MUNRO

The Annual Letter 2024

2024 in review – The sun did shine!

The bull market that began in 2023 continued in 2024, with equity markets experiencing a year of solid gains across the board. While global economic conditions remained challenging; inflation ultimately peaked, as too did interest rates and absent a recession, markets returned to focusing on corporate earnings growth.

Despite the difficult economic backdrop, corporate earnings growth was strong in 2024, particularly in the United States, where the emergence of artificial intelligence (AI) and the infrastructure required to power it saw strong earnings growth for the cloud infrastructure players and the industrials that help build that infrastructure. This saw markets dominated by the so-called 'Magnificent 7' during the first half of 2024 as they are effectively the shovels in the AI boom. Market performance then broadened out during the second half of the year as Central Banks around the world began to cut interest rates. This rate-cutting environment combined with a resounding win for Donald Trump in the US election has meant that equity markets have begun to price in an improving US economy as we enter 2025.

PERFORMANCE BY FUND – 30 NOVEMBER 2024

MUNRO

Absolute returns	1 YR	3 YRS (P.A.)	5 YRS (P.A.)	7 YRS (P.A.)	SINCE INCEP. (P.A.)	SINCE INCEP. (CUM.)
MUNRO GLOBAL GROWTH FUND (AUD) NET	**39.7%**	**7.8%**	**15.1%**	**12.3%**	**13.8%**	**193.3%**
Long only						
MUNRO CONCENTRATED GLOBAL GROWTH FUND (AUD) NET	**48.4%**	**13.7%**	**18.6%**		**19.4%**	**146.5%**
MSCI WORLD (EX-AUS) TR INDEX (AUD)	30.2%	11.9%	13.4%		14.2%	96.1%
EXCESS RETURN	18.2%	1.8%	5.3%		5.2%	50.4%
MUNRO CLIMATE CHANGE LEADERS FUND (AUD) NET	**77.3%**	**17.2%**			**18.0%**	**66.8%**
MSCI ACWI TR INDEX (AUD)	28.4%	10.8%			11.6%	40.5%
EXCESS RETURN	49.0%	6.5%			6.4%	26.3%
MUNRO GLOBAL GROWTH SMALL & MID CAP FUND (AUD) NET	**62.2%**				**66.8%**	**74.2%**
MSCI ACWI SMID CAP NR (AUD)	25.6%				28.8%	31.6%
EXCESS RETURN	36.6%				38.0%	42.6%

Source: Munro Partners. Munro Global Growth Fund inception is 1 August 2016. Munro Concentrated Global Growth Fund inception is 31 October 2019. Munro Climate Change Leaders Fund inception is 29 October 2021. Munro Global Growth Small & Mid Cap Fund inception is 31 October 2023. Past performance should not be relied upon as (and is not) an indication of future performance.

As we reflect on the year that passed, we see that many of the themes we identified played out successfully. We positioned the funds heavily to benefit from the rise of AI, via exposure to semiconductors in our High Performance Computing Area of Interest (AoI), with Nvidia and its supply chain (TSMC and SK Hynix) being the standout performers. Such was the demand for AI infrastructure that it intersected with our Climate AoI, producing significant gains for many of our climate investments. This was probably best exemplified with key holding, Constellation Energy, signing a deal with Microsoft to reopen the Three Mile Island nuclear plant to help power Microsoft's AI ambitions while working towards their emission reduction targets. The gains were not, however, limited to power companies, with companies across our climate universe benefiting from the rise of data centre demand, including HVAC companies for cooling (Vertiv), electrical equipment providers (Schneider Electric), contractors (Comfort Systems), and gas turbine manufacturers (GE Vernova) all contributing strongly to the performance of the Climate strategy as well as our Long/Short and Long Only strategies. Elsewhere, the Small & Mid Cap strategy (SMID) had a stellar first year, with the investment team unearthing numerous ideas across the Consumer AoI, (SharkNinja and On

Running), Digital Media AoI (Applovin and Reddit) and Security AoI (Rheinmetal and Axon) which contributed to the SMID's performance and also our other growth strategies throughout the year.

It was a remarkable year for the Munro funds, with all funds delivering strong double-digit returns well in excess of their respective benchmarks. My thanks go to the entire investment team for leaning into our investment process, identifying the areas of structural growth and identifying the winners in 2024. As we look towards the year ahead, we are encouraged by the progress made in 2024 and the opportunities that lie ahead. We anticipate that many of the major trends we invested in will continue to expand, providing fertile ground for growth in 2025.

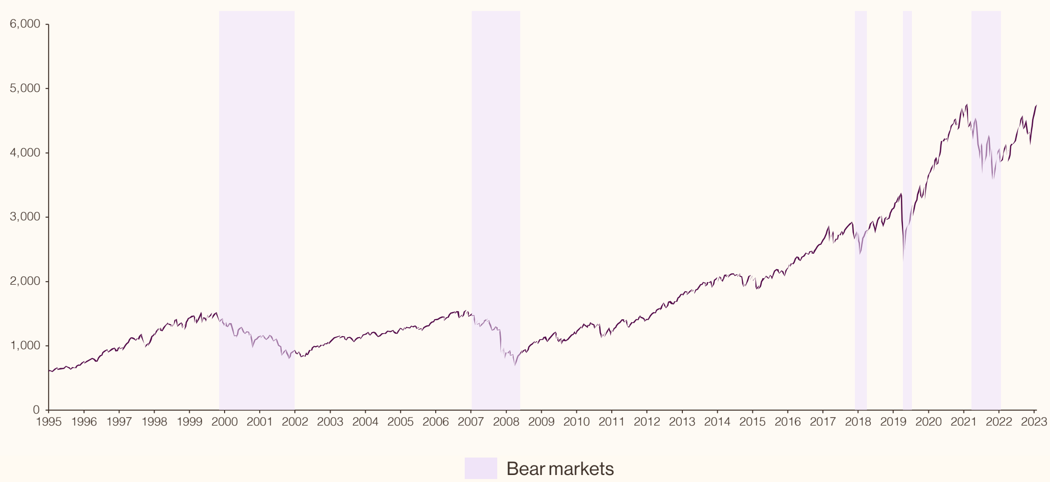
The year ahead – The sun should shine on.

We expect the bull market, which began in 2023, is entering its third year. Conditions are favourable for further corporate earnings growth and, hence, equity market growth in 2025. Interest rates have stabilised, inflationary pressures are easing, and central banks can now support a stable economic upcycle via interest rate cuts if required.

After a period of slower growth, developed economies should move into economic recovery mode, which should ultimately broaden out earnings growth beyond the technology champions. Equity markets have moved to price in some of this recovery already, but there is ample room for corporate earnings to catch up, with most companies running below normal capacity and likely to exhibit further operating leverage as the economy improves. In short, bull markets generally last longer than bear markets. As we recover from the bear market of 2022, we are looking forward to what can go right, rather than be distracted by what could cause the next potential bear market.

WE BELIEVE WE ARE IN THE NEXT BULL MARKET MUNRO

S&P 500 (1995 – 2023)



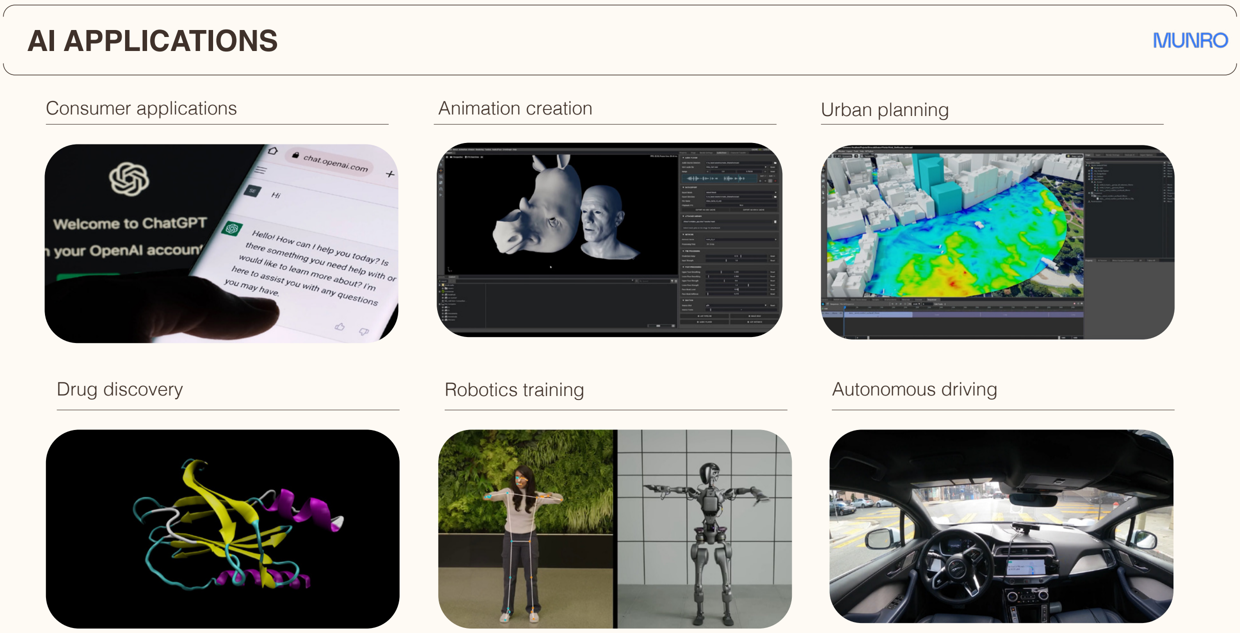
Source: Munro Partners and Bloomberg Data, 7 February 2024 | S&P 500 Index Calendar Year returns.

The two-fold productivity boom

When thinking about what could go right, it would appear to us that we could be in the foothills of an emerging productivity boom driven by two independent forces. The first is the emergence of AI, and the second is the Donald Trump presidency, both have the potential to radically shift the productivity equation in favour of corporate earnings, which we see as the ultimate driver of equity markets.

AI advancements

The emergence of large language models now sees companies attempting to apply AI to nearly every industry on the planet. Unlike previous technology revolutions, such as the mobile revolution or the shift to the cloud, AI is unique in that the machine learning technologies can be applied to so many different industries. As human language, text, and video become the means by which we can program applications, and those applications learn as they become used, significant breakthroughs are likely to be achieved. We can already see digital agents and chatbots that are now more efficient than humans, soon physical robots could achieve similar levels of competence as training them is as simple as showing them a video of the task. Elsewhere digital twins of buildings, warehouses and assembly lines can save substantial time and money in the construction process and how facilities operate. Autonomous vehicles can learn their surroundings to improve safety, while protein models can rapidly accelerate drug discovery. We expect significant savings and improved customer outcomes for those companies that can leverage this technology to their advantage. Where the leaders go, their competitors will follow, and the potential for a step change in labour productivity for the whole economy is real and likely to translate to higher corporate earnings over time.



For illustrative purposes, the themes shown may or may not be held in the Munro Funds.

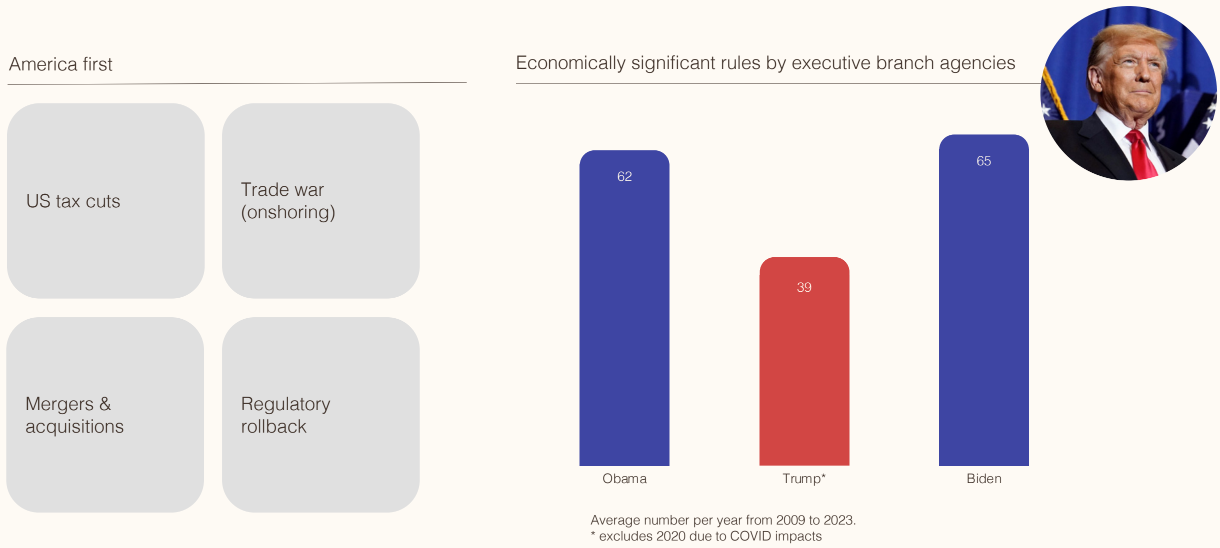
Trump 2.0

Whatever your opinion of Donald Trump, what is clear is that he has won a mandate to govern, winning the House, Senate, Presidency and the popular vote in this most recent US election. The 2nd Trump presidency is shaping up to be a radical shake up of the status quo. Trump has already created 'DOGE' - the Department of Government Efficiency - headed by Elon Musk and Vivek Ramaswamy, designed to cut wasteful government expenditure. Amongst the other cabinet appointments to date, the selection is sitting at 11 billionaires at the time of writing, this compares to a Biden cabinet, where his member's net worth was $118 million in total. We see these high-net-worth appointments as a nod to a raft of corporate-friendly policies ahead. Lastly, we should expect a sustained effort to reduce the regulatory burden on business. This was a hallmark of the last Trump presidency, and all indications to date suggest it will be another area of focus this term.

In short, Trump's policies will focus on America first; shrinking government, reducing regulation, lowering taxes, approving more M&A and 'unshackling' corporate America to help grow out of the current US government deficit. Even if only half of these initiatives work, we would expect a reenergised US economy in the years ahead and, again, potential for a step change in US productivity. Furthermore, should the Trump agenda prove successful, this ultimately could result in a global movement towards smaller government and deregulation as other economies seek to escape their own debt troubles.

TRUMP 2.0

MUNRO



Source: Munro Partners estimates, George Washington University Regulatory Studies Center.

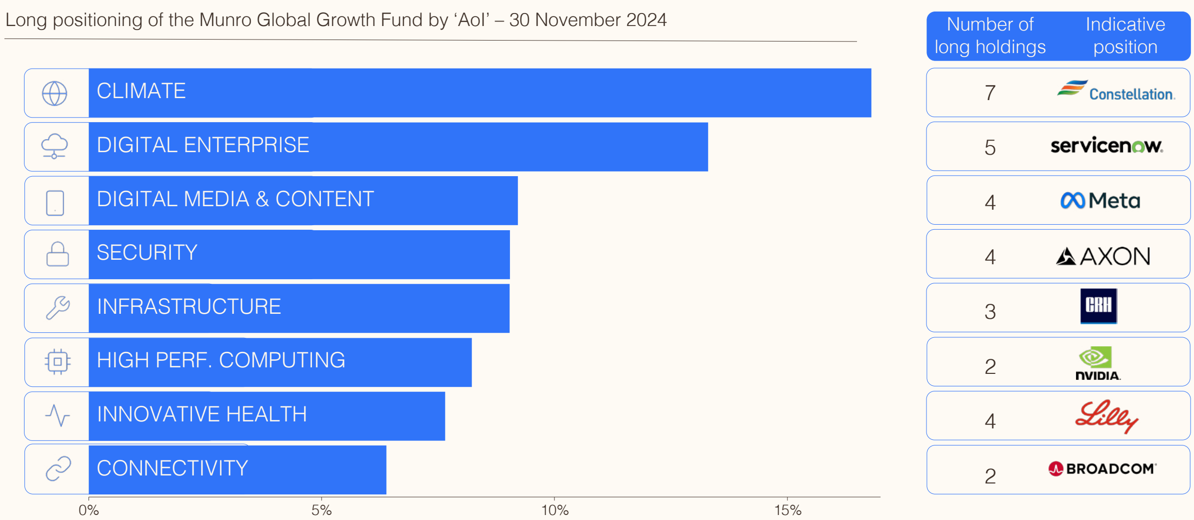
How we have invested to benefit

As we enter 2025, we have positioned the funds across a broad range of Areas of Interest (AOI's) and a broad range of market capitalisations. We expect the US economy to accelerate in 2025, and hence, we look for a broadening out of earnings growth beyond the AI boom. This will likely be supported by numerous Trump policies that favour American interests. Below we highlight two AoIs, Infrastructure and Security, that we have invested in as we think they are poised to benefit in the coming year, while also recapping that we still think it is right to remain invested in the AI infrastructure build-out via the High Performance Computing and Climate AoIs.

Fund exposure to each AoI, number of holdings and indicative holdings are shown below.

INVESTMENTS BY THEME

MUNRO



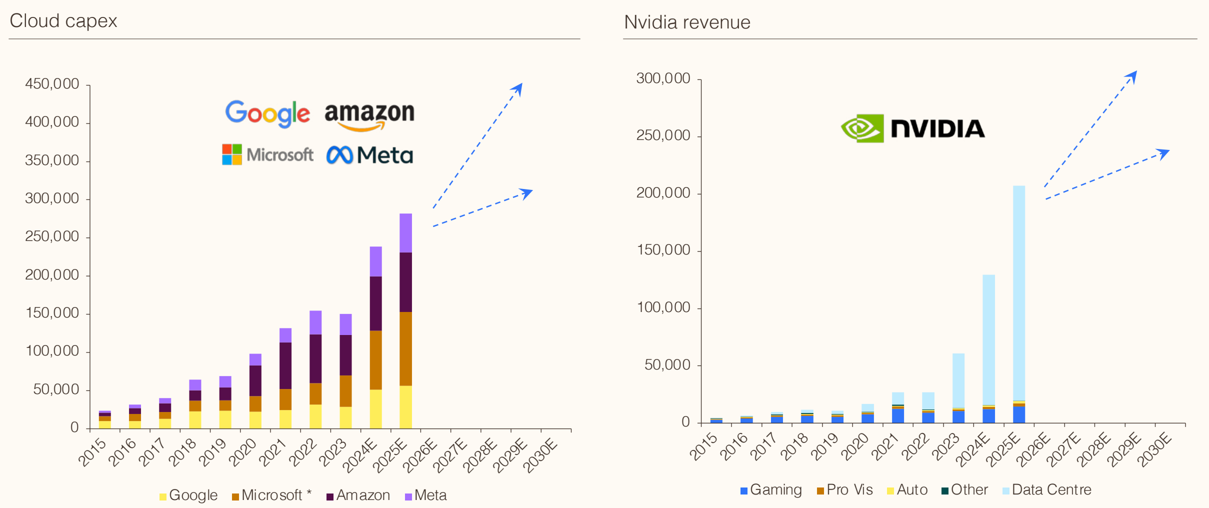
Source: Munro Partners 30 November 2024. Refer to the website for the full list of AoIs.

High Performance Computing:

Our investments in leading semiconductor companies, such as Nvidia, TSMC, and Broadcom, were all strong performers in 2024, and we expect this to continue into 2025. The large hyperscale cloud providers in the US appear to be intent on building ever-growing clusters of GPU's to help train larger foundation models. Tesla currently has the largest cluster of GPU's at 100,000 in its Colossus supercomputer based in Memphis, Tennessee. However, companies like Meta and Amazon have already expressed plans to build 400,000 GPU clusters, and Broadcom has disclosed that it expects at least three of its customers to attempt to build a 1 million GPU cluster by 2027. This rapid build-out of computing resources is likely to continue to favour the GPU providers, Nvidia and Broadcom and their key supplier, Taiwan Semiconductor Manufacturing Company (TSMC).

LARGE CLOUD SERVICE PROVIDERS ARE DRIVING AI-RELATED CAPEX

MUNRO



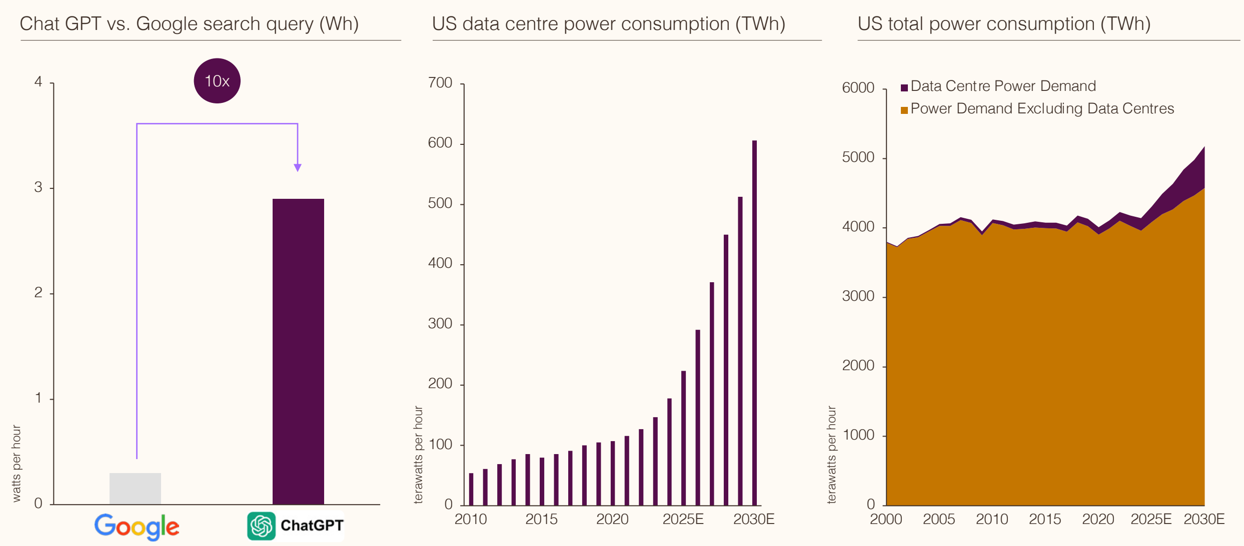
*Source: Munro estimates, Google, Amazon, Microsoft, Meta, Nvidia as at September 13, 2024. Nvidia data is at January year end. Microsoft * – includes capital leases. For illustrative purposes only, companies may or may not be held by the Munro funds. Past performance is not an indication of future performance.*

Climate:

A 1 million GPU cluster will cost roughly USD 20-30bn and require 4 gigawatts of power to run it, while a ChatGPT query uses approximately 10 times the electricity of a standard Google search query. The boom in AI infrastructure, combined with the added compute to run these AI models, is directly leading to a shortage of power infrastructure in the US. Via our Climate AoI, we have invested to potentially benefit from this, focusing on installed nuclear power (Constellation Energy), gas turbine manufacturers (GE Vernova and Siemens Energy), and companies involved in the build-out and maintenance of the electrical grid. It is worth highlighting that the hyperscalers making these large investments also have the strictest net zero carbon pledges, and we would expect continued investment in decarbonisation to be made alongside these AI investments, as companies seek to add back the megawatts they are taking off the grid to power these data centres.

US POWER DEMAND FOR THE FIRST TIME IN 20 YEARS IS BEING DRIVEN BY DATA CENTRES

MUNRO

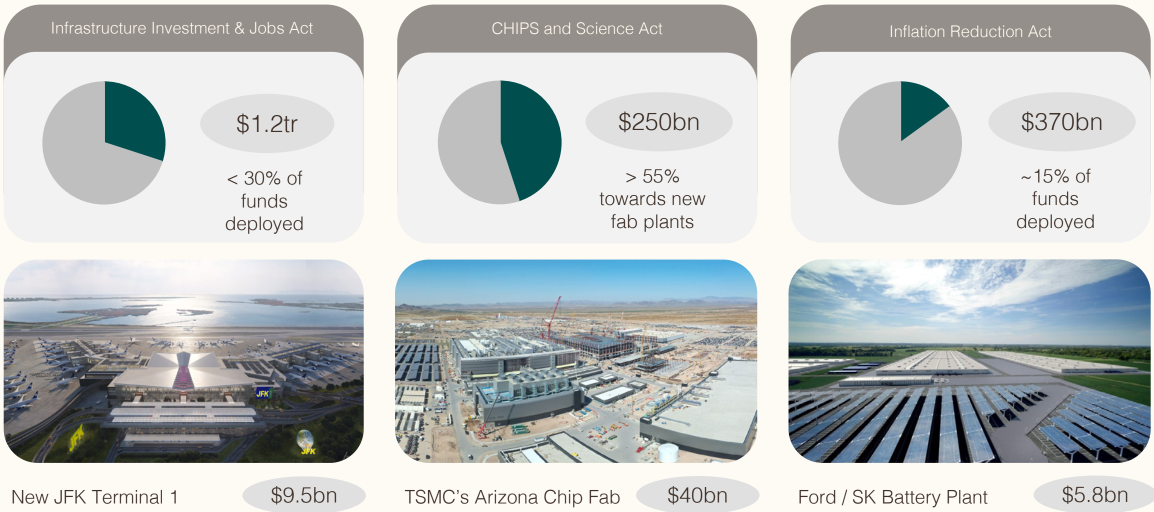


Source: Munro Partners estimates and industry research as at 30 September 2024. The companies mentioned may or may not be held in the Munro funds.

Infrastructure:

The Trump agenda will firmly focus on bringing manufacturing back to North America. This is already apparent with the current Chips Act, which is seeking to diversify advanced semiconductor manufacturing away from Taiwan. We would expect similar policies and higher tariffs to drive a further build out of onshore US manufacturing capability. We have positioned the funds to benefit from the reshoring boom via the Infrastructure AoI which includes investments in dominant US cement and aggregates player, CRH, plus a smaller Texas construction player, Comfort Systems. We expect to unearth further smaller capitalisation ideas in this area as we head into the new year and as the US economy improves.

ALMOST $2 TRILLION IN US INFRASTRUCTURE FUNDING OVER THE NEXT FEW YEARS MUNRO



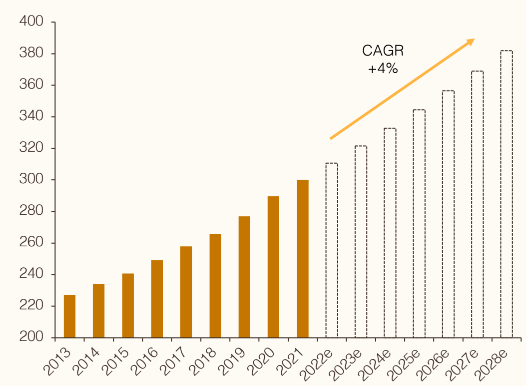
Sources: Munro estimates, Climate Program Portal, CRH, Morgan Stanley, 18 November 2024. All numbers are in USD.

Security:

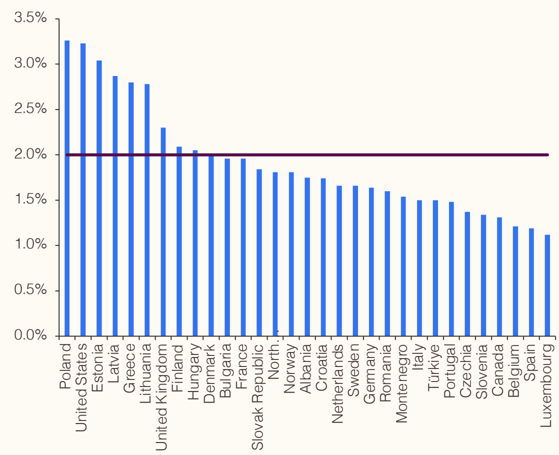
With the US likely to play a more isolated role in world affairs under the Trump administration, this will, in turn, put pressure on the NATO nations and the rest of the world to lift their defence spending. We see European defence budgets increasing, with many nations now lifting their spending levels. European defence contractors like Rheinmetall look to be the main beneficiaries here, as European spending will likely focus on building their own defence champions rather than becoming dependent on US suppliers. Elsewhere, US homeland security spending is likely to increase as the new government seeks to secure the border and keep the cities safe, fulfilling stated election promises. We see companies like Axon Enterprises and Motorola Solutions positioned to benefit via their dominant market positions in police body cameras, tasers and radio networks.

SECURITY IS A STRUCTURAL GROWTH AREA OF INTEREST MUNRO

US state and local government aggregate public safety spending (USD $bn)



NATO investment requires a European catch-up potential to meet the 2% of GDP commitment



Source: US Census Bureau State & Local Government Data & Munro Partners estimates, 2 October 2024.

Conclusion

After a strong 2024, we see 2025 as shaping up to be the third year of the post-pandemic bull market. While it will be challenging to repeat the returns of 2024, we believe there is still ample room for corporate earnings and for markets to climb higher. The world potentially sits in the foothills of two major productivity booms. The first is AI technologies, which look likely to transform the way we work and potentially reshuffle the leaders across a range of industries. The second is the push for smaller government and lighter regulation which could invigorate the US economy in ways previously thought impossible. While there are always risks to any forward outlook, we are taking a glass-half-full view.

We appear to be entering a period of rapid change, which should allow us to continue to lean into our investment process, identify the areas of structural change, identify the winners and set our funds up for continued strong returns. We remain excited about the prospects ahead for all the Munro strategies and we thank you for your continued support.

MUNRO FUNDS MUNRO

MUNRO GLOBAL GROWTH FUND
MAET.ASX
Absolute returns

MUNRO CONCENTRATED GLOBAL GROWTH FUND
MCGG.ASX
Long Only

MUNRO CLIMATE CHANGE LEADERS FUND
MCCL.ASX
Long only
Climate thematic

MUNRO GLOBAL GROWTH SMALL & MID CAP FUND
Long Only
Small & Mid cap stocks

Nick Griffin
CIO & Founding Partner