MUNRO PARTNERS

MUNRO GLOBAL GROWTH FUND
JULY 2018

MONTHLY PERFORMANCE BY FINANCIAL YEAR [1]

	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	TOTAL RETURN
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%	3.3%	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%												**-0.4%**

MONTHLY SUMMARY

The Munro Global Growth Fund returned -0.4% for July, comprising a return of -0.2% from equities and -0.2% from currency. The MSCI AC World Index (AUD) returned 2.4% (+3.0% from equities and -0.6% from currency).

Global equity markets were generally positive during July, with the US S&P (+3.6%), the Stoxx 600 (+3.1%) and the Japanese Nikkei (+1.1%) all finishing in positive territory. China continued to struggle as a result of trade concerns, with the Hong Kong HSI closing down 1.3% and the China Enterprises Index closing down 0.4%. Towards the end of the month, there was a significant market rotation out of growth stocks into value stocks, largely due to relative positioning and the contagion of the poor Facebook results.

On a stock level, Microsoft, Alphabet and Amazon all posted very strong second quarter results, with all three companies commenting on the strength of their cloud businesses (see page 2). Facebook was the key detractor for the Fund (see page 2) where management significantly downgraded revenue and profitability guidance. Netflix also gave back a small portion of its significant year to date gains after subscriber growth numbers were slightly below market expectations. On currencies, given the Fund's 37% holding in USD, the small appreciation in the AUD resulted in 22bps of losses. By comparison, the fully unhedged index lost 59bps.

MONTHLY OUTLOOK

Regular readers of our monthly reports will now be getting used to us calling out growth / value rotations. These occur when the valuation and performance differential between so called 'Growth' stocks and so called 'Value' stocks widen such that investors are incentivised to rapidly shift sides over a short time frame to essentially lock in their relative returns versus the broader equity index. In this case the trigger was the poor Facebook results, but the valuation differentials had been building for some time as the Trump trade war had been depressing industrials and banks versus the technology sector. As an absolute return investor, we see little incentive to sell the stocks we like in favour of those we don't like to help us avoid short term underperformance, and as such try to enter these events with ample cash to minimise losses. Consequently, we remain cautious with our net exposure given many of our companies delivered strong results that were not necessarily rewarded with strong share price performance. While we understand the daily news flow is a little disconcerting, we would highlight that corporate results have remained strong to-date and equity markets can only de-rate for so long before earnings re-assert themselves. Barring a calamity in China or significantly higher inflation, we remain constructive on equity markets over the medium-term.

FUND SUMMARY

KEY NUMBERS	
UNIT PRICE	$1.2827
EXIT PRICE	$1.2808
ENTRY PRICE	$1.2846
FUM	$258.5m
APIR	MUA0002AU

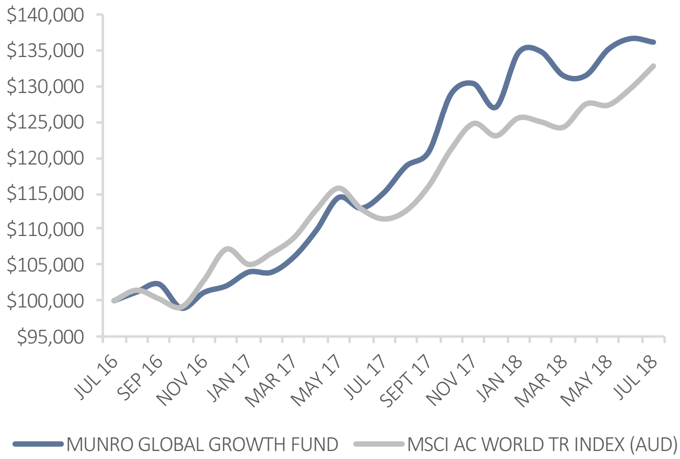
KEY FACTS	
NUMBER OF STOCKS	30-50 POSITIONS
CASH WEIGHTING	0-100%
CURRENCY HEDGING	0-100%
MANAGEMENT COSTS	1.35% P.A.
PERFORMANCE FEE	10.00%

TOP 5 HOLDINGS

STOCK	COUNTRY	INDUSTRY	WEIGHT
AMAZON	US	CONSUMER DISC.	4.9%
BLUE PRISM	UK	INFO TECH.	4.3%
MICROSOFT	US	INFO TECH.	4.1%
ASML	NE	INFO TECH.	4.1%
ALPHABET	US	INFO TECH.	3.9%

HISTORICAL PERFORMANCE [1]

GROWTH OF $100,000



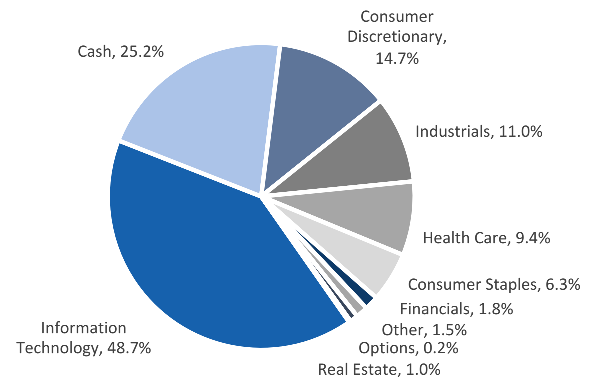
PERFORMANCE SUMMARY AS AT 31 JULY 2018 [1]

	1MTH	3MTHS	6MTHS	1YR	2YRS	INCEPTION (P.A.)	INCEPTION CUMULATIVE
MUNRO GLOBAL GROWTH FUND (AUD)	**-0.4%**	**3.5%**	**1.1%**	**18.3%**	**16.7%**	**16.7%**	**36.1%**
MSCI AC WORLD TR INDEX (AUD)	2.4%	4.2%	5.8%	19.2%	15.3%	15.3%	32.8%
OVER / UNDER PERFORMANCE	**-2.8%**	**-0.6%**	**-4.7%**	**-0.9%**	**1.4%**	**1.4%**	**3.3%**

1. Past performance is provided for illustrative purposes only and is not a guide to future performance
Inception date is 1 August 2016. Returns of the Munro Global Growth Fund are net of management costs and assumes distributions have been reinvested
The MSCI AC World TR Index (AUD) refers to the MSCI All Country World Net Index in Australian dollars

The Munro Global Growth Fund is an absolute return international equities fund with a core focus on growth equities. The Fund is index-unaware, aiming for meaningful absolute returns through the investment cycle, whilst maintaining a capital preservation mindset. The Fund's flexible mandate allows it to dynamically manage its market exposure and predominantly hedges currency exposure to protect clients capital and to enhance the long term returns of our investments.

GROSS PORTFOLIO SECTOR EXPOSURE & CASH



NOTABLE STOCK CONTRIBUTORS

TOP 5 CONTRIBUTORS		BOTTOM 5 CONTRIBUTORS	
ALPHABET	US	FACEBOOK	US
MICROSOFT	US	NETFLIX	US
ASML	NE	TENCENT	HK
AMAZON	US	MELCO RESORTS	US
BOEING	US	ACTIVISION BLIZZARD	US

FUND EXPOSURE

CURRENCY REGION	GROSS EXPOSURE	NET EXPOSURE	CURRENCY EXPOSURE
AUSTRALIA	0.7%	0.7%	56.9%
NORTH AMERICA	70.6%	58.5%	37.7%
UNITED KINGDOM	4.3%	4.3%	1.1%
EURO AREA	10.9%	6.9%	3.3%
IRELAND	1.3%	1.3%	
FRANCE	3.5%	0.4%	
ITALY	1.5%	1.5%	
NETHERLANDS	4.1%	4.1%	
BELGIUM	0.5%	-0.5%	
SINGAPORE	0.8%	-0.8%	-0.1%
SWEDEN	1.5%	1.5%	0.6%
HONG KONG/CHINA	4.5%	4.5%	0.0%
JAPAN	1.0%	-1.0%	0.5%
EXPOSURE	**94.4%**	**74.6%**	**100.0%**
DELTA ADJ. EXPOSURE	101.4%	67.6%	

FACEBOOK

Facebook detracted 54bps from monthly performance as the company reported in-line Q2 results, but reset forward guidance which ultimately resulted in a 20% fall for the shares. Facebook CFO, David Wehner, guided analysts to expect revenue growth rates to decline by high-single digit percentages from prior quarters sequentially in both Q3 and Q4, implying revenue growth will slow from over 40% in Q2 to just over 20% by the time the company exits Q4.

This was a major growth reset versus analyst and our own expectations. This reset has led some to speculate that management was attempting to be conservative and talk down their own prospects, while others have suggested the current changes to the newsfeed have caused some short term slowing of ad growth. In our view, we always felt there was an eventual limit to how much Facebook could monetise its platforms without affecting engagement and it now appears this limit has been reached. Looking ahead, this doesn't mean Facebook is a bad investment. The forward multiple of just 21 times 2019 earnings already implies the market expects some significant slowing of its recent growth rates. However, it is no longer as attractive as some of the growth rates we see in Software as a Service (SaaS) companies Salesforce.com and ServiceNow or subscription streaming companies such as Netflix and Spotify, where the relationship with the consumer is less clouded by issues of privacy and data collection. Consequently, we expect to de-emphasise our holding in Facebook in favour of other names over the coming weeks.

CLOUD KINGS - AMAZON, MICROSOFT, ALPHABET

Amazon, Microsoft and Alphabet collectively added 96bps to monthly performance as Q2 results highlighted an accelerating shift to these company's cloud computing offerings, away from legacy IT such as physical servers, hardware and services.

Cloud Computing is opening a new paradigm of growth for these Big Tech titans. Amazon with Amazon Web Services (AWS) is the market leader and has the largest scale, strong reliability and a growing feature set. Results for 2Q highlighted the operating leverage in the AWS model, with Operating Profit surging 84% on net sales growth of 49%. AWS now represents more than one-third of the Group's Operating Income. Microsoft, the number two player with Azure, is building out a compelling enterprise cloud business, with Dynamics 365 and Office 365 built into the Azure platform. Azure's revenue growth for the quarter was a staggering +89% year-on-year. Alphabet's Google Cloud Platform is emerging as a strong number 3 player, with strength in Machine Learning. Recent wins at Target, PWC and Domino's shows they are making good progress.

Looking ahead we expect these high growth rates should persist for some time, as Public Cloud remains a nascent industry with spending at just 6% of the Total IT Industry Spend, creating a long runway of growth for an industry dominated by just these three players.