

MUNRO

Quarterly report

# Munro Global Growth Small & Mid Cap Fund

June 2024



# Munro Global Growth Small & Mid Cap Fund

## June 2024 – Quarterly report

### Munro Small & Mid Cap Fund quarter return

4.2%

### MSCI ACWI SMID Index quarter return

-4.2%

#### QUARTERLY HIGHLIGHTS

- The Munro Global Growth Small & Mid Cap Fund returned 4.2% for the June quarter, outperforming the MSCI ACWI SMID Index by 8.4%, which returned -4.2%.
- The Fund has returned 38.5% since inception, outperforming the MSCI ACWI SMID Index which returned 15.2% over the same period.
- Global markets were positive during the quarter, with corporate earnings and guidance boosting investor confidence. From a fund perspective, positive performance over the June quarter came from key Areas of Interest (AoI): Consumer, High Performance Computing, and Digital Media and Content.

#### MUNRO MEDIA

##### Livewire Markets, 7 June 2024

*All-time highs no bother for those playing in small and mid cap space*

[Read the full article here](#)

#### CONTENTS

Fund commentary	<a href="#">page 3</a>
Market outlook	<a href="#">page 4</a>
Stock story: SharkNinja	<a href="#">page 5</a>
Stock story: ASM International	<a href="#">page 6</a>
Key statistics	<a href="#">page 7</a>

#### INVESTMENT TEAM



Qiao Ma  
Lead Portfolio Manager



Nick Griffin  
CIO



Kieran Moore  
Portfolio Manager



Jeremy Gibson  
Portfolio Manager



James Tsinidis  
Portfolio Manager

## QUARTERLY COMMENTARY

## Fund commentary

The Munro Global Growth Small & Mid Cap Fund returned 4.2% for the June quarter while the MSCI ACWI SMID returned -4.2% over the same period.

Global markets were positive during the quarter, with corporate earnings and guidance boosting investor confidence. From a fund perspective, positive performance over the June quarter came from key Areas of Interest: Consumer, High Performance Computing, and Digital Media and Content.

Despite a tough 2024 for consumer companies, with rising interest rates putting pressure on discretionary spending, innovation remains a bright spot, SharkNinja (see Stock Story on page 5) demonstrates this. In Q1 2024, while the broader US kitchen and home appliances industry saw growth stagnate, SharkNinja achieved growth of 22%. This success is driven by their commitment to innovation, with approximately 25 new products launched annually across various categories (namely cleaning, cooking and beverage, food prep appliances and beauty). On Running is another example of a brand experiencing growth through innovation in the athletic footwear and apparel space. Originally known for premium running shoes, they've expanded into tennis, training, and outdoor categories. Their recent venture into premium athletic apparel has shown positive initial feedback from consumers.

Our High Performance Computing holdings continued their strong performance, with strong results in Q1 and positive momentum extending into Q2. ASM International (see story on page 6) is a good example. ASM International's key deposition technology plays a critical role as the semiconductor industry races towards the next frontier - the 2-nanometer chip. It is well-positioned to capitalise on this technology transition and has already seen encouraging sales trends as a result. Similarly, champions in advanced packaging, such as Onto Innovation and Camtek, exceeded sales expectations and continue to see strong demand, fuelled by the surge in AI processors.

In Digital Media & Content, Pinterest released very strong March quarter results. Global user growth surged to 12%, with a significant portion coming from the highly influential Gen Z demographic. This robust user acquisition translated to a welcome reacceleration of both revenue and profitability. Management remains optimistic about further monetisation opportunities, particularly with the strategic rollout of key partnerships with Amazon and Google in the latter half of 2024.

Key detractors from performance over the quarter included Wise (Digital Payments), Nextracker (Climate) and Instacart (eCommerce). While Wise's June results were positive, the company prioritises user growth and market share over short-term margins. Our long-term view on Wise remains optimistic due to its potential to become a major financial institution with a wider product range. Nextracker's full-year 2024 guidance suggests a more competitive pricing environment for solar trackers. We adjusted our position size appropriately to mitigate risk. Instacart's Q2 2024 guidance was underwhelming. However, we believe its valuation (8x EV/EBITDA) offers an adequate buffer, and the long-term outlook for the grocery delivery industry is positive.

## Market outlook

Global equity markets have performed well in the first half of the calendar year 2024, and we see potential for positive market performance in the months and years ahead, based on current trends. The outlook for inflation and interest rates remains favourable for growth equities, with inflation likely to continue moving down and the US Federal Reserve expected to either hold or cut interest rates at the remaining meetings this year.

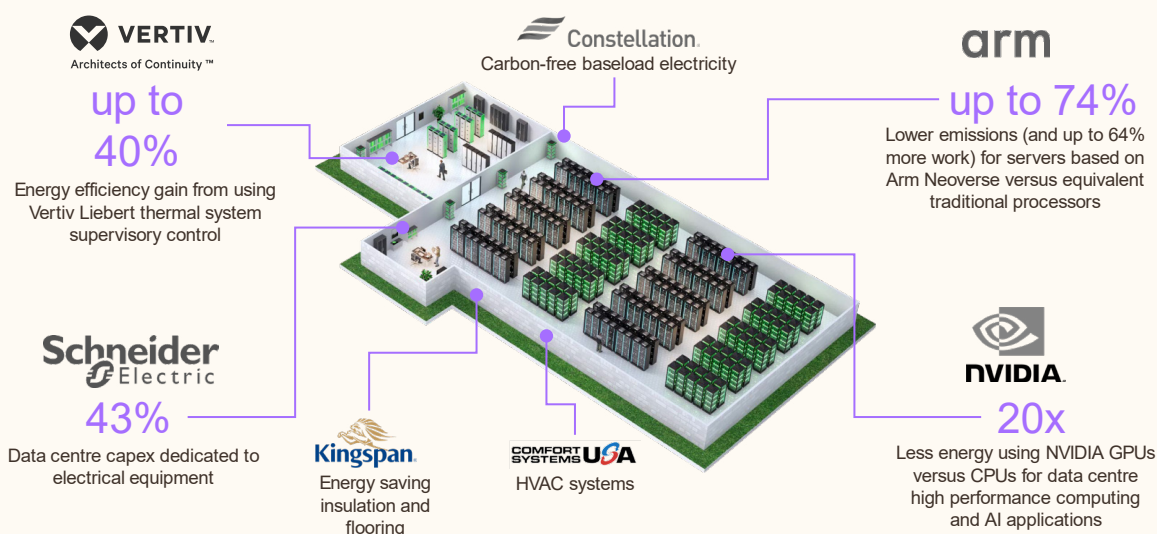
As we wrote in the Fund's [inaugural quarterly report](#), one catalyst for starting the fund was because the valuation gap between small and mid-sized companies versus their larger peers was the widest it has been in two decades. Eight months later, the gap has widened even further. To us, this means that the valuation and diversification for a small-and-mid-cap portfolio has become even more compelling. The Fund currently trades at 16x EV/EBITDA. We continue to find new ideas with the potential to deliver strong earnings growth yet are still trading at a significant discount both to their large cap peers and relative to their own historical ranges.

From an earnings perspective, we continue to see robust growth from AI-related spending driving earnings upgrades for many of the Fund's holdings. Over the last quarter, we continued to pick up more data points suggesting that the market is underestimating the long-term potential for earnings growth for the AI enablers. We maintain conviction in this area and see it as the beginning of a multi-year growth runway.

The Climate Area of Interest has converged with AI, and we're forecasting strong earnings growth to continue in this Aol. Hyperscalers like Microsoft Azure, Amazon Web Services and Google Cloud Platform are building out their infrastructure and have signed up to significant climate-related targets, focusing on reducing their environmental impact and transitioning to renewable energy. Beneficiaries held in the Fund include Vertiv, Kingspan and Comfort Systems USA.

Data centres' share of emissions is greater than aviation (2.5% vs 2.1%)
MUNRO

COMPANIES ENABLING ENERGY EFFICIENT DATA CENTRES



Source: Schneider Electric, NVIDIA, ARM, Vertiv, Kingspan, Constellation, Comfort Systems, Industry Research, World Economic Forum, slide prepared December 2023. As at 30 June 2024 the Munro Global Growth Small & Mid Cap Fund held Comfort Systems, Kingspan and Vertiv. Other positions may be held in the other Munro portfolios

As the year progresses, we foresee global markets broadening out with a gradual economic recovery later in the year and a focus on the US for Presidential Election, which the market will likely become transfixed by throughout the second half of the year.

The SMID fund is a natural extension of the domain expertise and passion of the entire Munro Partners investment team. Unlike most small and mid cap funds, which are typically managed by just one or two investment professionals, Munro leverages the expertise of its entire team. Every portfolio manager and analyst is currently championing high-conviction ideas in the portfolio. As a result, our portfolio isn't just a collection of varying conviction levels from one or two investors, but rather a powerful combination of the best ideas from a dozen passionate investors. Full team participation is the cornerstone of diversified Areas of Interest and sustained outperformance.



STOCK STORY: SHARKNINJA



AREA OF INTEREST: **CONSUMER**

MARKET CAP: **USD \$10bn**

SharkNinja added 85bps to Fund performance for the quarter.

SharkNinja operates under two key brands: Shark and Ninja. Shark focuses on home cleaning and beauty appliances, while Ninja specialises in food preparation, cooking, and beverage appliances. Spun off from JS Global Lifestyle in 2023, SharkNinja's product range spans across 33 subcategories, from vacuums to grills.

SharkNinja's innovation engine consistently produces cutting-edge products that meet market demands. They launch approximately 25 new products annually, with a focus on both iteration and invention. This translates to roughly 20 new versions of existing items and 5 entirely new products each year. Their focus on understanding and meeting customer needs has significantly contributed to their performance. SharkNinja analyses feedback to develop products, creating a strong feedback loop ensuring that its offerings are constantly evolving to meet consumer needs.

SharkNinja's commitment to innovation has contributed to positive financial results. In Q1 2024, they delivered net sales growth of 28% and a 5ppt increase in FY24 sales guidance (revised from 8% to 13%). Currently holding ~4% of the \$120 billion household appliance market, SharkNinja has significant room for further growth. Their strategic partnership with David Beckham is expected to further boost global brand awareness.

SharkNinja is an example of a consumer company who has delivered strong results through its emphasis on product innovation and effective social media marketing strategies.

Learn more about SharkNinja in this [Invest in the Journey Podcast episode](#) with Investment Analyst, Ben Chamberlain.

Examples of SharkNinja appliances MUNRO

<p>Ninja Creami</p> 	<p>Ninja Woodfire</p> 	<p>Shark Navigator</p> 	<p>Ninja FrostVault</p> 	<p>Shark HyperAIR</p> 
---	---	--	--	---



STOCK STORY: ASM INTERNATIONAL



AREA OF INTEREST: **HIGH PERFORMANCE COMPUTING**

MARKET CAP: **USD \$38 bn**

ASM International added 95bps to Fund performance for the quarter.

The intricate process of crafting semiconductors can be broken down into three key steps. First, lithography meticulously lays the groundwork, acting as the detailed blueprint for the chip’s structure. Then, etching carves out the defined patterns on the chip, similar to digging a solid foundation. Finally, deposition builds the skyscraper’s precise layers, akin to meticulously placing materials onto the foundation.

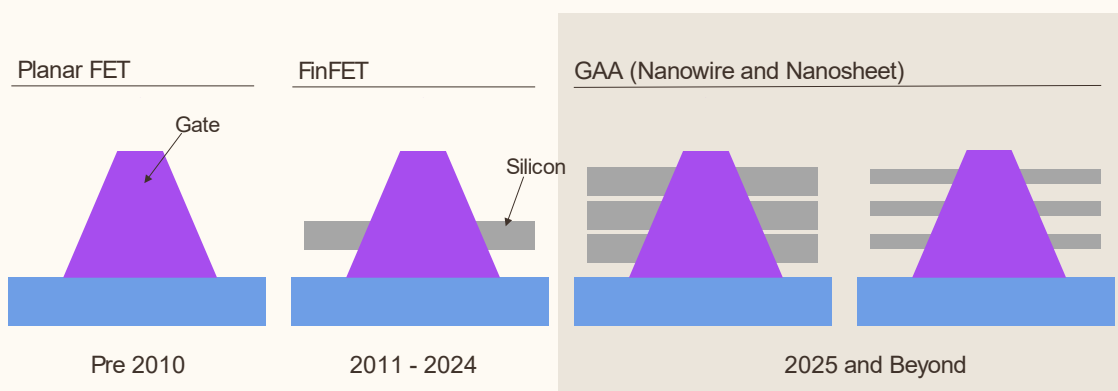
Within deposition, ASM International, based in Netherlands, is recognised for its expertise in Atomic Layer Deposition (ALD) technology. ALD offers high precision, depositing material layers just one or a few atoms thick. This precise control translates to uniformity and performance in the final product.

The importance of ALD technology grows as chip structures become increasingly intricate. Imagine a simple townhouse design transforming into a luxurious high-rise with advanced features. Similarly, logic chips are shifting from a traditional FinFet (single gated) to a “gate-all-around” design to address leakage issues as components shrink. By expanding the gate’s surface area, ALD facilitates better performance and lower power consumption. This necessitates the precise deposition of new, tiny layers – a task perfectly suited for ASM’s advanced tools. The logic industry is poised for this transition in 2025, with the DRAM memory industry following suit in 2027, highlighting the growing relevance of ASM International’s technology.

We believe ASMI could achieve compound revenue growth of 18% and profit growth of 25% over the next 4-5 years.

Learn more about ASM International in this [Invest in the Journey Podcast episode](#) with Investment Analyst, Daniel Condon.

ASMI is a key enabler of gate-all-around transition of advanced logic chips MUNRO

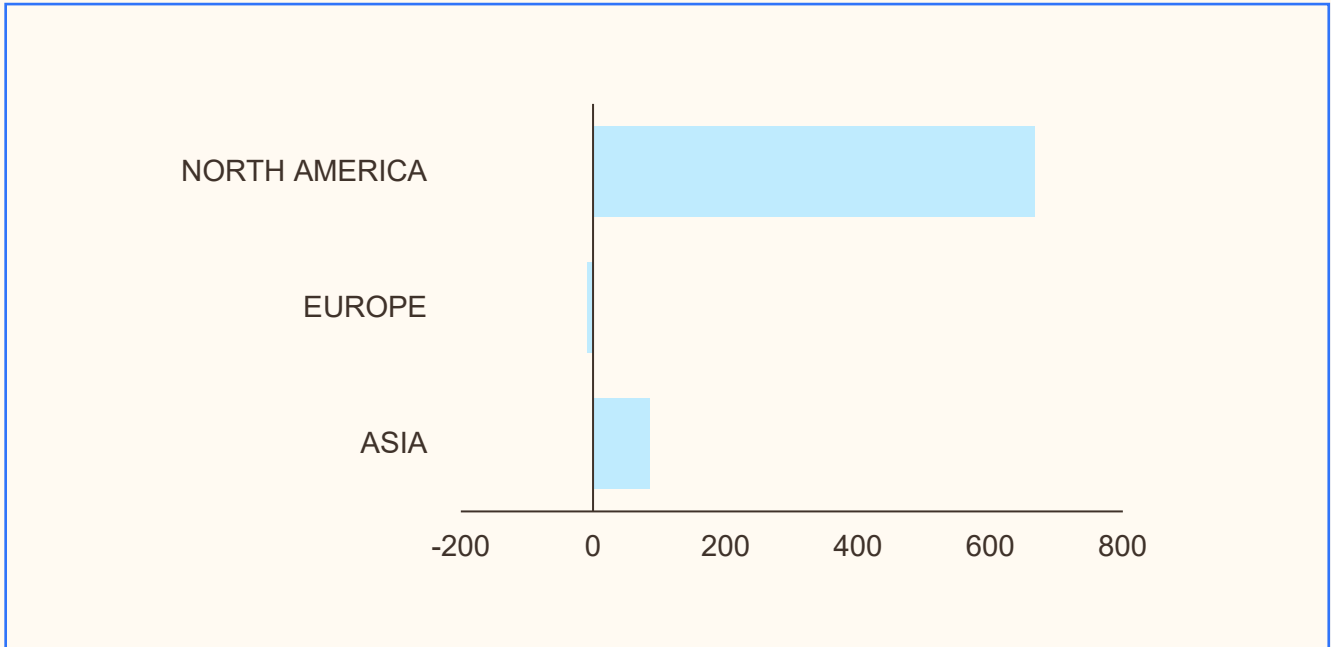


Source: Industry research & Munro Partners March 2024

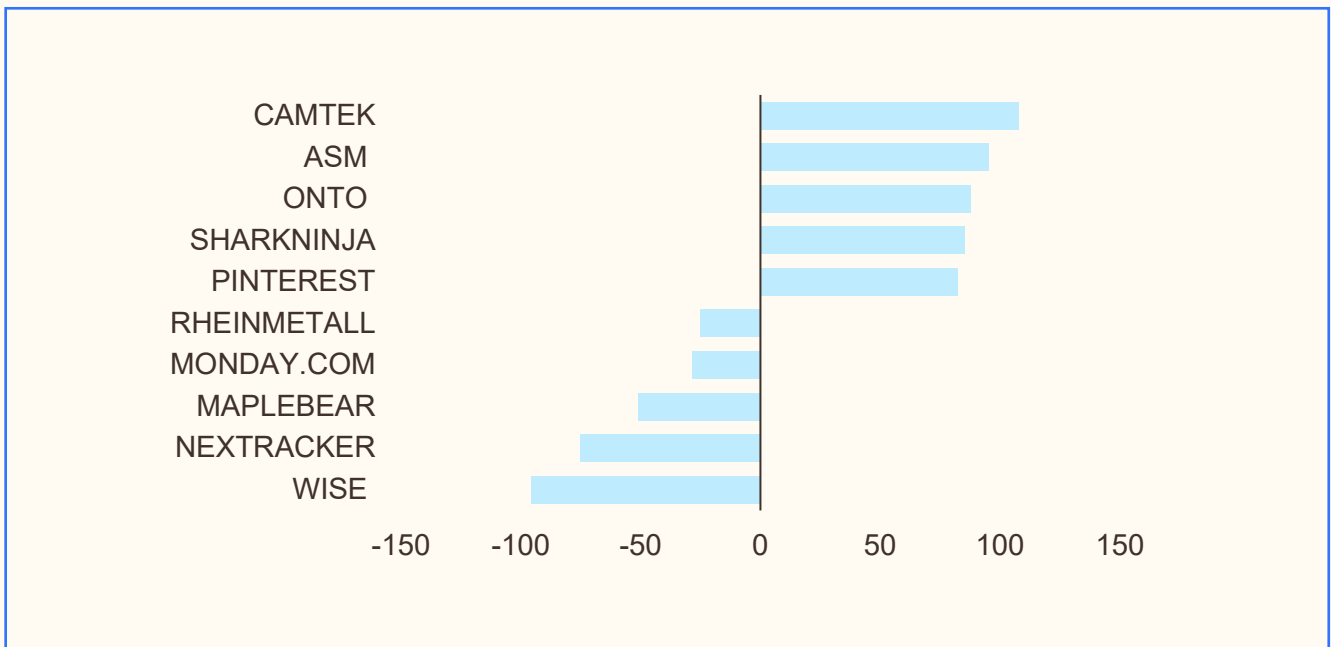


QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

Region (ex-cash)



Top & bottom contributors



QUARTER END EXPOSURE

Category

<b>EQUITIES</b>	91.0%
<b>CASH</b>	9.0%
<b>NO. OF POSITIONS</b>	31

Sector

<b>INDUSTRIALS</b>	31.0%
<b>INFORMATION TECHNOLOGY</b>	25.4%
<b>COMMUNICATION SERVICES</b>	11.2%
<b>CONSUMER DISCRETIONARY</b>	7.8%
<b>OTHER</b>	15.4%
<b>CASH</b>	9.0%

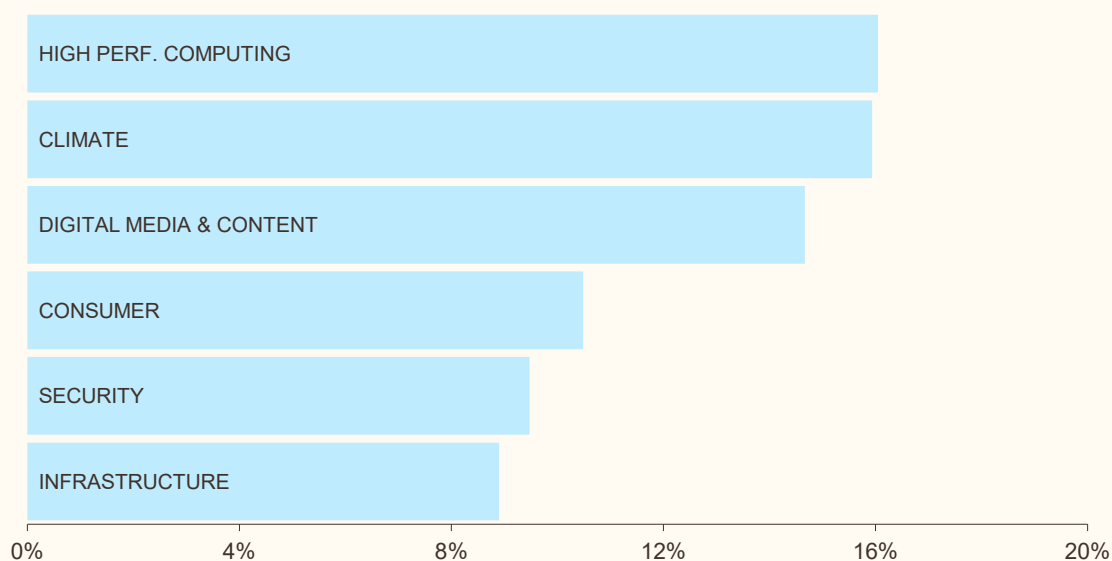
Region

	<b>LONG</b>
<b>NORTH AMERICA</b>	65.0%
<b>EUROPE</b>	20.6%
<b>ASIA</b>	5.3%
<b>CASH</b>	9.0%

Holdings

<b>TOP 5 HOLDINGS</b>	
<b>NKT</b>	4.5%
<b>SHARKNINJA</b>	4.4%
<b>WIX.COM</b>	4.3%
<b>ONTO INNOVATION</b>	4.1%
<b>COMFORT SYSTEMS</b>	4.1%

Areas of Interest





## Net Performance - SMID

	1 MTH	3 MTHS	6 MTHS	INCEPT CUM.
<b>MUNRO GLOBAL GROWTH SMALL &amp; MID CAP FUND (AUD)</b>	0.0%	4.2%	25.8%	38.5%
MSCI ACWI SMID NET INDEX (AUD)	-1.5%	-4.2%	5.1%	15.2%
<b>EXCESS RETURN</b>	<b>1.5%</b>	<b>8.4%</b>	<b>20.8%</b>	<b>23.3%</b>

INCEPTION: 31 OCTOBER 2023

**IMPORTANT INFORMATION:** Past performance is provided for illustrative purposes only and is not a guide to future performance. As at 30 June 2024 unless otherwise specified. Inception date is 31 October 2023. Returns of the Munro Global Growth Small & Mid Cap Fund are net of management costs and assumes distributions have been reinvested. MSCI ACWI SMID Cap NR AUD refers to the MSCI All Country World Small and Mid Cap Index Net Returns in Australian Dollars. BPS refers to Basis Points. Aol refers to Areas of Interest. EM refers to Emerging Markets (including China). GSFM Responsible Entity Services Limited ABN 48 129 256 104 AFSL 321517 (GRES) is the responsible entity of the Munro Global Growth Small & Mid Cap Fund ARSN 670 777 885 (Fund) APIR GSF0874AU and is the issuer of this information. 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 Fund, investors should consider the appropriateness of this information, having regard to their own objectives, financial situation and needs and read and consider the Product Disclosure Statement (PDS) for the Fund dated 21 December 2023 and the Additional Information to the Product Disclosure Statement (AIB) which may be obtained from [www.gsfm.com.au](http://www.gsfm.com.au), [www.munropartners.com.au](http://www.munropartners.com.au) or by calling 1300 133 451. GSFM Responsible Entity Services has produced a Target Market Determination (TMD) in relation to the Munro Global Growth Small & Mid Cap Fund. The TMD sets out the class of persons who comprise the target market for the Fund and is available at [www.gsfm.com.au](http://www.gsfm.com.au). None of GRES, Munro Partners, its related bodies or associates nor any other person guarantees the repayment of capital or the performance of the Fund or any particular returns from the Fund. No representation or warranty is made concerning the accuracy of any data contained in this document. The Fund's holdings, exposure and allocations depict end of month figures and may have changed materially or not disclosed due to confidentiality reasons. Numbers may not sum due to rounding or compounding returns. This newsletter was issued on 10 July 2024.

