Quarterly report

# Munro Global Growth Fund

# MAET.ASX

September 2024

# Munro Global Growth Fund & MAET.ASX
## September 2024 – Quarterly report

**Munro Global Growth Fund**
**Quarter return**
-1.7%

**MAET.ASX**
**Quarter return**
-1.6%

## QUARTERLY HIGHLIGHTS

- The Munro Global Growth Fund returned -1.7% and MAET.ASX returned -1.6% for the September quarter.
- Global markets consolidated gains throughout the quarter before lifting higher late in the quarter as the market began to anticipate a substantial interest rate cut.
- The Fund's long positions and hedging contributed positively to performance, whilst currency and short positions detracted from performance.

## MUNRO MEDIA

**Livewire Live, 24 September 2024**
*Watch: How big is the AI pie? Who wins and who gets crushed?*
Watch the panel session here

**Invest in the Journey Podcast, 4 & 5 September 2024**
*The breakdown on Q2 Earnings Season: the team talk On Running, SharkNinja, AXON and other portfolio holdings*
Listen to part one here
*The breakdown on Q2 Earnings Season: the team talk Nvidia, Microsoft, Novo Nordisk and other portfolio holdings*
Listen to part two here

**Responsible Investment Report FY24**
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QUARTERLY COMMENTARY

# Fund commentary

The Munro Global Growth Fund returned-1.7% for the September quarter (MAET.ASX -1.6%). The Fund's long positions and hedging contributed positively to performance, whilst currency and short positions detracted from performance.

Global markets consolidated gains throughout the quarter before lifting higher late in the quarter as the market began to anticipate a substantial interest rate cut. This cut was subsequently delivered by the US Federal Reserve in the form of 50 basis points (bps) to the Fed Funds Rate in late September, the first cut in rates since March 2020. Late in the quarter, China announced a major stimulus package aimed at reviving its slowing economy, which saw the market rally broaden from a geographic perspective.

From a fund perspective, long positions contributed to performance for the quarter. While artificial intelligence (AI) was a dominant theme, contributors came from power generation companies that provide energy to data centres, such as nuclear power producer Constellation Energy (see stock story on page 6) and electric power system company GE Vernova. Detractors came from within the AI theme too, with profits being taken in semiconductor stocks ASML (see stock story on page 7) and SK Hynix, which had performed strongly calendar year-to-date. Away from AI, SharkNinja, part of our Consumer Area of Interest (AoI), continued to perform well following strong results and increasing market awareness.

Currency detracted from performance as the AUD appreciated for the quarter against the USD. We ended the quarter at approximately 50% hedged back to the Australian dollar.

# Market outlook

The September quarter saw the market consolidate strong gains from the first half of the calendar year. Looking ahead we remain positive equity markets, driven by several key factors: central banks globally are embarking on an interest rate cutting cycle, positive developments across the Artificial Intelligence (AI) thematic, and approaching conclusion of the US Presidential race, which we expect will be a clearing event for markets.

The US Federal Reserve reduced interest rates by 50 basis points (bps) towards the end of the quarter, and we think it is safe to assume that central banks, globally, are now in 'easing' mode. While economies worldwide are still struggling, it is important to remember that equity markets are forward-looking, and it is logical for markets to start pricing in an economic recovery in 2025. How strong this recovery becomes remains to be seen, and equity markets could occasionally price in too much recovery, however we're taking a glass half full approach here. Central banks have ample firepower if the recovery falters and ultimately stocks are supported by lower rates regardless, as cash becomes a less attractive asset over time. Should central banks globally continue to ease in line with current rate market predictions, then by this time next year, we should be moving into a synchronised global growth environment, and investors should start to anticipate that today.

Elsewhere during the quarter, members of the investment team visited the US and gathered numerous data points that reinforced our belief that we are still in the early stages of the structural adoption of Artificial Intelligence (AI). The three key conclusions from the trip were :

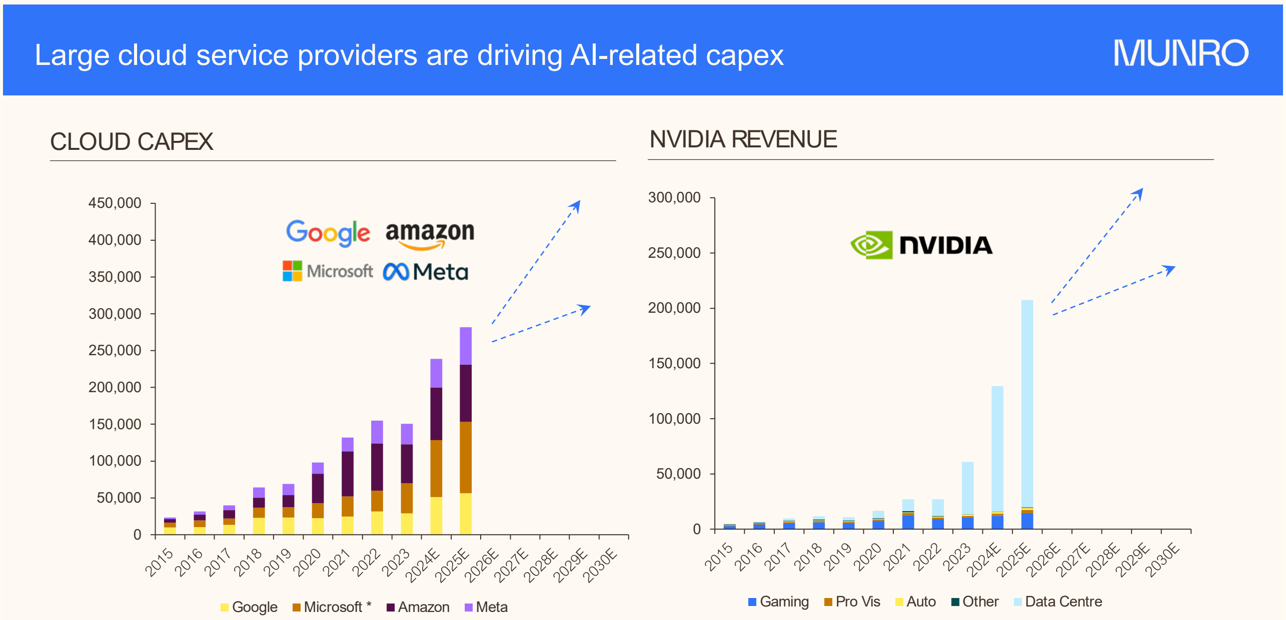
1. We expect sustained demand for AI hardware.;
2. Securing power supply will become vital for companies to achieve their AI ambitions;
3. The return on investment (ROI) stemming from all this investment is real if you look under the surface;

QUARTERLY COMMENTARY

# Market outlook

We heard a consistent message from the leading semiconductor companies on the hardware side: the race to build significant GPU clusters is on. Hyperscalers and several leading technology companies are gearing up to build 1 million GPU clusters, essentially giant data centres or supercomputers that will ultimately lower the cost of training and running AI models. Tesla has a 100,000 GPU cluster up and running, and we spoke to companies that are designed into 250,000 GPU clusters that will be in production by the end of next year. Microsoft and large language model provider Anthropic are convinced that they are not seeing diminishing returns to scaling large language models, so they will keep investing heavily. Put simply, the more computing power (i.e. the larger the GPU clusters), the better the large language models, and the higher the returns on these investments. With capex plans working to secure chip supply, networking and power out to the end of the decade, we still see the semiconductor companies as well placed to benefit from this investment in more computing.

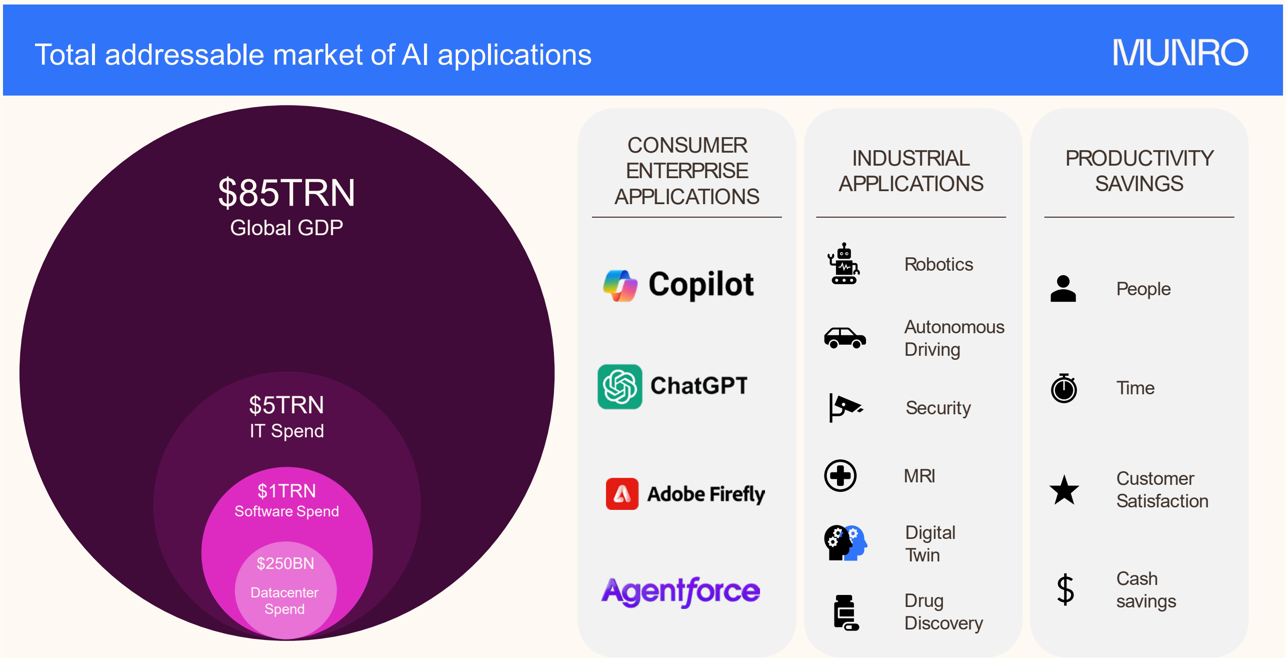

*Source: Munro Partners and Industry Research September 30, 2024.*




*Source: Munro estimates, Google, Amazon, Microsoft, Meta, Nvidia as at September 13, 2024. Nvidia data is at January year end. Microsoft * – includes capital leases.*

Outside of AI hardware demand, the consistent message was that power availability was the biggest constraint to building AI infrastructure, particularly from renewable sources. During the quarter, a significant announcement was made by portfolio holdings Microsoft and Constellation Energy relating to the restart of the Three Mile Island Unit 1 nuclear reactor. Under a 20-year power purchase agreement (PPA) with Constellation Energy, Microsoft will buy all the energy produced by the reactor to power its data centres with carbon-free electricity from 2028 onwards. Microsoft making an investment of this size, to essentially restart a whole nuclear powerplant to support their data centre demand, increases our conviction in the hardware cycle mentioned above and also in the commitment to carbon free energy encapsulated by our Climate holdings.

In terms of return on investment (ROI), many have questioned whether all this investment can find a return, considering the lack of a 'winning app' or software monetisation model today. While so far, the adoption of copilots or digital assistants has had mixed results, we see rapid improvements coming as AI-software can eventually act as an 'AI agent' rather than just an augmented assistant. An 'AI agent' refers to a software entity designed to make decisions and take actions autonomously to achieve specific goals. The addressable market is large and primarily relates to productivity related cost savings and better customer service, allowing employees to focus on higher value-add tasks and provide better outcomes for their companies. Elsewhere, we see much of the value from AI applications also applying to broader industrial sectors where the adoption of digital twins in building design, robotics, autonomous driving cars, drug discovery and digital advertising will all utilise AI models going forward. Ultimately expanding the total addressable market (TAM) and supporting the investments made to date.




Finally, the outcome of the US Presidential Election on November 5th remains highly uncertain. From our fund's perspective, we would prefer a situation of gridlock, where no single party holds a clear majority, preventing the passage of significant reforms. Such a scenario would shift market attention back to company fundamentals, which we view as strong. In the case of a decisive victory in either direction, markets could see short term volatility or rotation around the candidate's policy choices. But history suggests this is also short-lived as governing eventually slows the initial momentum. Regardless of the election results, elections generally act as clearing events, enabling companies to invest with greater certainty once the outcome is clear, which should contribute to a broader economic recovery. Elsewhere, we believe the geopolitical risks in the Middle East pose a greater threat to the stock market, and we are closely monitoring the situation, hoping that conflict reduces at some point so markets can go back to focusing on many of the positives mentioned above.

STOCK STORY: CONSTELLATION ENERGY

Constellation

AREA OF INTEREST: **CLIMATE**
MARKET CAP: **USD $82 bn**

Constellation Energy added 159 bps 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 own 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 >180TWh of carbon-free electricity to Americans each year, which amounts to ~120mn metric tons of $CO_2$ avoided annually.

Following on from what we wrote in 1Q24, in September, CEG signed their first long-term contract with a data centre customer to provide 835MW of carbon-free, baseload power generation. This deal was quite unique, as it involved restarting a retired nuclear unit at Three Mile Island in Pennsylvania. This is a historic moment for the broader nuclear industry, in stark contrast to what has been a steady cadence of plant decommissioning's since the Fukushima disaster in 2011 and speaks to the growing appreciation of the pivotal role nuclear energy plays in a carbon-free energy mix. They expect the facility to be operational in 2028, and Microsoft have committed to the operation for 20 years. Additionally, this carbon free source of energy generation is eligible for tax credits via the Inflation Reduction Act.

As a direct result of this deal, CEG raised their long-term base EPS guidance from >10% to >13%. Our research indicates that Microsoft is paying CEG at a significant premium compared to spot pricing today. We estimate CEG is receiving almost 3x more than the current spot prices in the region. This is a clear example of CEG successfully monetising the carbon-free, baseload characteristics of nuclear energy. It has also been done in such a way that incremental capacity is being added to the Pennsylvania – New Jersey – Maryland (PJM) energy market, which avoids any negative impact on residential customer bills or further burdening the already incredibly tight local power market. In an expression of support, the Governor of Pennsylvania, Josh Shapiro, has since urged the PJM interconnection authority to effectively fast-track the process to bring generation sources, such as this, online as soon as possible.

We expect this to be the first of many long-term contracts that CEG will sign over the next few years to service the growing power consumption of AI data centres. Given that the pioneers of this market are large hyperscalers with corporate decarbonisation goals, we don't see any other viable sources of carbon-free, baseload power adequate to power these large GPU training clusters. Many of these CEO's are talking about the potential for 1mn GPU clusters over the medium term, which would require gigawatts of reliable generation to power them. Nuclear is a scarce asset with only ~40GW operational in the US, and given that Constellation owns more than half of the national fleet, we believe they are in an unparallelled competitive position to monetise this opportunity.

Ultimately, we can still see a pathway for CEG's earnings to triple over the next 6 years.

# ASML

AREA OF INTEREST: **HIGH PERFORMANCE COMPUTING**
MARKET CAP: **USD $332bn**

ASML's performance resulted in an 87 bps detraction from the Fund's quarterly returns.

ASML, headquartered in the Netherlands, is the sole manufacturer of advanced Extreme Ultraviolet (EUV) lithography machines, which are critical for producing leading-edge semiconductors. These complex systems comprise over 100,000 parts and are essential for printing microscopic patterns on silicon wafers. We have held a position in ASML for over a decade across two firms and have long touted it as "the most important company in the world... that nobody has ever heard of'.

Despite robust quarterly earnings and reaffirmed medium-term guidance, ASML's share price has faced downward pressure due to concerns over short term customer demand and China-related restrictions. The year 2024 has proved to be a transition year for ASML as companies adjust their capital spending plans to market demand. Considering the state of the world economy, it appears that this transition period may take a little longer. Furthermore, concerns regarding China-related restrictions seem misplaced, as ASML is already banned from selling EUV and certain Immersion systems to China. Any further restrictions from here would likely focus on the service business and other lower-tier machines, thus having a negligible overall effect on company earnings.

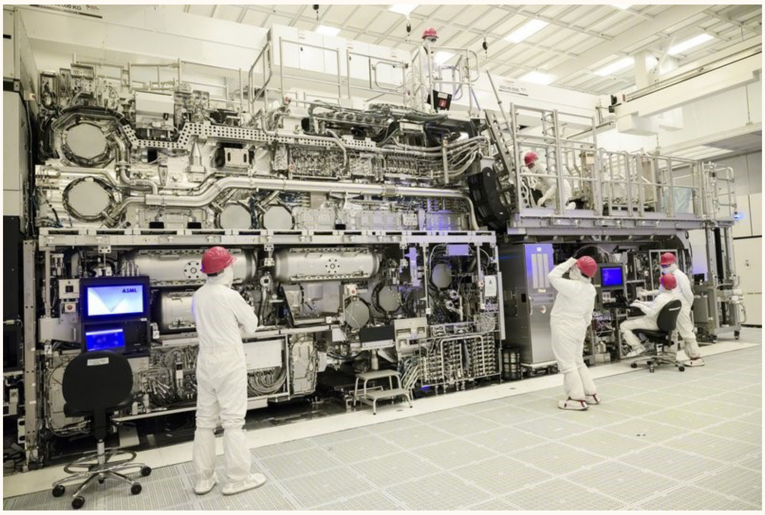
Contrary to market concerns, we think the company's outlook for 2025 and beyond is promising. ASML has reported encouraging signs of increasing utilisation rates and normalising inventory levels among its customers, which is likely to lead to improved orders over time. This is supported by key customers like TSMC, which has highlighted strong demand for its soon to be launched 2 nanometer process, this is said to be well in advance of the previous node.

Combined with continued efforts to diversify leading edge semiconductor demand outside of Taiwan, this suggests a healthy outlook for ASML equipment demand in the years ahead. It is also worth flagging that the broader semiconductor demand cycle is still ahead of us; while demand for AI chips is high now, economies will eventually recover, leading to increased demand for smartphones, PCs and automobiles. This should support further equipment demand from memory suppliers and lagging edge semiconductor players.

*We recently hosted the company in our offices in Melbourne and met with them again in San Francisco. Looking forward, we are closely monitoring two key catalysts that should provide valuable insights into ASML's future trajectory: 1) The third-quarter earnings release in October, and 2) The Investor Day in November, where the company will update its 2030 targets. Few companies can set credible 2030 earnings targets; ASML is one of them due to its monopoly position in one of the most important markets on the planet. We suspect that both events will remind investors of ASML's strong position within the supply chain of leading-edge semiconductors and the healthy demand outlook over the medium term.*

*A High NA EUV machine that creates droplets just 1/3 the width of a human hair*

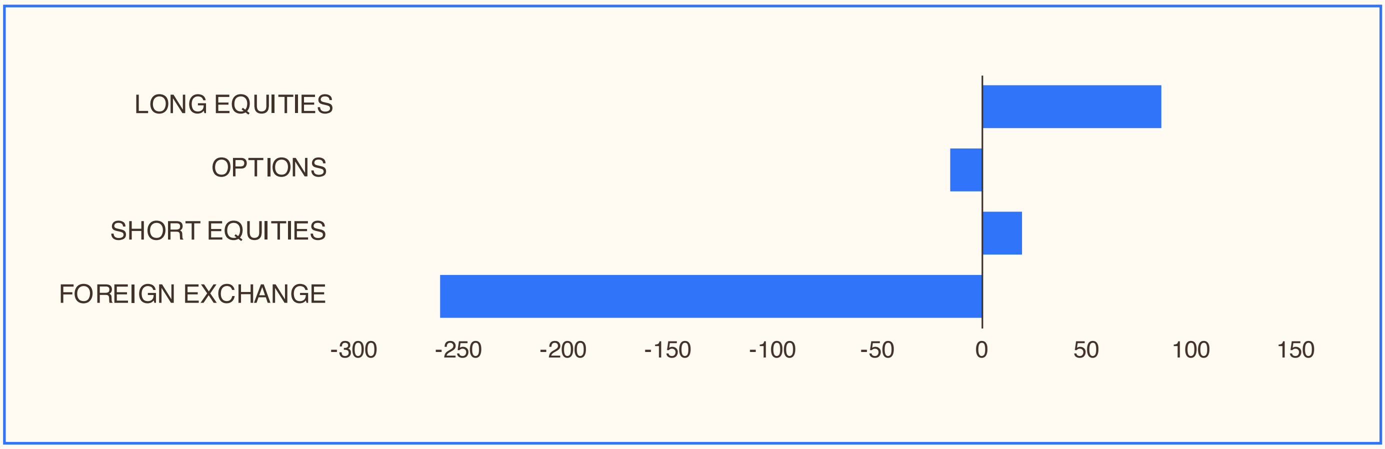
ASML's High NA EUV machine — MUNRO



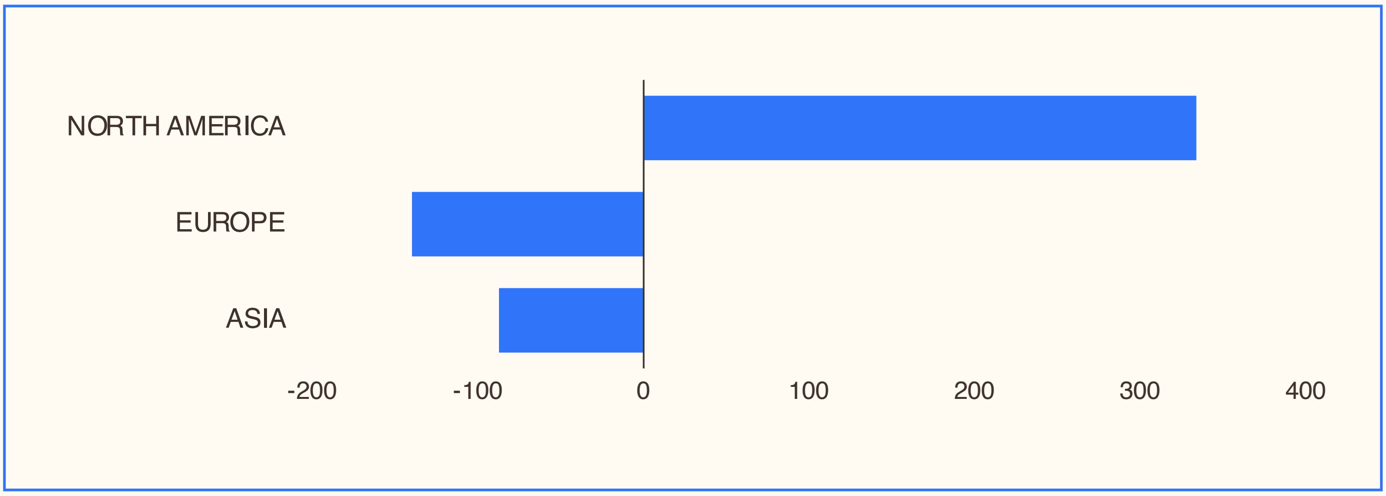
*Source: https://www.datacenterdynamics.com/en/news/intel-acquires-asmls-entire-2024-stock-of-high-na-euv-machines/*

QUARTERLY FUND ATTRIBUTION (BASIS POINTS)

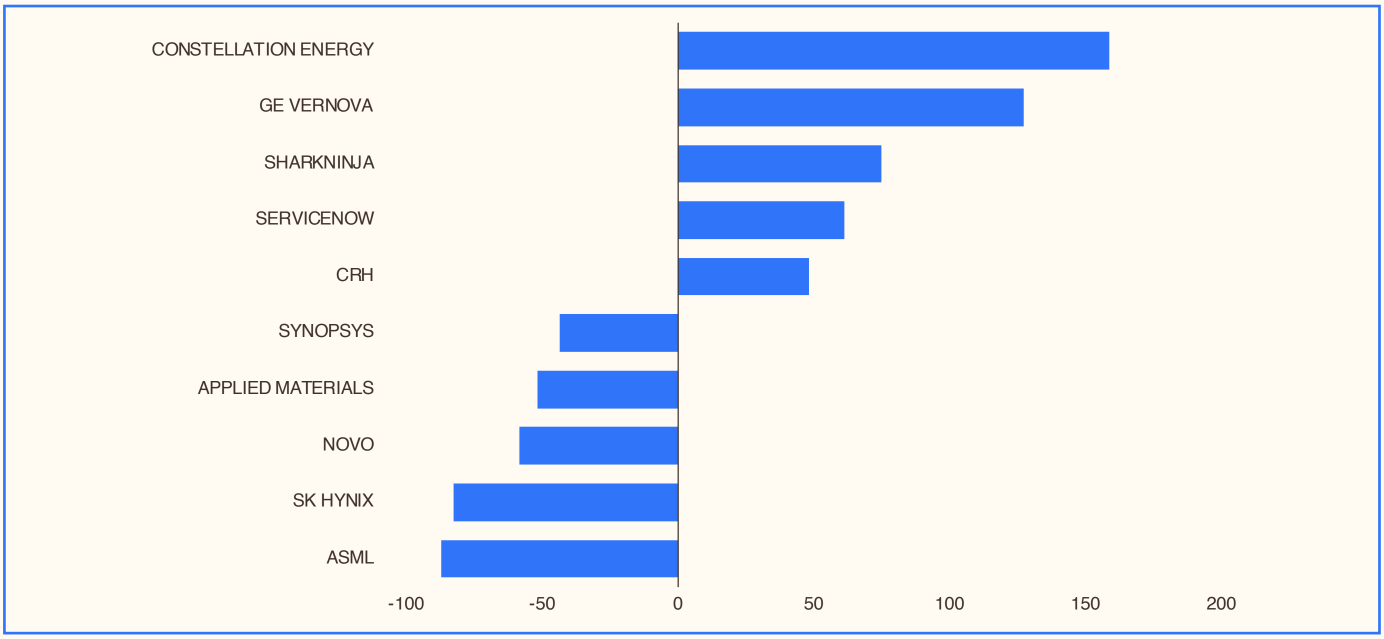
## Security type




## Region (equities only)




## Top & bottom contributors (equities only)



QUARTER END EXPOSURE

## Category

| | |
|---|---|
| **GROSS** | 97% |
| **LONG** | 95% |
| **SHORT** | 2% |
| **NET** | 94% |
| **DELTA ADJUSTED NET** | 89% |
| **CURRENCY HEDGE (AUD)** | 50% |

| | |
|---|---|
| **TOTAL POSITIONS** | 42 |
| **LONG POSITIONS** | 38 |
| **SHORT POSITIONS** | 4 |

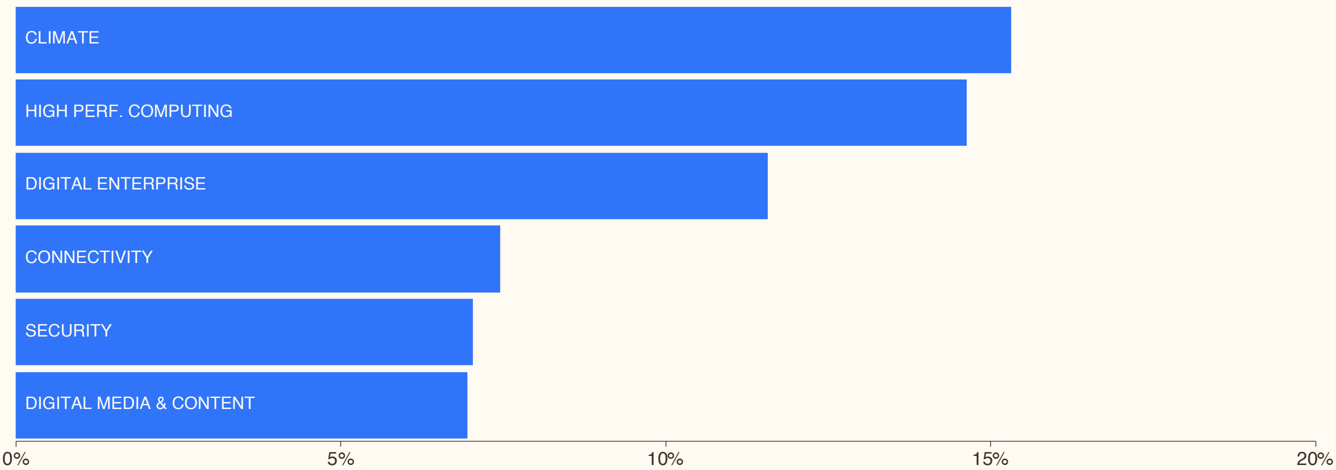
## Region

| CURRENCY REGION | GROSS EXP | NET EXP | CURRENCY EXP |
|---|---|---|---|
| **AUSTRALIA (AUD)** | 0.0% | 0.0% | 50.5% |
| **UNITED STATES (USD)** | 78.1% | 77.6% | 49.5% |
| **EUROPE (EUR)** | 10.5% | 7.9% | 0.0% |
| FRANCE | 4.1% | 1.5% | |
| NETHERLANDS | 3.9% | 3.9% | |
| GERMANY | 2.6% | 2.6% | |
| TAIWAN (TWD) | 3.8% | 3.8% | 0.0% |
| **SOUTH KOREA (KRW)** | 1.6% | 1.6% | 0.0% |
| **DENMARK (DKK)** | 1.2% | 1.2% | 0.0% |
| **UNITED KINGDOM (GBP)** | 1.7% | 1.7% | 0.0% |
| **SWEDEN (SEK)** | 0.4% | -0.4% | 0.0% |
| **TOTAL** | 97.4% | 93.5% | 100.0% |
| **DELTA ADJUSTED EXPOSURE** | 101.9% | 89.0% | |

## Holdings

| TOP 10 HOLDINGS | |
|---|---|
| **NVIDIA** | 6.4% |
| **CONSTELLATION ENERGY** | 6.1% |
| **MICROSOFT** | 6.0% |
| **AMAZON** | 6.0% |
| **ASML** | 3.9% |
| **TSMC** | 3.8% |
| **GE VERNOVA** | 3.6% |
| **SERVICENOW** | 3.4% |
| **CRH** | 3.3% |
| **MASTERCARD** | 3.0% |

## Top 6 Areas of Interest (AOI)



## Net Performance - MGGF

| | 3MTHS | 6MTHS | 1YR | 3YRS (P.A.) | 5YRS (P.A) | 7YRS (P.A.) | INCEPT (P.A.) | INCEPT CUM. |
|---|---|---|---|---|---|---|---|---|
| **MUNRO GLOBAL GROWTH FUND (AUD)** | -1.7% | 3.4% | 35.8% | 6.1% | 13.9% | 12.0% | 12.8% | 166.6% |

INCEPTION: 1 AUGUST 2016

| | JUL | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2017FY** | | 1.2% | 1.1% | -3.3% | 2.2% | 0.9% | 1.9% | 0.0% | 2.1% | 3.5% | 4.2% | -1.3% | 12.9% |
| **2018FY** | 1.9% | 3.2% | 1.7% | 6.7% | 1.1% | -2.5% | 6.0% | 0.1% | -2.5% | 0.0% | 2.8% | 1.1% | 21.0% |
| **2019FY** | -0.4% | 5.1% | 0.9% | -5.4% | -3.1% | -1.4% | 2.1% | 3.1% | 1.2% | 3.3% | -4.1% | 2.4% | 3.1% |
| **2020FY** | 0.9% | -0.6% | -1.4% | -0.3% | 4.6% | 0.7% | 5.6% | 0.6% | 1.3% | 4.1% | 3.9% | 2.1% | 23.6% |
| **2021FY** | 6.1% | 4.7% | -0.8% | 2.2% | 2.7% | 2.2% | 1.5% | 0.9% | -1.4% | 2.7% | -3.5% | 4.9% | 24.2% |
| **2022FY** | 3.9% | 3.8% | -4.2% | 2.0% | 2.7% | -1.7% | -8.3% | -3.2% | -1.1% | -4.7% | -2.1% | -1.2% | -13.9% |
| **2023FY** | 3.3% | -1.9% | 1.3% | 0.9% | 1.1% | -5.1% | -0.3% | -2.1% | 4.6% | 0.8% | 4.6% | 1.6% | 8.7% |
| **2024FY** | 0.6% | 1.4% | -4.9% | 0.2% | 6.8% | 2.2% | 6.1% | 11.0% | 2.1% | -4.0% | 5.8% | 3.5% | 34.0% |
| **2025FY** | -2.5% | -0.7% | 1.5% | | | | | | | | | | -1.7% |

## Net Performance - MAET.ASX

| | 3MTHS | 6MTHS | 1YR | 3YRS (P.A.) | INCEPT (P.A.) | INCEPT CUM. |
|---|---|---|---|---|---|---|
| **MAET.ASX (AUD)** | -1.6% | 3.4% | 35.8% | 6.1% | 8.4% | 37.3% |

INCEPTION: 2 NOVEMBER 2020

| | JUL | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2021FY** | | | | | 3.4% | 2.2% | 1.6% | 1.0% | -1.5% | 2.8% | -3.6% | 5.1% | 11.2% |
| **2022FY** | 4.1% | 3.8% | -4.1% | 2.0% | 2.7% | -1.7% | -8.3% | -3.2% | -1.1% | -4.7% | -2.1% | -1.2% | -13.7% |
| **2023FY** | 3.3% | -1.9% | 1.3% | 0.9% | 1.1% | -5.1% | -0.3% | -2.2% | 4.6% | 0.8% | 4.6% | 1.6% | 8.6% |
| **2024FY** | 0.6% | 1.4% | -4.9% | 0.2% | 6.7% | 2.2% | 6.1% | 11.0% | 2.1% | -4.0% | 5.7% | 3.5% | 34.0% |
| **2025FY** | -2.4% | -0.6% | 1.4% | | | | | | | | | | -1.6% |

Differences in performance between the Munro Global Growth Fund and MAET.ASX (ASX quoted fund) may be due to cashflow movements, the buy/sell spread of the iNAV for MAET.ASX, the timing difference between the issuing of units during the day on the ASX for MAET.ASX and the purchase of units in the Munro Global Growth Fund at the end of the day. This may result in variances in performance.