Quarterly report

Munro Global Growth Small & Mid Cap Fund

September 2024

Munro Global Growth Small & Mid Cap Fund
September 2024 – Quarterly report

Munro Small & Mid Cap Fund quarter return
4.0%

MSCI ACWI SMID Index quarter return
5.3%

QUARTERLY HIGHLIGHTS

- The Munro Global Growth Small & Mid Cap Fund returned 4.0% for the September quarter, underperforming the MSCI ACWI SMID Index by 1.3%, which returned 5.3%.
- The Fund has returned 44.0% since inception, outperforming the MSCI ACWI SMID Index which returned 21.3% over the same period.
- The September quarter proved to be a turbulent period for the stock market. July saw a resurgence of small-cap stocks, which outperformed their large-cap counterparts after years of lagging behind.

MUNRO MEDIA

CommSec, 2 September 2024
Executive Series with Portfolio Manager, Qiao Ma
Watch the conversation here

Livewire Markets, 7 June 2024
All-time highs no bother for those playing in small and mid cap space
Read the article here

Responsible Investment Report FY24
Read the report here

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INVESTMENT TEAM


Qiao Ma
Lead Portfolio Manager


Nick Griffin
CIO


Kieran Moore
Portfolio Manager

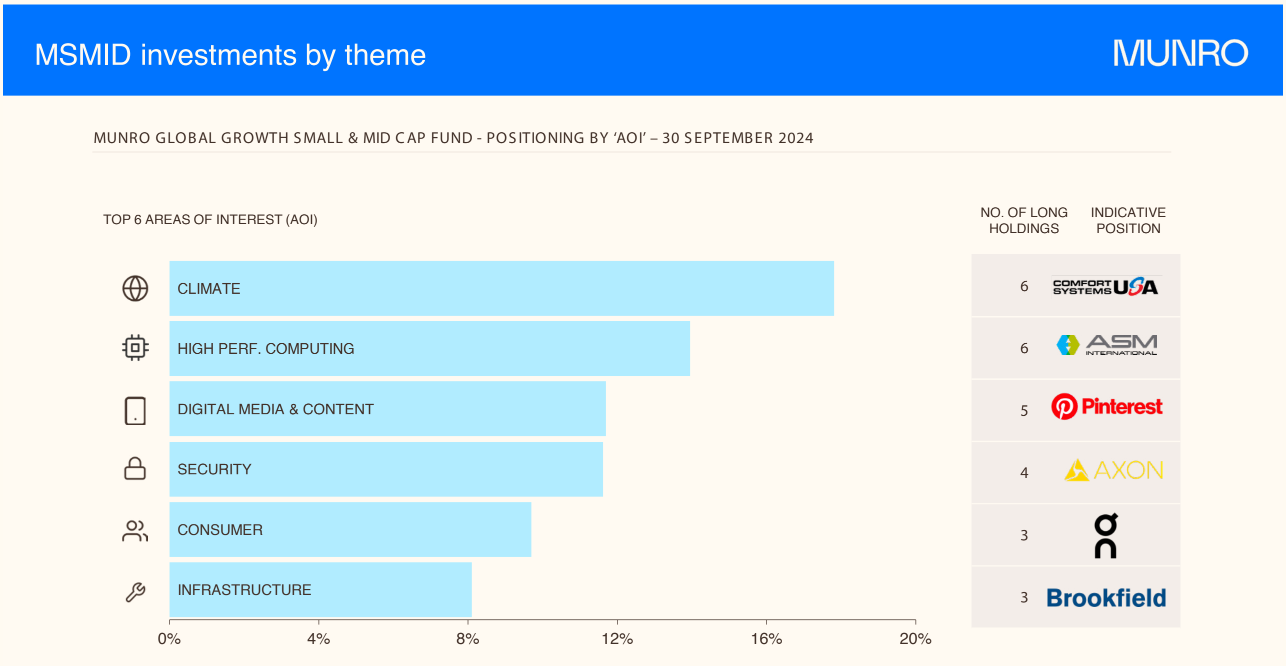

Jeremy Gibson
Portfolio Manager


James Tsinidis
Portfolio Manager

Fund commentary

The Munro Global Growth Small & Mid Cap Fund returned 4.0% for the September quarter underperforming the benchmark's return of 5.3% by 1.3%.

The September quarter proved to be a turbulent period for the stock market. July saw a resurgence of small-cap stocks, which outperformed their large-cap counterparts after years of lagging behind. August brought a wave of geopolitical anxieties, particularly surrounding the AI and semiconductor sectors. September concluded with the Federal Reserve announcing a 50 basis point interest rate cut, signaling the potential for two further cuts before year's end.



Source: Munro Partners September 30, 2024.

Despite a volatile August and September that saw our High Performance Computing AoI holdings retreat from recent highs due to geopolitical concerns, the Fund demonstrated resilience. Strong performance in other key Areas of Interest, including Digital Media, Consumer, Climate, and Security, enabled us to deliver positive returns for our investors.

Furthermore, we capitalised on the downturn in the High Performance Computing AoI. This allowed us to acquire several companies that were previously out of reach due to their valuations previously being considered too high by our team. Applovin, a company we highlighted in our March Quarterly report, was a standout performer within the Digital Media AoI. In recent months, Applovin's software business has gone from strength to strength, expanding beyond its core mobile gaming market and into the larger and faster-growing e-commerce sector.

In Consumer, SharkNinja, highlighted in our June Quarterly report continued its strong launch pipeline of new products. The recently launched Ninja Café Deluxe is already a top-ranked espresso maker in the US, demonstrating the brand's continued ability to resonate with consumers. Despite a challenging economic environment, SharkNinja's commitment to innovation and rapid execution remains truly impressive.

Within our Climate AoI, we are witnessing continued momentum in the construction of energy-efficient data centers by hyperscalers. Comfort Systems, which provides critical electrical and thermal engineering for these projects, and Vertiv, a leading manufacturer and servicer of cooling systems for data centers, both delivered strong performances during the quarter, benefiting from this trend.

Key detractors from performance over the quarter include Elf Beauty (Consumer), Pinterest (Digital Media), and High Performance Computing positions Kokusai, Camtek and ASM International. The High Performance Computing companies were impacted by a combination of geopolitical concerns and a strong first half of 2024. We remain confident in the long-term prospects of these companies, as they provide critical equipment and technology essential for the advancement of artificial intelligence. Regarding Elf Beauty and Pinterest, we believe both companies are executing their long-term strategies well. However, their share prices were impacted by heightened investor expectations.

Market outlook

We're excited about the prospects for structurally growing small and mid-cap companies. We believe we're in the early stages of a strong earnings acceleration driven by the expanding applications of generative AI across various industries. Furthermore, central banks globally are embarking on an interest rate cutting cycle. This should provide some welcome relief to consumers and small businesses, further stimulating growth.

Our portfolio companies, such as On Running and SharkNinja, have demonstrated impressive resilience and growth despite recent economic challenges. As economic conditions improve, we see potential for these companies to thrive.

While we remain optimistic, we also acknowledge potential headwinds. The upcoming US Presidential Election and ongoing geopolitical tensions in the Middle East and Pacific could contribute to continued market volatility. Despite these uncertainties, we maintain our conviction in our strategy and the promising pipeline of new and existing investment opportunities.

For the investment team's full market outlook, please refer to the Munro Global Growth Fund's September report.

STOCK STORY: ON HOLDINGS

AREA OF INTEREST: **CONSUMER**
MARKET CAP: **USD $16bn**

On Holdings contributed 109bps to Fund performance for the quarter.

A growing crowd favourite, known for their uniquely "cloud" inspired soles, it's easy to recognise a pair of On running shoes out on the street. Founded in Switzerland and backed by tennis legend, Roger Federer (who owns ~3% of the company), On is establishing itself as a true market leader in key running and athletic training categories.

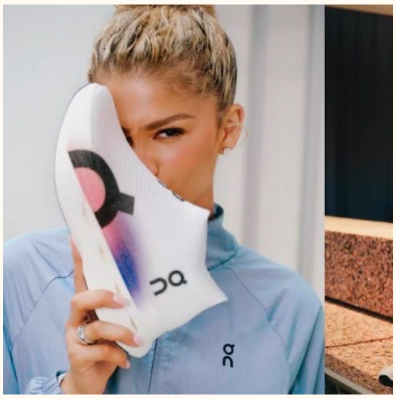
In what is a highly competitive market, On differentiates itself through its unparalleled R&D engine and exceptional product quality, leading consumers to perceive it as a luxury athleisure brand and has been coined the "Swiss Watch" of performance footwear. In recent years, On has made strategic decisions to focus on their Direct to Consumer or "DTC" offering, removing third party retailers. This has allowed them to have better control over their inventory and mitigate the amount of discounting on their products, leading to sustainable sales growth and expanding margins.

On's Q2 24 earnings result gave investors further conviction in the company's growth trajectory. On was able to grow sales close to 30% despite inventory shortages throughout the US as they expand capacity within their key warehouse in Atlanta.

The recently announced strategic partnership with box-office actress Zendaya will continue to grow brand awareness around the world, whilst increasing the brand's appeal to new demographics. Alongside this, On has been making headlines with the release of a very futuristic "LightSpray" technology, where robotic arms mould the shoe by spraying the upper onto the sole, all within a matter of minutes. (link of video here)

On continues to benefit from the structural tailwinds of a rapidly growing global athleisure market and we believe it can continue to outpace its competitors and gain further market share overtime.

ON Holdings: The "Swiss Watch" of performance footwear — MUNRO



STOCK STORY: VERTIV

VERTIV

AREA OF INTEREST: **CLIMATE**
MARKET CAP: **USD $37bn**

Vertiv added 86bps to Fund performance for the quarter.

Originally founded in 1946, Vertiv is a global leader in designing, manufacturing and servicing of critical technology infrastructure solutions. They specialise in serving data centres, communication networks, and commercial and industrial environments. Vertiv offer a wide range of products and solutions, including power management, thermal management, and integrated modular solutions, aimed at ensuring uninterrupted operations and optimal performance for their clients. With a global presence, Vertiv employs approximately 27,000 people and operates in over 130 countries. Today, roughly 75% of Vertiv's revenue is from electrical and thermal equipment sold to data centre customers.

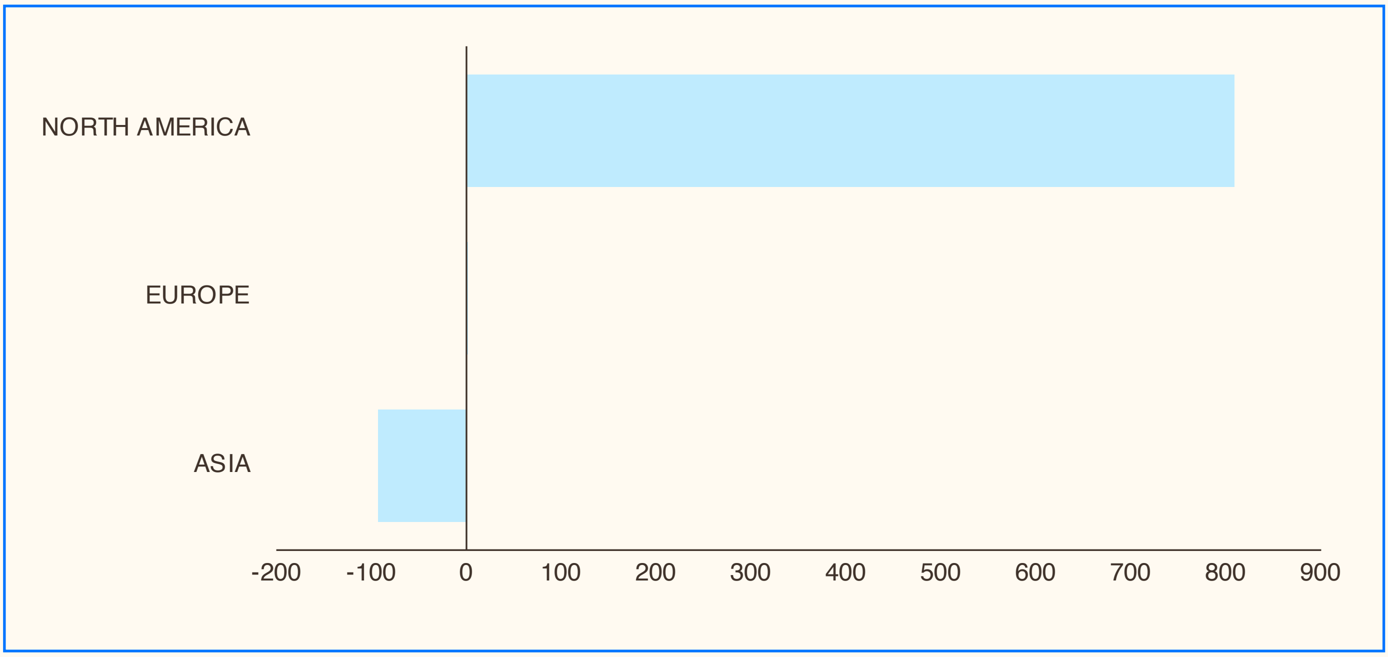
We expect global demand for data centres to more than double over the next 5 years, driven by hyperscaler and tier 2 cloud customers building out the necessary infrastructure for AI training and inference. Not only are many more servers being built, but the size of these data centres (measured in megawatts (MW)) and the power and thermal content within these AI data centres is growing as well, which creates a significant tailwind to Vertiv's revenue. Historically, a 50MW data centre was considered 'large,' but recently, hyperscalers have discussed the need for gigawatt (1GW = 1,000MW) scale data centres to power large GPU training clusters over the medium-term. Given that this creates a higher density compute system, Vertiv's addressable electrical and thermal content per megawatt increases by ~20% in these AI data centres. One of the solutions for addressing the increased thermal requirements is liquid cooling, which is a more efficient way of removing heat from a GPU server relative to existing air-cooling solutions. Vertiv is a partner of Nvidia, and their next generation of GPUs have a server rack power density well above what air-cooling can support, which means liquid cooling is critical for the operation of these GPUs.

We believe Vertiv's competitive advantage is threefold. Firstly, they have the largest service footprint of their peers, with over 240 service centres and over 3,500 service engineers globally. This is particularly important for customers, given that a single hour of downtime costs at least $100,000. This allows Vertiv to maximise the uptime of their customer's data centres, which is critical given the increasing dollar value of content in these data centres and the critical nature of the build out for competitive reasons in the pursuit of more powerful large language models. Secondly, Vertiv's scale relative to competitors (mid-20% market share) is attractive to hyperscaler customers, as they are best suited to keep up with their rapid pace of capital deployment, with these customers looking to spend billions of dollars per quarter on new data centre infrastructure to meet end user demand. This confidence is aided by Vertiv's longstanding reputation in the industry for being able to deliver full-suite solutions reliably to customers, and dealing with one supplier that offers a full-suite solution is much simpler than juggling a complex supply chain of various point solutions. Finally, today's data centre applications are more customised relative to history, and Vertiv's ability to optimise the data centre architecture to their customers desires is a key point of differentiation.

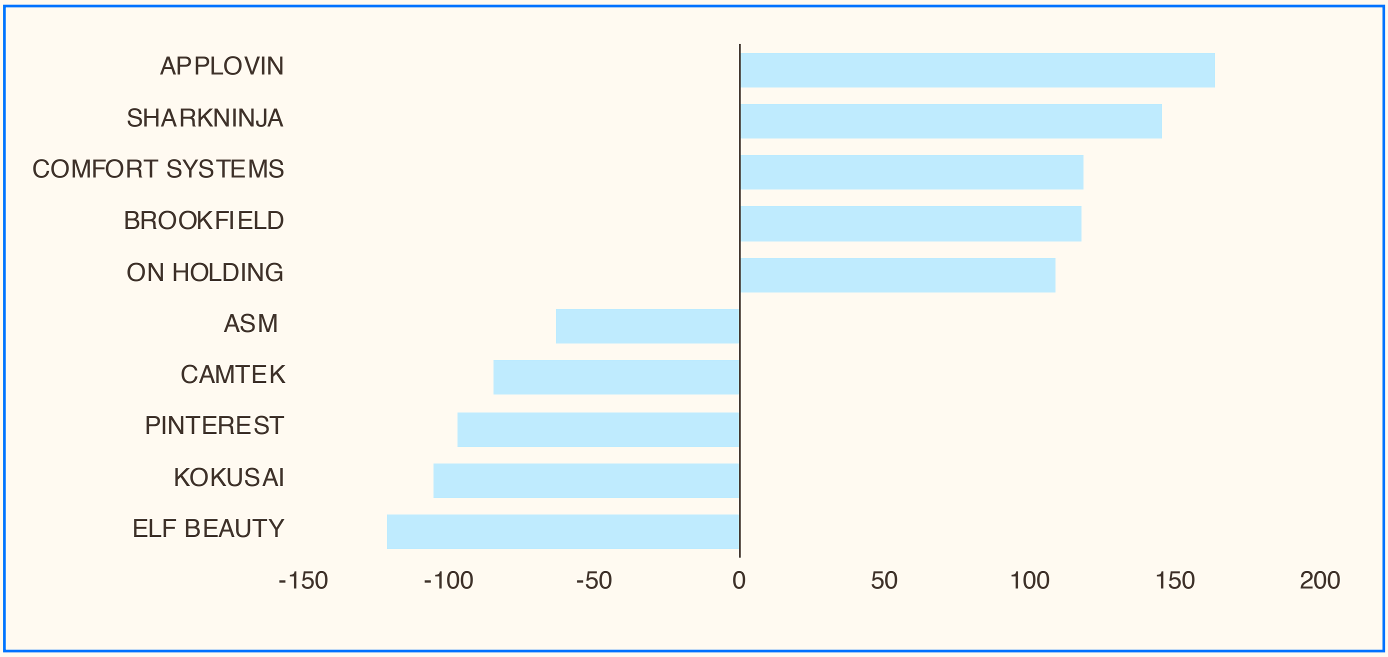
Ultimately, we can see a path to Vertiv's earnings doubling over the next two years given the insurmountable demand for data centre infrastructure fuelled by AI.

QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

Region (ex-cash)



Top & bottom contributors



QUARTER END EXPOSURE

Category

EQUITIES	91.5%
CASH	8.5%
NO. OF POSITIONS	35

Sector

INDUSTRIALS	27%
INFORMATION TECHNOLOGY	25%
COMMUNICATION SERVICES	9%
CONSUMER DISCRETIONARY	9%
OTHER	22%
CASH	9%

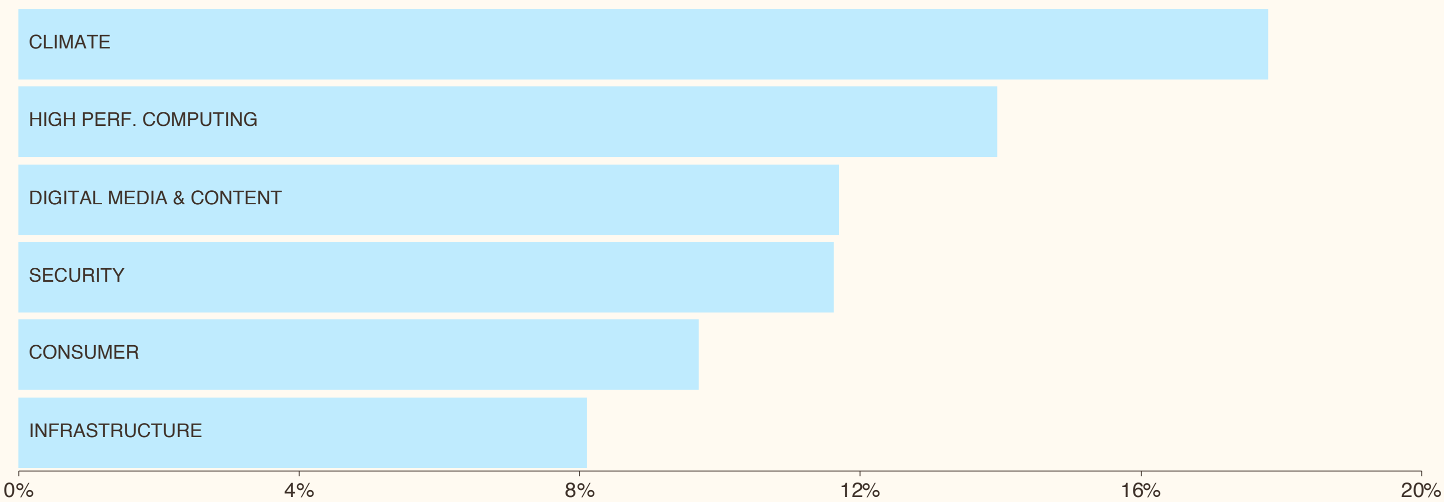
Region

	LONG
NORTH AMERICA	76%
ASIA	2%
EUROPE	14%
CASH	9%

Holdings

TOP 5 HOLDINGS	
BROOKFIELD	5.4%
COMFORT SYSTEMS	4.8%
VERTIV	4.5%
ASM INTERNATIONAL	4.4%
ON HOLDING	4.3%

Areas of Interest



Net Performance - SMID

	1 MTH	3 MTHS	6 MTHS	INCEPT CUM.
MUNRO GLOBAL GROWTH SMALL & MID CAP FUND (AUD)	0.6%	4.0%	8.3%	44.0%
MSCI ACWI SMID NET INDEX (AUD)	0.3%	5.3%	0.8%	21.3%
EXCESS RETURN	0.4%	-1.3%	7.5%	22.8%

INCEPTION: 31 OCTOBER 2023