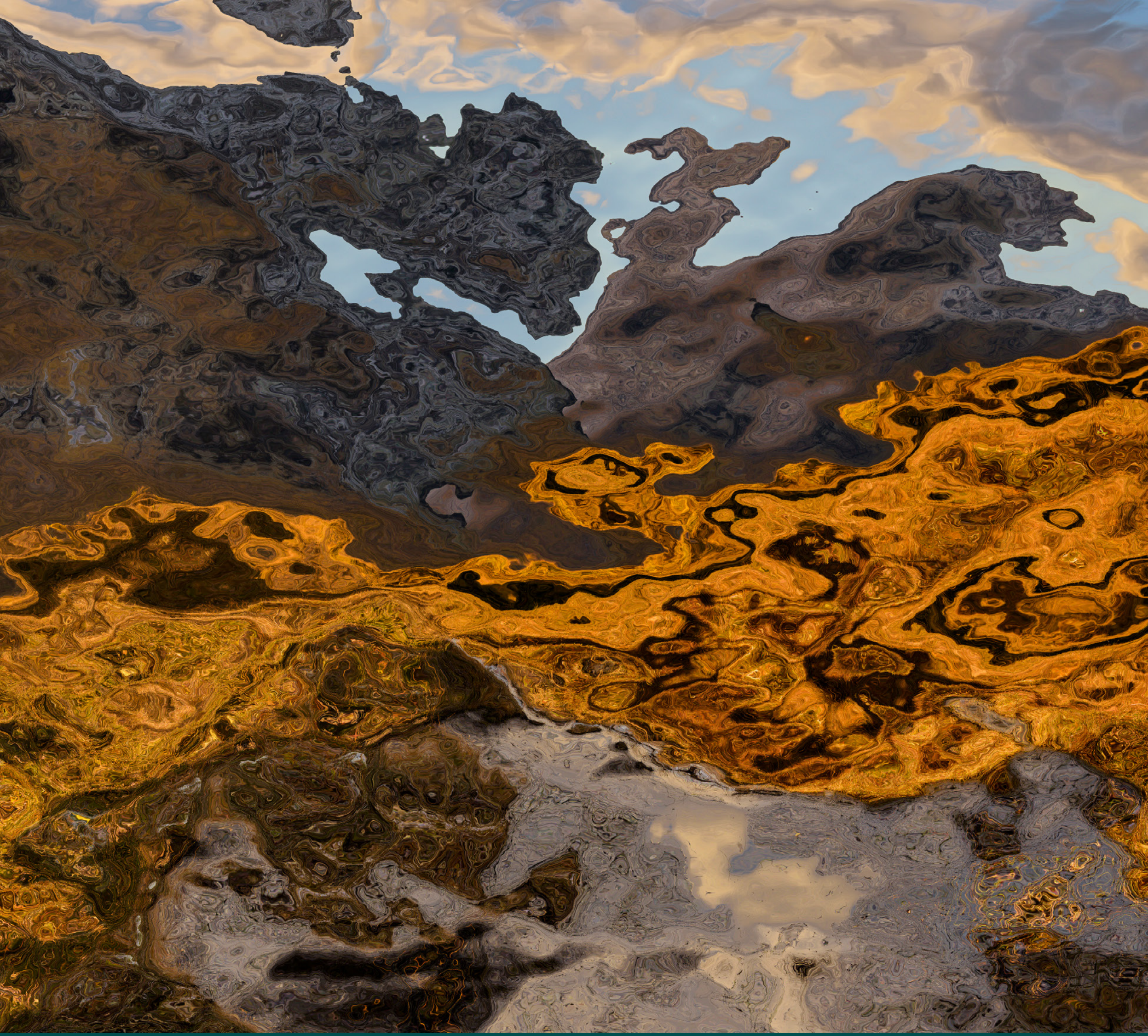

Quarterly report

Munro Concentrated Global Growth Fund

MCGG.ASX

September 2023

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

MCGGF Fund quarter return
-1.5%

MSCI quarter return
-0.4%

MCGG.ASX Fund quarter return
-1.5%

MSCI quarter return
-0.4%

QUARTERLY HIGHLIGHTS

- The Munro Concentrated Global Growth Fund returned -1.5% for the September quarter. MCGG.ASX returned -1.5% over the same period.
- Top contributors for the quarter included GLP-1 beneficiaries Novo Nordisk and Eli Lilly, both key names in the Innovative Health Area of Interest. Read more about them on page 6.
- Global equity markets gave back some of the strong gains made for the calendar year during the September quarter. The market is grappling between rising earnings, which should lead to rising stock prices, and rising bond yields which should dampen the price investors are willing to pay for stocks.

MUNRO MEDIA

The fourth era is here: Artificial Intelligence, 27 July 2023
Watch the video here

Livewire Markets, 24 August 2023
The bull and bear case for Nvidia

Bussiness Breakdowns podcast, 13 September 2023
Kingspan: Influential Irish Insulation

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QUARTERLY COMMENTARY

Fund commentary

The Munro Concentrated Global Growth Fund returned -1.5% in the September quarter (-3.7% from equities and 2.2% from currency), while the MSCI World (Ex-Aus) returned -0.4% (-2.6% from equities and 2.3% from currency).

Equity markets declined during the quarter, as some of the gains from the preceding two quarters were given back. The quarter started well for the stock market, however, markets began their decline at the end of Q2 earnings season. A 'travel-and-arrive' phenomenon started to take place, with many stocks failing to live up to lofty expectations when they reported their results. US 10-year treasuries jumped during the quarter from 3.8% to 4.6% due to robust economic data from the US and an increase in oil prices. Hawkish commentary from central banks also added to the move, with rates now seen higher for longer. This brought valuations into focus and led to multiple deratings, particularly for growth stocks.

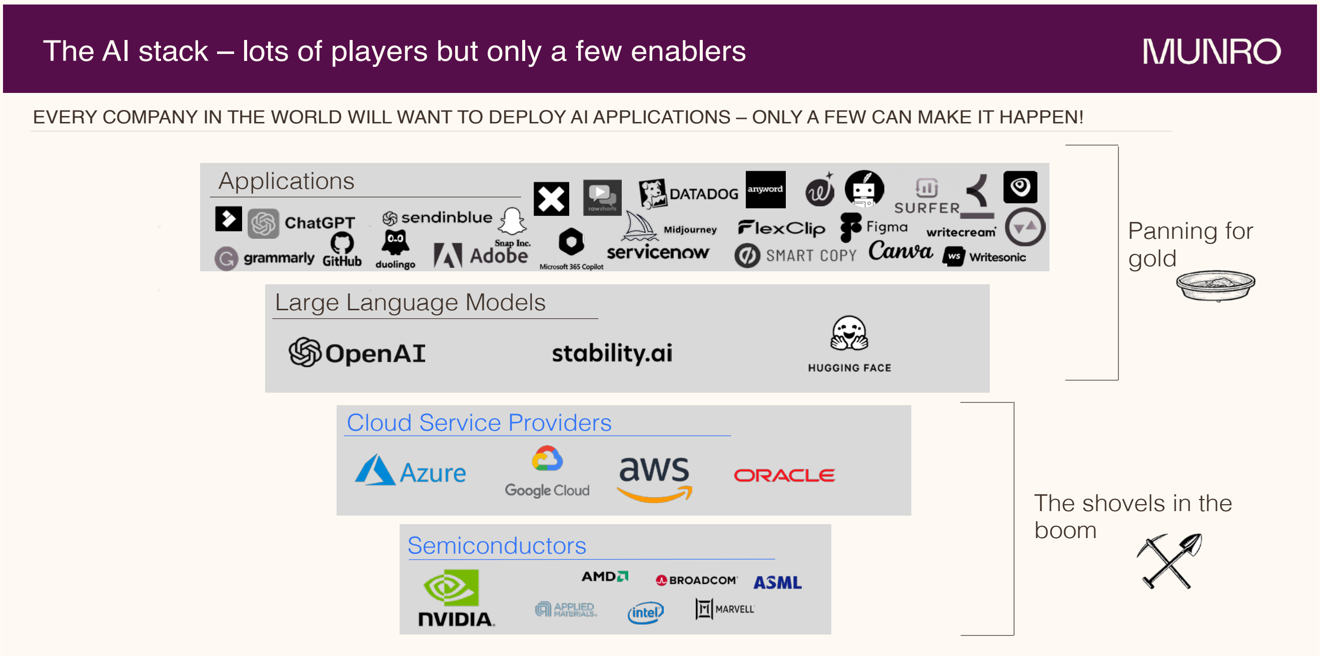
From a Fund perspective, our long positions contributed negatively to performance for the quarter. Luxury Goods stocks Richemont and LVMH detracted from performance, with soft China economic data and a normalisation of US consumer spending on luxury goods, leading to a significant derating in both stock's earnings multiples. On the positive side, GLP-1 beneficiaries Novo Nordisk and Eli Lilly, were strong performers during the quarter, both key names in the Innovative Health Area of Interest. Novo Nordisk announced results from the SELECT cardiovascular outcome trial, which were much better than expected. Results showed a reduction of major adverse cardiovascular events (MACEs) by 20% in people treated with its GLP-1 drugs.

Market Outlook

Global equity markets gave back some of the strong gains made for the calendar year during the September quarter. The market is grappling between the rising earnings, which should lead to rising stock prices, and rising bond yields which should dampen the price investors are willing to pay for stocks.

In terms of earnings – using the S&P 500 as a proxy for the market, EPS rose 4% during the quarter or 16% on an annualised basis, as stocks like Microsoft saw analysts upgrade earnings and start putting through earnings contributions from Artificial Intelligence (AI) products such as Microsoft 365's Co-Pilot, which they announced will be generally available from 1 November.

AI remains a key theme for the Fund, which cuts across various Areas of Interest including Digital Enterprise, Internet Disruption and High Performance Compute. High Performance Compute, or high end semi conductors is the backbone of AI, along with the public cloud infrastructure providers: Azure (Microsoft), AWS (Amazon) and Google Cloud Platform (Alphabet). Together, this is effectively the 'picks and shovels' required for the AI boom, and in our view a key beneficiary from the pleathora of applications that will leverage generative AI to create new applications. Be it Microsoft Co-Pilot, Adobe Firefly, Saleforce Einstien or the miryad of in house applications that corporates develop. All of them will ultimately need to run on the hyperscale players cloud offerings, who in turn need to invest heavily in Nvidia chips and software to get these applications to work.



Elsewhere we have begun to add to the software application layer, "Panning for Gold" where we have confidence in the end products that will be earliest adopted by consumers, small businesses and enterprises. ServiceNow and Intuit are two key names here with differing monetisation approaches. With ServiceNow charging a 60% premium for their AI product, monetisation is clear. Intuit, which are focused on consumers and small businesses, has a 'freemium' approach, whereby their customers will have AI features embedded in existing product subscriptions. This will increase retention and drive the conversion of new customers. We believe both approaches are the right strategy for these differing end markets and see a significant upside to future growth in earnings from these products.

On the consumer side, we have pared back our investments in Luxury Goods and reduced our exposure to our Athleisure names as we navigate a deteriorating consumer spending environment. We have maintained our positions in the leading GLP-1 franchises (see further information in the Stock Stories section of this report) as the growth outlook continues to look attractive here. These drugs have exploded into the public narrative in 2023, and while the companies are at risk of being overhyped, in the medium term we still see a long runway of earnings growth ahead in the category.

QUARTERLY COMMENTARY

Market Outlook

Shorter term the market narrative has been taken over by dislocations in the bond market and this warrants attention. With the US economy clearly slowing and the Fed close to finishing its rate hiking cycle, investors are perplexed by the rise in US 10 year bonds, which are now pushing close to 5%. There are a number of possible explanations for this, be it excess supply, lack of foreign buying, term premiums etc, but regardless of the cause, this is a negative development. Higher rates now put pressure on the valuation of growth stocks and will effect economic growth later. While we remain confident that our companies can continue to grow earnings through this changing outlook, the risks have clearly increased. In response we have raised some cash and added downside hedges to our absolute return mandate.

Over the medium term we still believe that we are closer to seeing the end of interest rates rising, and we ultimately see this volatility as an opportunity. Structural growth will continue and we can see earnings accelerate in certain pockets of the market – particularly AI and the GLP-1 franchises. As time goes by this growth will broaden out to the rest of the economy and we see peak rates and earnings reaccerating as a good time to be leaning into our best ideas.

STOCK STORY: INNOVATIVE HEALTH LEADERS

Lilly

AREA OF INTEREST: **Innovative Health**
MARKET CAP : **USD 537bn**

novo nordisk

AREA OF INTEREST: **Innovative Health**
MARKET CAP : **DKK 2.9TR**

Eli Lilly and Novo Nordisk combined contributed 83bps to Fund performance during the September quarter.

The global obesity market is one of the largest pharmaceutical markets in the world, covering approximately 750m people globally who are considered 'obese'. Typically, obesity treatment has been administered by increasing a person's exercise or managing their diet. Today, pharmaceutical giants Novo Nordisk in Europe and Eli Lilly in the US have revolutionised the treatment of obesity using drugs called GLP-1s. These drugs, called glucagon-like peptides, work to suppress appetite essentially and in effect can reduce a person's weight by approximately 15-20% depending on the dosage and person. Only a very small fraction of the approximately 750m people who are obese are treated with GLP-1 drugs today, which we believe this number will only increase over time, giving rise to long earnings runways for both Eli Lilly and Novo Nordisk.

During the quarter, Novo Nordisk released an important study into the potential cardiovascular benefits of using GLP-1 weight loss drugs. For the continued growth of these drugs, health insurers around the world need to support patients by covering the GLP-1 drugs. So far, insurance coverage is still in its relatively early stages, particularly in the US. The data that Novo released in their study showed that using their GLP-1 drug reduced the risk of adverse cardiovascular outcomes by 20%. This proved to be an important data point to encourage more health insurers to cover GLP-1 drugs, given that they now have further credibility as a preventative medicine. On the same day in early August, Eli Lilly also reported their second quarter results and delivered a strong beat and raise compared to consensus estimates. Their GLP-1 drug targeted for diabetes, Mounjaro, beat consensus estimates significantly, delivering revenue of $980m in the quarter compared to consensus estimates of ~$740m. Eli Lilly lifted their full-year EPS guidance by ~12%, giving rise to a pop in the share price on the day.

In our view, Eli Lilly and Novo Nordisk are set to continue to grow their earnings meaningfully over the medium term. We believe that treating obesity should be relatively straightforward, in other words, it should be treated in a manner like high blood pressure or high cholesterol, whereby there is a known treatment that is readily available with a reliable outcome. The obesity market remains one of the largest total addressable markets in pharmaceuticals globally, with very low penetration today.

Obesity & diabetes disease progression

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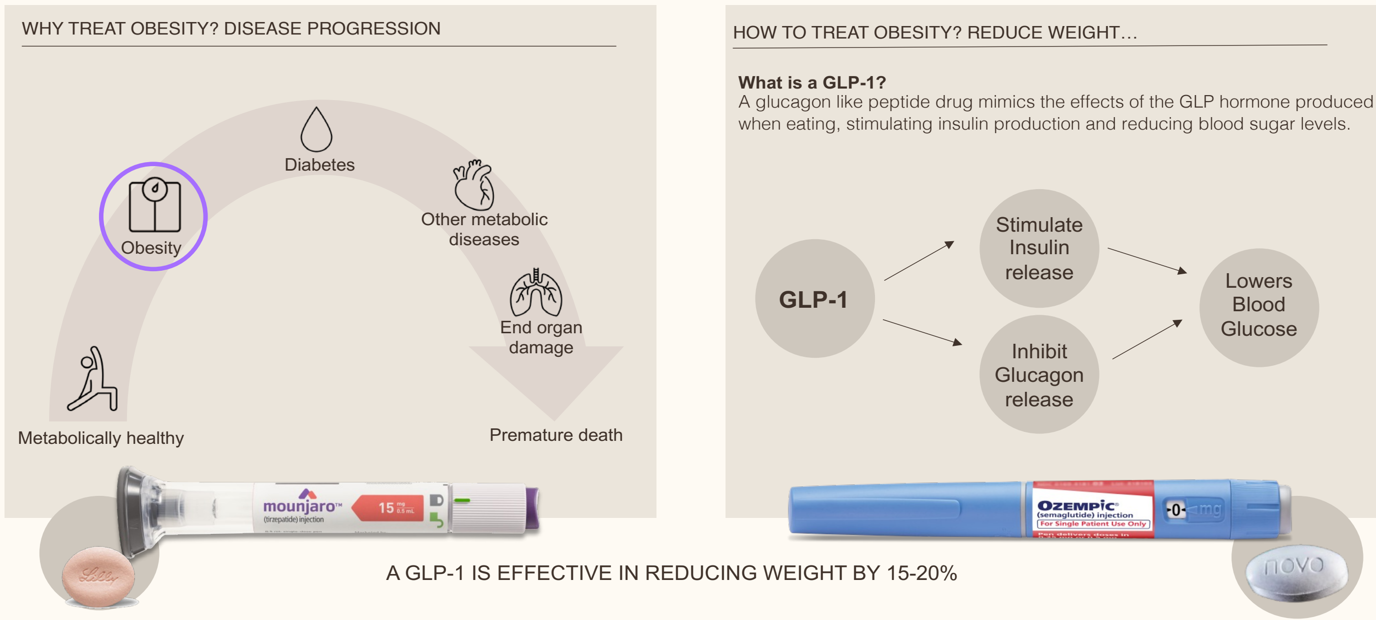

Source: Eli Lilly Capital Markets Day 15 December 2021 & Novo Nordisk Capital Markets Day 3 March 2022

STOCK STORY: CONSTELLATION ENERGY

Constellation

AREA OF INTEREST: **Climate**
MARKET CAP: **USD 35.4bn**

Constellation Energy added 36bps to Fund performance for the quarter.

Constellation Energy (CEG) was spun out of Exelon Energy in January 2022 and is an independent power producer that owns and operates the largest nuclear fleet in the US, holding >55% of the nation's unregulated capacity. With plants stretching from the Midwest across to New York, CEG provides >165TWh of carbon-free electricity to Americans each year, which amounts to ~120mn metric tons of CO2 avoided annually.

We still view nuclear as the cornerstone of the US energy transition, as the only scalable carbon-free source of baseload power. Over the third quarter, we've seen the reliability of the grid tested, a key example being in Texas, where a level 2 emergency was declared, and power prices reached the $5,000/MWh cap for ~2 hours in an attempt to curtail demand due to "very weak wind conditions". As the US continues to build out its renewable energy fleet and everything around us is electrified, we expect these grid issues to only be further exacerbated.

Independent power producers like CEG can generate significant profits on unhedged volumes during these periods of elevated power prices. As we have discussed before, the production tax credits (PTCs) provided by the Inflation Reduction Act (IRA) act as a natural hedge, setting a 'floor' for the power price they receive on their carbon-free generation. It was encouraging to see CEG upgrade their 2023 EBITDA guidance by $400mn on their 2Q23 earnings call as they continue to profit from these embedded 'free options' on power price volatility.

During the third quarter, we met with the CFO of CEG, and we spoke at length about recent commercial contracts they had been signing with companies such as Microsoft, which require 24/7 clean energy to power their data centres. Given the scarcity of such an energy source, as we discussed above, they have been able to sign these contracts at very attractive margins. We expect the trend of ESG-conscious corporates warming up to nuclear energy to continue despite its checkered history, especially as hyperscalers seek to build more energy-intensive data centres to lay the foundational infrastructure for cloud computing and generative AI.

Nuclear energy - carbon-free baseload power

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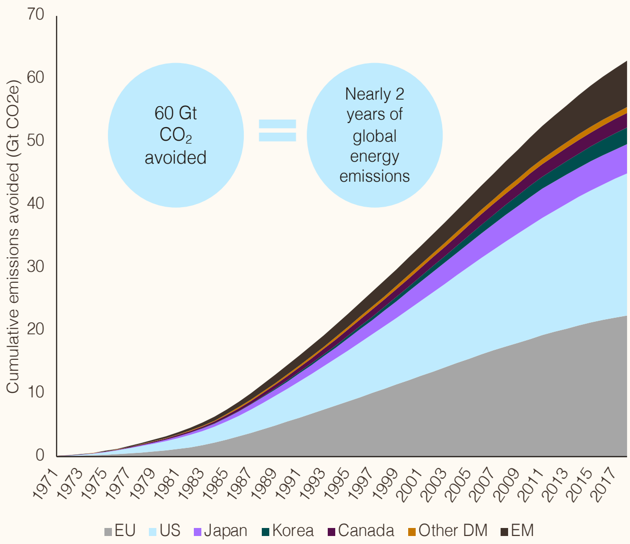
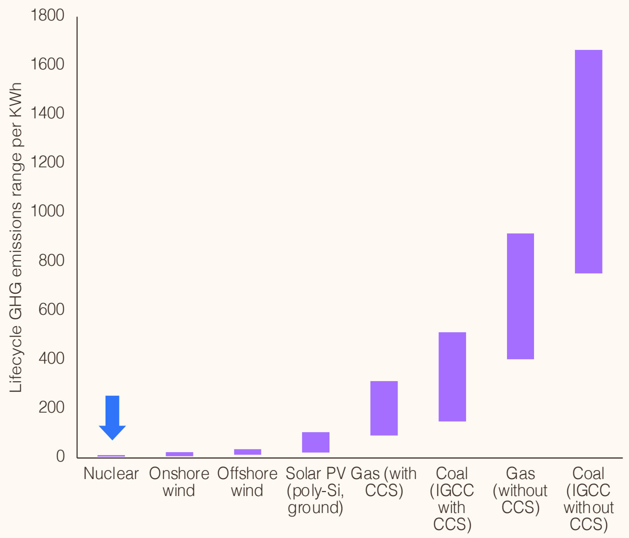
A CLIMATE SOLUTION FOR DECADES



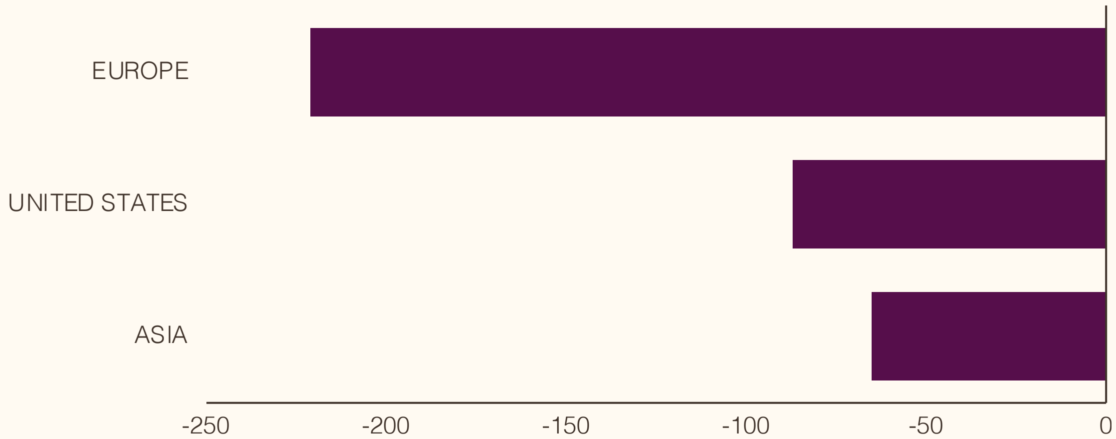
LOWEST LIFECYCLE EMISSIONS OF ANY FUEL SOURCE



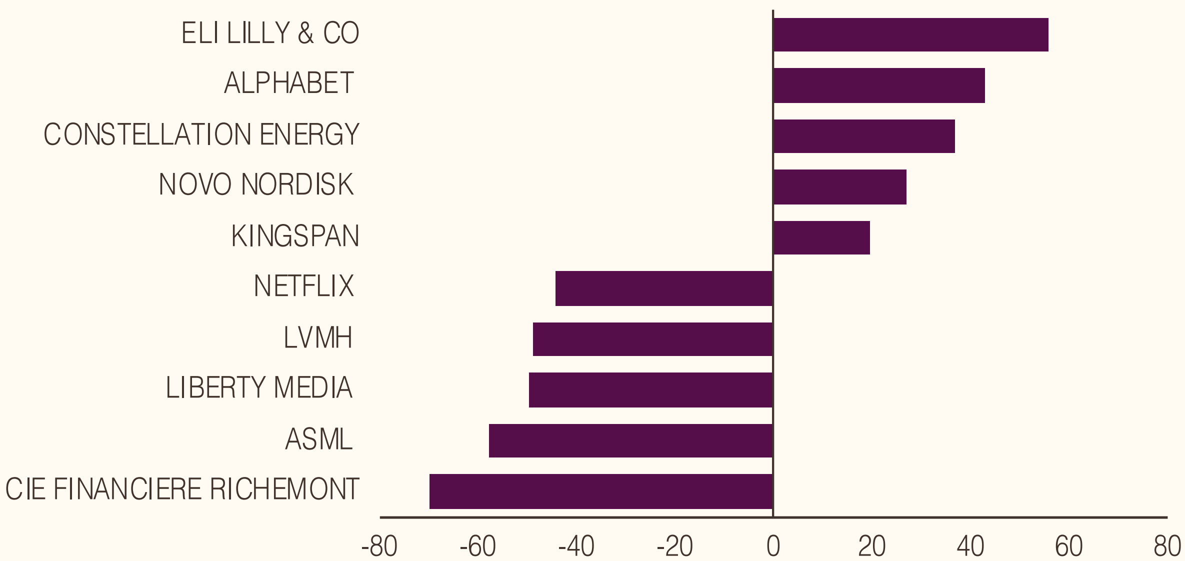
Source: International Energy Agency (IEA), UN Economic Commission for Europe*these figures in respect of CO2 avoided, are based on estimates made by The International Energy Agency. See here for more information on how nuclear power avoids potential carbon emissions.

QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

By region (equities only)



Top & bottom contributors (equities only)



QUARTER END EXPOSURE

Category

EQUITIES	92%
CASH	8%
NO. OF LONG POSITIONS	32

Sector

INFORMATION TECHNOLOGY	26.4%
CONSUMER DISCRETIONARY	17.6%
COMMUNICATIONS SERVICES	12.7%
FINANCIALS	10.2%
OTHER	25.2%

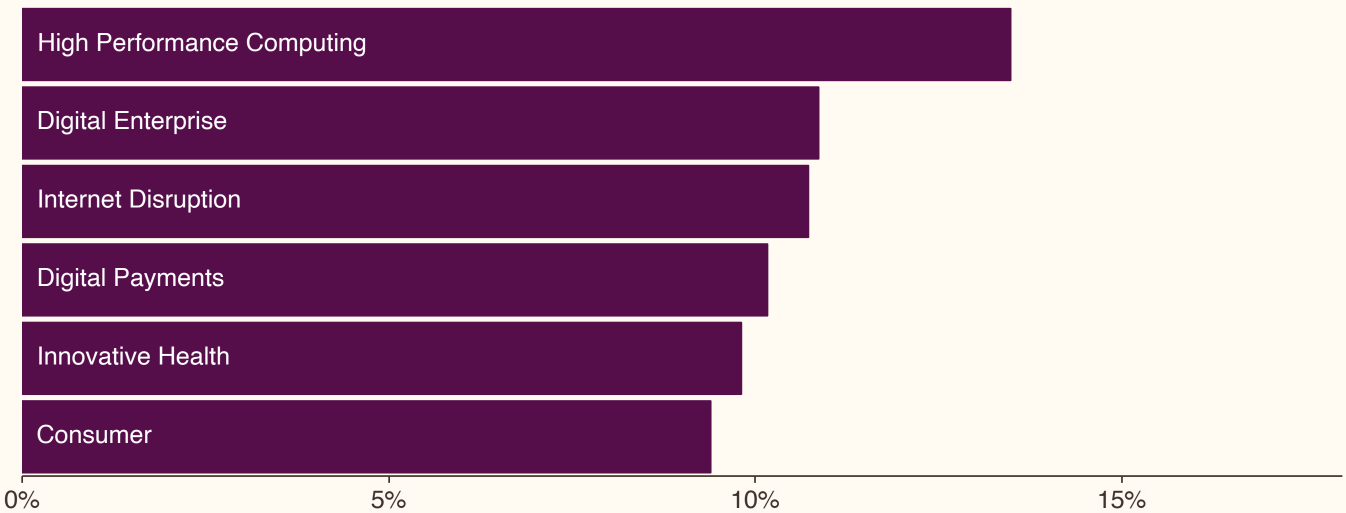
Region

	LONG
UNITED STATES	72.2%
EUROPE	16.8%
IRELAND	5.0%
FRANCE	5.0%
GERMANY	2.4%
DENMARK	2.9%
NETHERLANDS	1.5%
BRITAIN	1.0%
SOUTH KOREA	0.5%
TAIWAN	1.5%
TOTAL	92.0%
CASH	8.0%

Holdings

TOP 10 HOLDINGS	
AMAZON	6.2%
ALPHABET	6.0%
NVIDIA	5.7%
VISA	5.0%
MICROSOFT	5.0%
MASTERCARD	4.1%
SERVICENOW	3.9%
LIBERTY MEDIA: F1	3.7%
ELI LILLY	3.3%
CONSTELLATION ENERGY	3.0%

Top 6 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)	-1.5%	8.0%	19.3%	-0.3%	6.0%	12.0%	56.1%
MSCI WORLD (EX-AUS) TR INDEX (AUD)	-0.4%	7.2%	21.6%	4.8%	11.9%	10.1%	45.6%
EXCESS RETURN	-1.1%	0.8%	-2.4%	-5.1%	-5.9%	2.0%	10.4%

	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%
2024FY	0.5%	3.4%	-5.2%										-1.5%

Net Performance - MCGG.ASX

	3 MTHS	6 MTHS	1 YEAR	INCEPT P.A.	INCEPT CUM.
MCGG.ASX (AUD)	-1.5%	7.8%	19.4%	1.2%	2.0%
MSCI WORLD (EX-AUS) TR INDEX (AUD)	-0.4%	7.2%	21.6%	3.9%	6.5%
EXCESS RETURN	-1.0%	0.6%	-2.2%	-2.7%	-4.5%

	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%
2024FY	0.5%	3.5%	-5.2%										-1.5%

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.