

MUNRO

Quarterly report

Munro Concentrated Global Growth Fund

MCGG.ASX

December 2023



Munro Concentrated Global Growth Fund & MCGG.ASX

December 2023 – Quarterly report

MCGGF Fund quarter return

7.3%

MSCI quarter return

5.3%

MCGG.ASX Fund quarter return

7.0%

MSCI quarter return

5.3%

QUARTERLY HIGHLIGHTS

- The Munro Concentrated Global Growth Fund returned 7.3% for the December quarter. MCGG.ASX returned 7.0% over the same period.
- Top contributors for the quarter included Microsoft, ServiceNow and Amazon. We provide further information on ServiceNow in the stock stories section on page 7.
- Global markets rallied during the quarter as the US 10-year bond yield declined, with inflation coming in lower than expectations. The lower inflation gave rise to expectations that the US Federal Reserve was nearing the end of the tightening cycle; this was subsequently confirmed in the last FOMC meeting for the year in mid-December.

MUNRO MEDIA

Introduction to Qiao Ma and the Munro Global Growth Small & Mid Cap Fund, 3 November 2023

[Watch the video here](#)

Sohn Hearts & Minds 2023: Kieran Moore pitches Wise, 17 November 2023

[Watch the pitch here](#)

Podcast episode with Kristo Käärman: Co-Founder and CEO of Wise, 15 December 2023

[Listen to the episode here](#)

CONTENTS

Fund Commentary page 3

Market Outlook page 4

Stock Story: ServiceNow page 6

Stock Story: Uber page 7

Key Statistics page 8

QUARTERLY COMMENTARY

Fund commentary

The Munro Concentrated Global Growth Fund returned 7.3% in the December quarter (12.7% from equities and -5.4% from currency), while the MSCI World (Ex-Aus) returned 5.3% (9.9% from equities and -4.7% from currency).

Global markets rallied during the quarter as the US 10-year bond yield declined, with inflation coming in lower than expectations. The lower inflation gave rise to expectations that the US Federal Reserve was nearing the end of the tightening cycle; this was subsequently confirmed in the last FOMC meeting for the year in mid-December. With rates seemingly peaked for now, many companies that had reported strong results in October saw their shares rise sharply during the latter half of the quarter.

From a Fund perspective, the Fund's long positions were strong contributors for the quarter. Artificial Intelligence (AI) was a dominant theme, with our holdings in software, ServiceNow, Microsoft, and Adobe all recently releasing Generative AI products that impressed investors and saw their share prices appreciate. Elsewhere, semiconductor enablers, which fall under the hardware side of AI, also contributed to performance, with Nvidia and Applied Materials the standouts. Some of the Fund's Internet Disruption and Consumer names also performed well. Uber, Lululemon and Chipotle Mexican Grill performed well during the quarter, despite the broader consumer spending environment being somewhat mixed due to varying inflationary pressures and higher interest rates.



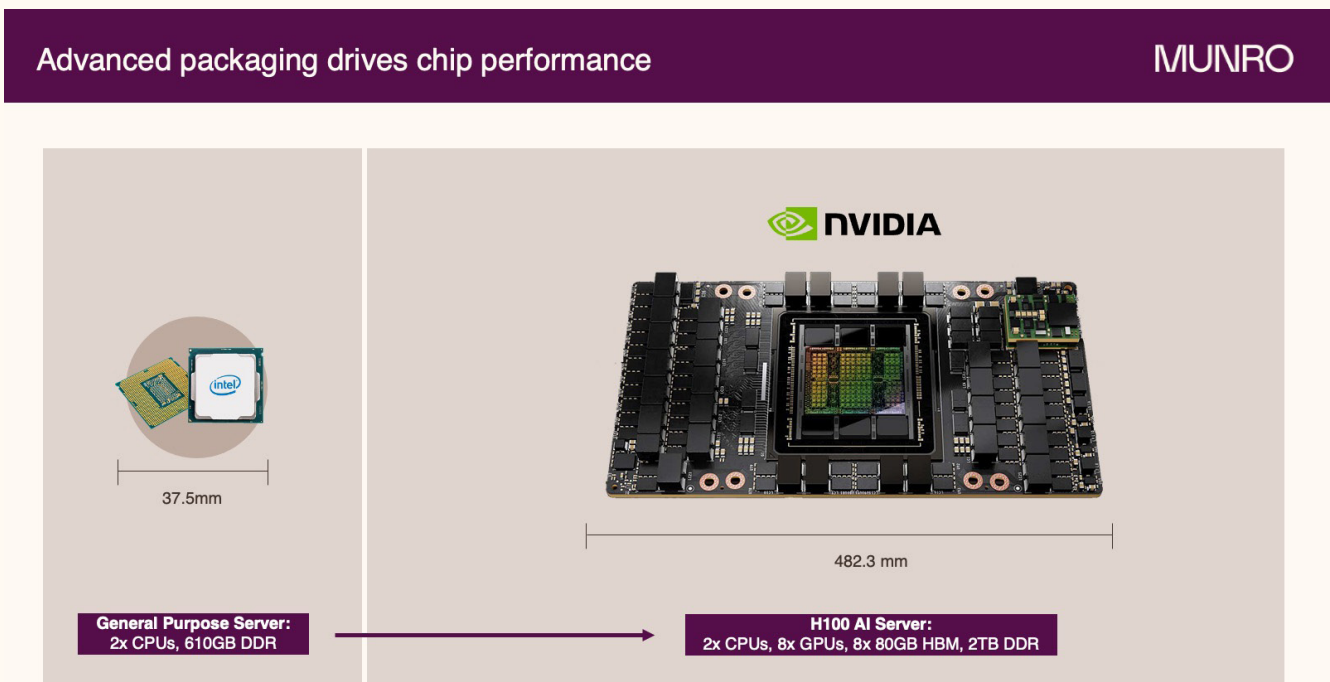
QUARTERLY COMMENTARY

Market Outlook

Global markets had a strong final quarter for the year, and there is reason to be optimistic about 2024. While the economic outlook is far from rosy, 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. While there may still be some volatility in the near term, we see many reasons to be optimistic in the medium term. Investors should take this opportunity to look across the valley, believe that the macro issues can be managed from here, and focus on structural changes and innovations that ultimately drive share price returns. Today we see compelling investment opportunities, particularly in semiconductors, software, and the next emerging leaders, as detailed below.

The transformative impact of AI, through generative AI and large language models like ChatGPT, saw it have its ‘iPhone moment’ in 2023. These technologies make AI accessible and integrated into various sectors, from coding with GitHub’s tools to creative design with Adobe Firefly. As companies globally invest in developing or integrating AI, we expect a boom in demand benefitting infrastructure providers, semiconductor companies, and large software firms.

Traditional methods of enhancing semiconductor performance are shifting from miniaturisation to focusing on advanced packaging solutions and parallel computing. This re-architecture is powering large data centres, and we expect them to make their way into enterprise servers, PCs and smartphones as generative AI evolves into edge computing devices. High Performance Computing is the largest Area of Interest (AoI) going into 2024 and includes long-term holdings such as Nvidia, along with recent additions, advanced packaging metrology providers Camtek and Onto. These companies are integral to advanced packaging, which, as depicted in the graphic below, semiconductor chip sizes will get bigger in the AI era, and advanced packaging providers have a big role to play.

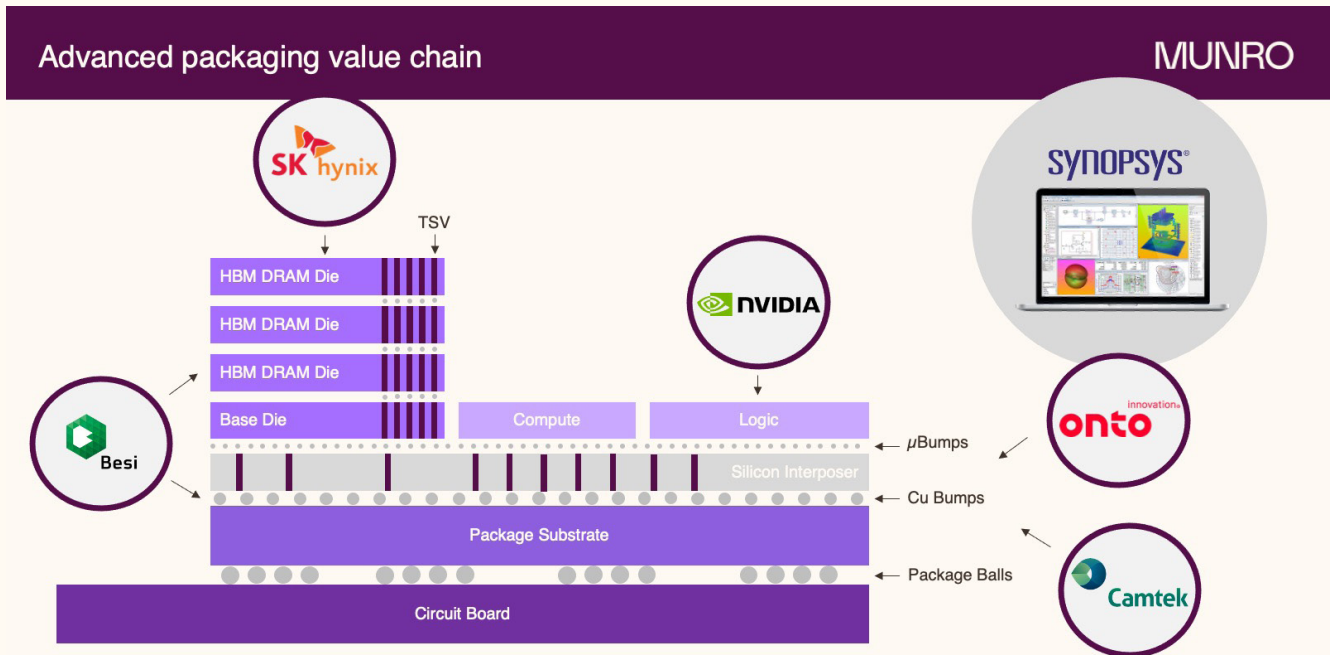


Source: Bloomberg Finance L.P 23 November 2023, Nvidia 8 December



QUARTERLY COMMENTARY

Market Outlook



Source: Jefferies, November 2023

Large software companies, part of our Digital Enterprise Aol, are also uniquely positioned to capitalise on the generative AI wave. Given the large amount of customer data these software companies capture, they now have a new way of selling it back to their customers. Portfolio holding Intuit is one such example, whereby the existing accounting software that keeps invoices and accounts in order will, in the future, be able to provide recommendations and insights that will 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 from which we are positioned to benefit today and well into the future.

Within the Consumer and Digital Payment Aols, the Fund has taken the opportunity to move down the market capitalisation scale and invest in On Holdings (On-Running) and Wise PLC. On-Running is an athleisure brand founded in Switzerland known for its 'cloud' based cushioning system. The brand specialises in running shoes and has moved into tennis and apparel with Roger Federer, a key brand ambassador and shareholder.

Wise PLC is another emerging company we have long-admired and recently initiated a position in during the quarter as the valuation came back into a range we considered attractive. The company, which started as a cross-border FX provider, has the potential to become a much broader digital payments platform and has a long growth runway ahead of it.

We suspect 2024 and beyond will be a positive period for small and medium size companies as their share prices have been significantly depressed through the bear market and recently traded at the cheapest prices relative to their large cap peers in nearly two decades. We highlight two opportunities above but have added five names to the Fund over the fourth quarter with market capitalisations below \$10bn.

We believe we are on the other side of a difficult period for growth investing. In our view, interest rates have now peaked, and consequently, pressure on valuation multiples will cease. Share prices should now return to following 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.



STOCK STORY: SERVICENOW



AREA OF INTEREST: **Digital Enterprise**
 MARKET CAP : **USD 144bn**

ServiceNow contributed 105bps to Fund performance for the December quarter.

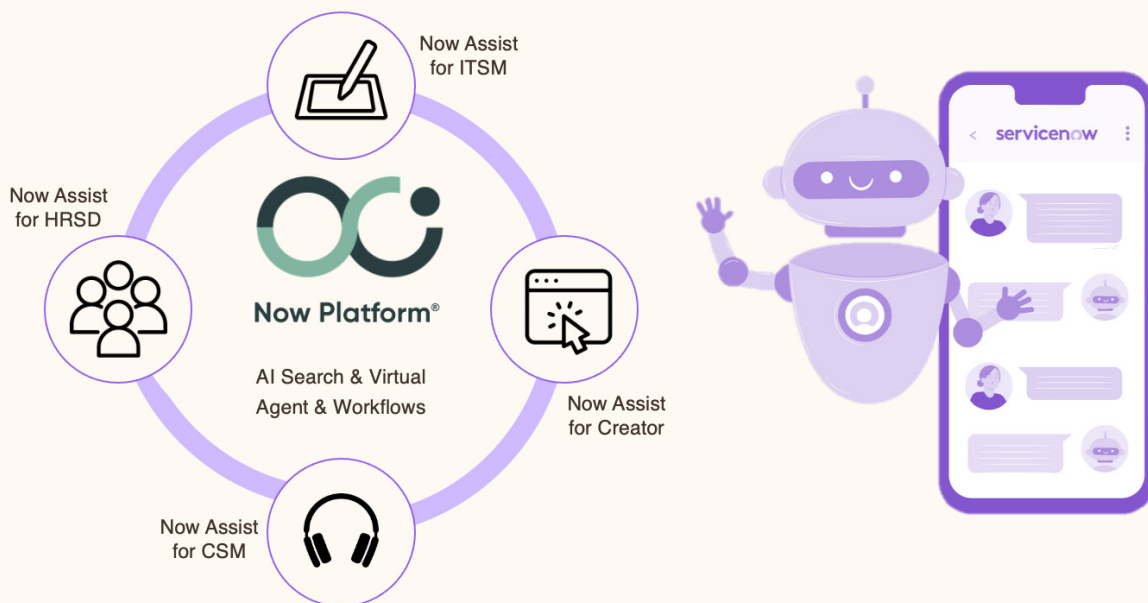
ServiceNow designs, develops and markets a cloud computing platform to help companies manage digital workflows for enterprise operations. Starting in the IT department, where ServiceNow has the leading IT Service Management (ITSM) software, the company has taken their software outside of IT to areas such as Human Resources (HR) and Customer Service Management (CSM).

ServiceNow was one of the first enterprise software companies to release and monetise a generative AI offering. As part of their Vancouver release (they have new software releases semi-annually) in late September, 'Now Assist' was rolled out for all the service desk modules ITSM, HR and CSM. To access this feature, customers need to subscribe to the Pro Plus product at a 60% price uplift from the Pro offering. We recently had a visit from management, and they described the rationale for the pricing – ServiceNow pricing is based on taking 10% of the economics of the enhanced productivity that the generative AI capability delivers.

Now Assist is a virtual agent or an enhanced chatbot that is more human-like, meaning it has more advanced interactions with its users and a better comprehension of human problems. A key use case is summarisation. A lot of what IT Service Management people do is work on complex IT cases; these cases could go on for 2 weeks; now, Assist summarisation can review and outline the back-and-forth conversations to keep interested parties in the loop. Once the problem is solved, the IT professional typically spends 2 hours writing a knowledge article that can be referenced the next time the issue arises. Now Assist can write this article on behalf of the IT professional.

From his interactions with customers, ServiceNow's COO, C.J Desai, suggested that customers and businesses will potentially pay for generative AI outside of IT budgets, i.e. by department or a separate generative AI dedicated budget. Whilst we expect the adoption curve to be slow initially, the company (and sell-side) has not put any growth from generative AI in their current guidance (forecasts), which we think is very conservative and should see earnings beat expectations as we move through 2024.

Generative AI at ServiceNow **MUNRO**



Source: Service Now, December 2023



STOCK STORY: UBER

Uber



AREA OF INTEREST: **Internet Disruption**

MARKET CAP: **USD 123bn**

Uber added 68bps to Fund performance for the quarter.

Uber is the dominant global platform for ride-hailing and a market leader in food delivery.

After years of strong competition, the worldwide ride-hailing industry stabilised in 2023, with Uber as the undisputed leader. Uber accounts for 80% of the ride-hailing market share in the US and over 60% share in most of its core international markets. Uber is leveraging its broad user scale and driver network to expand into food delivery. It is already one of the top 2 food delivery companies in the US.

The secret to Uber’s long-term success is the unique flywheel it has created. It starts by having the most drivers (supply) on the platform. More drivers lead to a better customer experience – shorter wait times and lower prices (no surge charges). This naturally brings more riders (demand) to the platform, enabling drivers to conduct more rides and generate higher income, attracting more drivers to join the platform.

We remain excited about Uber for three key reasons.

Firstly, we believe Uber is well positioned to grow its revenues by over 10% p.a. in the next 5-7 years. The ride-hailing and food delivery industries are both growing at a healthy rate again. Uber’s new initiative, UberOne Membership, looks particularly promising to drive growth and retain customers. UberOne Members – who pay a fixed monthly fee in exchange for lower delivery fees – has grown to over 15 million members. These members spend approximately four times as much as non-members on the platform, creating significantly higher lifetime customer value, and now account for over 10% of all mobility bookings and 40% of food deliveries.

Secondly, Uber has a lot of room to improve profitability. Uber has recently expanded its operating margins from -53% to 4%. We believe there is significant further upside to margins as Uber further rationalises its cost base.

Thirdly, is the potential for capital return. We believe Uber has the potential to become a cash flow generation machine. As the company moves further into profitability, we expect excess cash to be returned to shareholders as buybacks, reducing the share count over time.

Uber One MUNRO

Uber One
Rides and delivery, together
\$9.99/mo or \$99.99/yr
[Sign in to join](#)

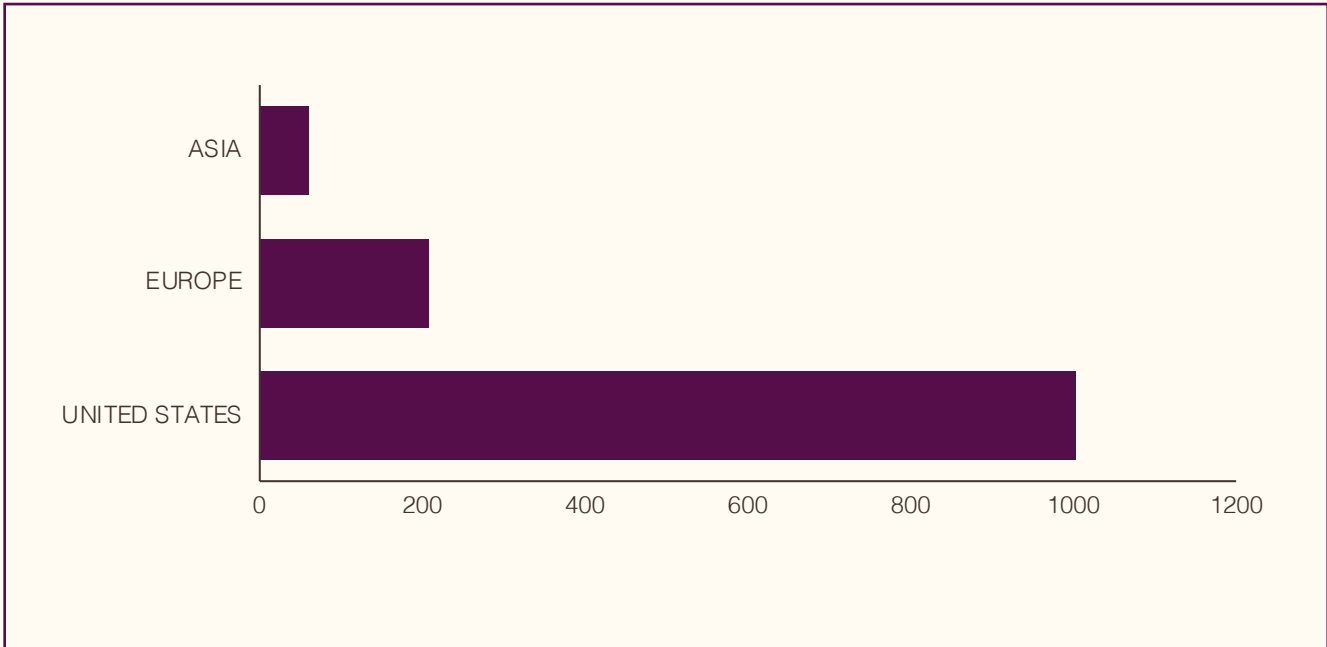
- \$0 Delivery Fee on eligible food, groceries, and more
- Up to 10% off eligible deliveries and pickup orders
- Member pricing and top-rated drivers on eligible rides
- \$5 credit if our Latest Arrival estimate on your order is off*

Source: Uber, December 2023

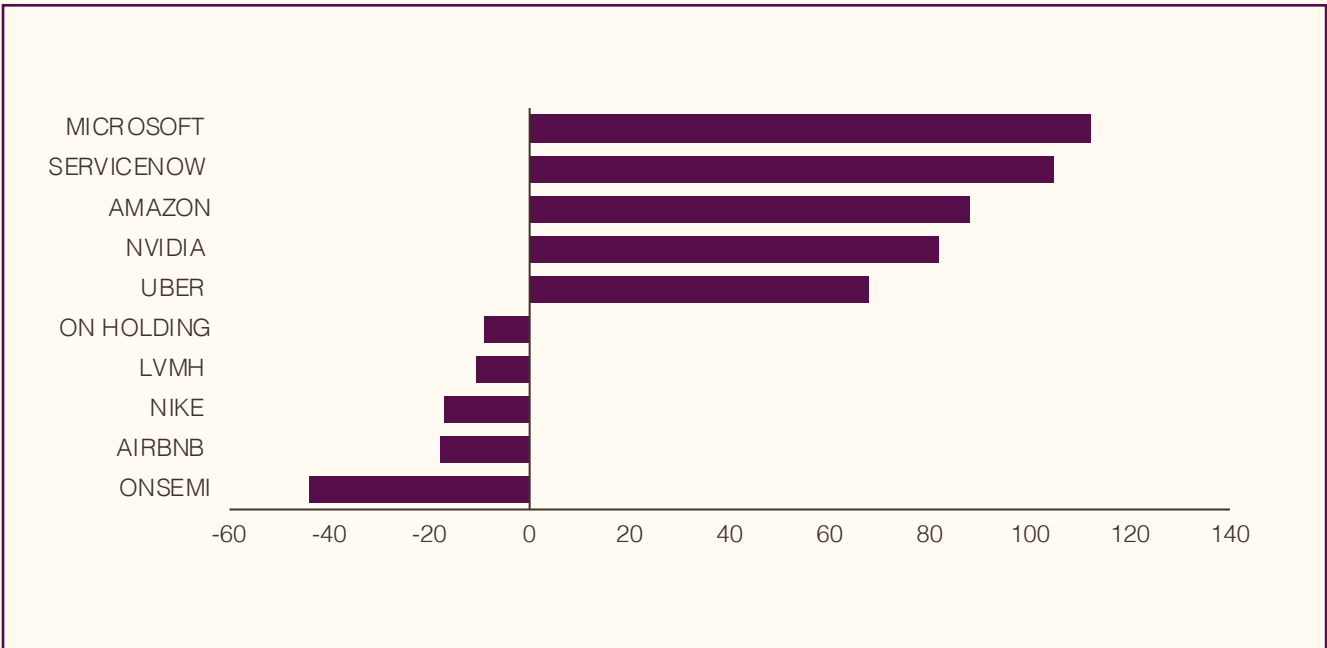


QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

By region (equities only)



Top & bottom contributors (equities only)



QUARTER END EXPOSURE

Category

EQUITIES	95.2%
CASH	4.8%
NO. OF POSITIONS	34

Sector

INFORMATION TECHNOLOGY	35.5%
CONSUMER DISCRETIONARY	15.3%
COMMUNICATIONS SERVICES	11.6%
FINANCIALS	10.0%
OTHER	22.9%
CASH	4.8%

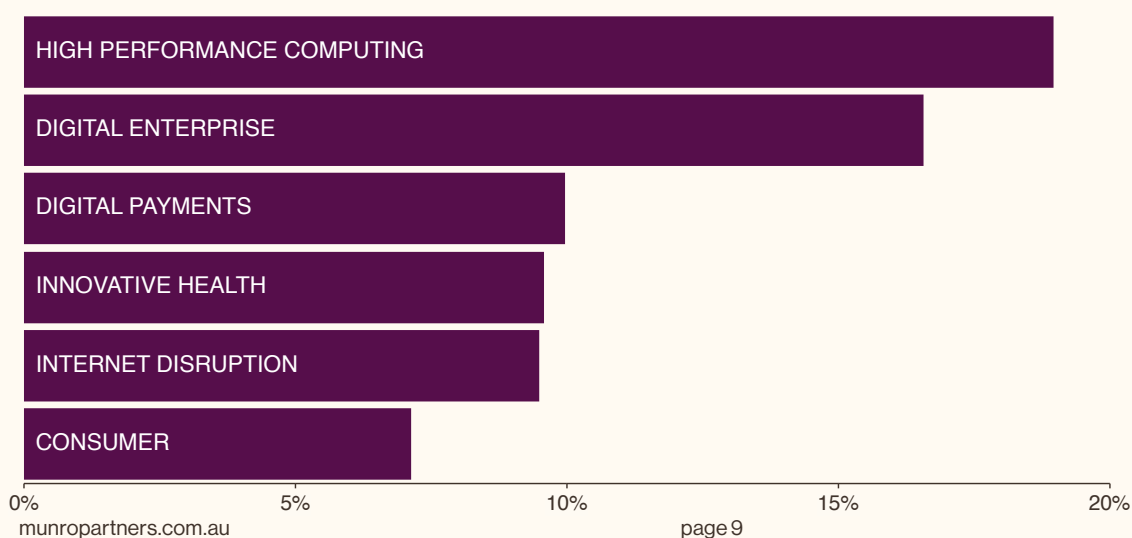
Region

	LONG
UNITED STATES	74.3%
EUROPE	13.8%
IRELAND	3.7%
DENMARK	2.9%
GERMANY	2.6%
NETHERLANDS	2.7%
FRANCE	2.0%
UNITED KINGDOM	2.6%
SOUTH KOREA	2.5%
TAIWAN	2.0%
TOTAL	95.2%
CASH	4.8%

Holdings

TOP 10 HOLDINGS	
NVIDIA	7.0%
AMAZON	6.9%
MICROSOFT	6.0%
ALPHABET	4.7%
SERVICENOW	4.7%
VISA	4.4%
ADOBE	3.2%
CONSTELLATION ENERGY	3.1%
MASTERCARD	3.0%
LIBERTY MEDIA: F1	2.9%

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)	7.3%	5.7%	26.7%	0.7%	6.5%	13.2%	67.5%
MSCI WORLD (EX-AUS) TR INDEX (AUD)	5.3%	4.9%	23.2%	3.8%	11.8%	10.8%	53.4%
EXCESS RETURN	2.0%	0.8%	3.5%	-3.1%	-5.3%	2.4%	14.1%

	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%	3.5%	-5.2%	1.1%	5.3%	0.8%							5.7%

Net Performance - MCGG.ASX

	3 MTHS	6 MTHS	1 YEAR	INCEPT P.A.	INCEPT CUM.
MCGG.ASX (AUD)	7.0%	5.5%	26.3%	4.7%	9.2%
MSCI WORLD (EX-AUS) TR INDEX (AUD)	5.3%	4.9%	23.2%	6.2%	12.2%
EXCESS RETURN	1.7%	0.6%	3.0%	-1.5%	-2.9%

	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%	1.0%	5.1%	0.8%							5.5%

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.

IMPORTANT INFORMATION: Past performance is provided for illustrative purposes only and is not a guide to future performance. Data is as at 31 December 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. 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 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 11 January 2024.

