IRELAND | 3.8% |
| DENMARK | 2.0% |
| SWITZERLAND | 3.9% |
| TAIWAN | 2.0% |
| SOUTH KOREA | 1.8% |
| CASH | 2.7% |

## Holdings

| TOP 10 HOLDINGS | |
|---|---|
| MICROSOFT | 8.1% |
| NVIDIA | 5.6% |
| ALPHABET | 5.3% |
| AMAZON | 4.8% |
| ASML | 4.7% |
| VISA | 4.2% |
| SERVICENOW | 4.0% |
| RICHEMONT | 3.9% |
| LIBERTY MEDIA: F1 | 3.8% |
| LVMH | 3.8% |

## Areas of interest (AOI)



## Net Performance - MCGGF

| | 3 MTHS | 6 MTHS | 1 YEAR | 2 YRS | 3 YRS | INCEPT (P.A.) | INCEPT CUM. |
|---|---|---|---|---|---|---|---|
| **MUNRO CONCENTRATED GLOBAL GROWTH FUND (AUD)** | 9.7% | 19.9% | 22.7% | 2.6% | 10.0% | 13.4% | 58.5% |
| MSCI WORLD (EX-AUS) TR INDEX (AUD) | 7.6% | 17.5% | 22.6% | 7.1% | 13.5% | 10.9% | 46.3% |
| EXCESS RETURN | 2.0% | 2.4% | 0.1% | -4.5% | -3.5% | 2.5% | 12.2% |

| | JUL | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2020FY** | | | | | 4.9% | -1.2% | 7.4% | -1.1% | -4.2% | 6.7% | 4.4% | 1.3% | 19.0% |
| **2021FY** | 4.4% | 4.4% | 1.0% | 2.0% | 3.1% | 0.5% | 1.2% | -0.4% | -0.2% | 3.6% | -2.2% | 6.6% | 26.5% |
| **2022FY** | 4.7% | 4.6% | -4.7% | 1.5% | 5.1% | -1.4% | -7.9% | -4.7% | -0.2% | -5.7% | -0.9% | -4.3% | -14.2% |
| **2023FY** | 7.2% | -3.2% | -2.4% | 5.9% | 2.0% | -6.6% | 1.1% | 0.6% | 7.6% | 2.4% | 5.3% | 1.7% | 22.7% |

## Net Performance - MCGG.ASX

| | 3 MTHS | 6 MTHS | 1 YEAR | INCEPT P.A. | INCEPT CUM. |
|---|---|---|---|---|---|
| **MCGG.ASX (AUD)** | 9.4% | 19.7% | 22.1% | 2.5% | 3.6% |
| MSCI WORLD (EX-AUS) TR INDEX (AUD) | 7.6% | 17.5% | 22.6% | 4.9% | 7.0% |
| EXCESS RETURN | 1.7% | 2.2% | -0.5% | -2.4% | -3.4% |

| | JUL | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2022FY** | | | | | | | | -4.4% | -0.3% | -5.7% | -1.3% | -4.3% | -15.2% |
| **2023FY** | 7.3% | -3.8% | -2.5% | 6.0% | 2.1% | -6.5% | 1.1% | 0.5% | 7.7% | 2.5% | 5.3% | 1.4% | 22.1% |

Differences in performance between the Munro Concentrated Global Growth Fund (unlisted fund) and MCGG (ASX quoted Fund) relate to their respective inception dates, the buy/sell spread around the iNAV for MCGG, the timing difference between the issuing of units during the day on the ASX for MCGG and the purchase of units in the Munro Concentrated Global Growth Fund at the end of the day. This may result in reporting small differences in performance.

**IMPORTANT INFORMATION: Past performance is provided for illustrative purposes only and is not a guide to future performance.** Data is as at 30 June 2023 unless otherwise specified. GSFM Responsible Entity Services Limited ABN 48 129 256 104 AFSL 321517 (GRES) is the responsible entity of the Munro Concentrated Global Growth Fund ARSN 630 173 189 (Fund) APIR GSF9808AU (MCGGF) and the Munro Concentrated Global Growth Fund (Managed Fund) (MCGG.ASX), collectively the Funds. GRES is the issuer of this information. The inception date of MCGGF is 31 October 2019. MCGG.ASX invests in MCGGF and cash, the inception date of MCGG is 3 February 2022. 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 World (Ex-Aus) TR Index AUD refers to the MSCI World (Ex-Australia) Total Return Net Index in Australian Dollars. BPS refers to Basis Points. AOIs 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 MCGGF TMD is dated 9 November 2022, the Product Disclosure Statement (PDS) is dated 30 September 2022 and the Additional Information Booklet (AIB) dated 30 September 2022, the MCGG.ASX PDS is dated 21 January 2022 and the TMD dated 9 November 2022, these documents may be obtained from www.gsfm.com.au, 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 14 July 2023.