MUNRO PARTNERS

MUNRO GLOBAL GROWTH FUND
SEPTEMBER 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%	5.1%	0.9%										**5.6%**

MONTHLY SUMMARY

The Munro Global Growth Fund returned +0.9% for the month of September, comprising a return of +1.1% from equities and -0.2% from currency. The MSCI AC World Index (AUD) meanwhile returned +0.4% (+0.5% from equities and -0.1% from currency). Global equity markets were largely positive for the month of September, with gains in the US S&P 500 up 0.6%, the European STOXX index up 0.3% and Japanese TOPIX a standout +6.1%; whilst Emerging Markets were down -0.5%. The global economic expansion remained intact this month, with reasonable economic data coming out of the US and Japan outweighing trade war rhetoric, to which markets have become somewhat accustomed.

From a stock perspective, the best performers were Activision Blizzard, the US-listed video game publisher (see page 2); Blue Prism, the Robotic Process Automation (RPA) company; and Boeing, the US aircraft manufacturer (see page 2). The detractors included semi-conductor equipment maker ASML and the US-listed infrastructure software provider Nutanix. On currencies, the Fund maintains exposure to the USD, with a 48% holding. Given the AUD appreciated versus the USD during June, this resulted in a 23bps loss for the Fund. By comparison, the fully unhedged index lost 13bps, with losses on the USD offset by gains on the Euro, Yen and GBP.

MONTHLY OUTLOOK

We continue to believe US equity markets can grind higher supported by strong corporate earnings growth, however this requires a normalisation of interest rates without materially slowing the US economy. We are mindful of some recent signs of an increase in wage inflation, however there remains strong structural disinflationary forces, such as technological advancement.

We see investor positioning as generally cautious and we note that while the US S&P500 has had a solid 11% move YTD, stocks have de-rated on a PE basis from 18.7x in January to 17x today (i.e. earnings growth, not PE expansion has fuelled the rally). We are increasingly being asked about the growing performance discrepancy between the US market and the rest of the world (Europe +1.6% and Hong Kong -4.1% YTD). While it is tempting to conclude that companies in these regions may therefore be more attractive on a go forward basis, we note that it continues to be the US corporates that are driving the strongest earnings growth, and since stocks ultimately follow earnings, the performance dispersion is warranted. Aside from interest rates and inflation, risks to our moderately bullish thesis are: trade tensions (and subsequent economic growth risks); emerging markets weakness (contagion from Turkey, Argentina); and politics (any negatives coming out of the upcoming US mid-term elections). However, for now at least these issues seem to be contained.

FUND SUMMARY

KEY NUMBERS	
UNIT PRICE	$1.3598
EXIT PRICE	$1.3578
ENTRY PRICE	$1.3618
FUM	$308.1m
APIR	MUA0002AU

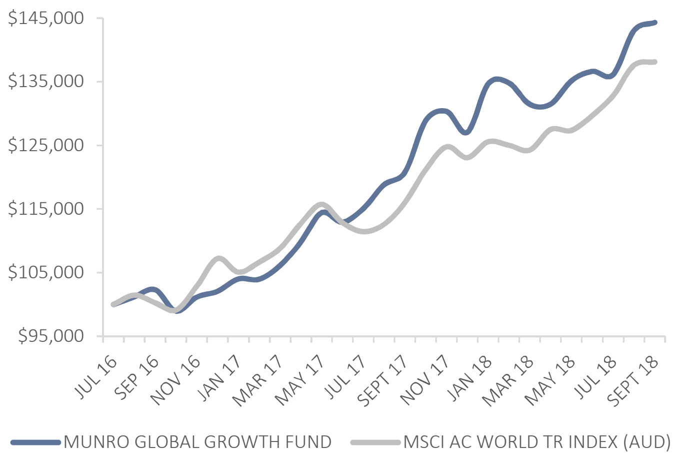
KEY FACTS	
NUMBER OF STOCKS	30-50 POSITIONS
CASH WEIGHTING	0-100%
CURRENCY HEDGING	0-100%
MANAGEMENT COSTS	1.35% P.A.
PERFORMANCE FEE	10.00%

TOP 5 HOLDINGS

STOCK	COUNTRY	INDUSTRY	WEIGHT
AMAZON	US	CONSUMER DISC.	5.1%
BLUE PRISM	UK	INFO TECH.	4.9%
MICROSOFT	US	INFO TECH.	4.5%
ASML	NE	INFO TECH.	4.4%
ACTIVISION BLIZZ.	US	INFO TECH.	4.2%

HISTORICAL PERFORMANCE [1]

GROWTH OF $100,000



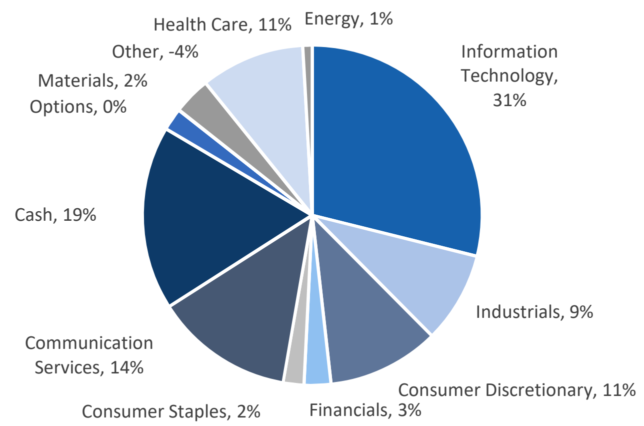
PERFORMANCE SUMMARY AS AT 30 SEPTEMBER 2018 [1]

	1MTH	3MTHS	6MTHS	1YR	2YRS	INCEPTION (P.A.)	INCEPTION CUMULATIVE
MUNRO GLOBAL GROWTH FUND (AUD)	**0.9%**	**5.6%**	**9.8%**	**19.5%**	**18.8%**	**18.5%**	**44.3%**
MSCI AC WORLD TR INDEX (AUD)	0.4%	6.5%	11.1%	19.0%	17.4%	16.1%	38.1%
OVER / UNDER PERFORMANCE	**0.5%**	**-0.9%**	**-1.3%**	**0.4%**	**1.4%**	**2.4%**	**6.2%**

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.

NET PORTFOLIO SECTOR EXPOSURE & CASH



NOTABLE STOCK CONTRIBUTORS

TOP 5 CONTRIBUTORS		BOTTOM 5 CONTRIBUTORS	
ACTIVISION BLIZZARD	US	ASML	NE
NIO	US	NUTANIX	US
BLUE PRISM	UK	ALIBABA	US
LOCKHEED MARTIN	US	THOR	US
BOEING	US	TREASURY WINE	AU

FUND EXPOSURE

CURRENCY REGION	GROSS EXPOSURE	NET EXPOSURE	CURRENCY EXPOSURE
AUSTRALIA	1.3%	1.3%	46.8%
NORTH AMERICA	72.0%	64.4%	47.6%
UNITED KINGDOM	4.9%	4.9%	2.2%
EURO AREA	13.7%	5.5%	2.5%
IRELAND	1.9%	1.9%	
FRANCE	2.5%	-0.3%	
ITALY	2.2%	2.2%	
GERMANY	1.6%	-1.4%	
NETHERLANDS	4.4%	4.4%	
BELGIUM	1.2%	-1.2%	
HONG KONG/CHINA	2.7%	2.7%	-0.3%
SWEDEN	1.9%	1.9%	0.5%
JAPAN	2.7%	0.4%	0.7%
EXPOSURE	**99.2%**	**81.1%**	**100.0%**
DELTA ADJ. EXPOSURE	100.5%	79.8%	

ACTIVISION BLIZZARD

Activision Blizzard added 58 bps to monthly performance as expectations around their upcoming holiday games slate continue to build. Readers with children under the age of 15 will no doubt be familiar with the 'Fortnite' epidemic that has captured the hearts, minds and most importantly pocket money of children around the world in 2018. For those not familiar with these games, 'Battle Royale' format video games have taken significant share in recent times and bought a whole new cohort of players attracted to the interactive nature of the games and the thrill of playing against other players around the world, as opposed to the traditional CPU. Activision Blizzard looks set to benefit as this year they have adapted their leading Call of Duty (COD) franchise to include a 'Battle Royale' mode and initial reviews of the offering have been very strong, with COD expected to take significant share when it is finally released at the end of October. This is significant because COD is a $1bn dollar per annum franchise for Activision and a positive COD release will ensure not just strong game sales in 2018 but years of in-game monetisation post release. The interactive nature of video games today means they survive longer, driven by updates, communities and eventually e-Sports, however this also means in the long run less video game titles are successful. Hence the successful games are worth more than was previously considered possible and it appears that Activision has now breathed new life into the COD franchise for years to come.

BOEING

Boeing shares moved higher in September adding 21bps to Fund performance. Boeing's share price has largely stagnated since US-China trade issues first arose in January / February as the company was cited as being a likely target of any potential Chinese retaliation from Trump's stance on trade (China makes up around 20% of Boeing's order book). While recognising that the stock would be noisy while the dispute raged on, we felt that the market narrative around trade would fatigue and earnings growth would take over as the driver of the stock price and that's ultimately what has begun to happen in September.

Boeing's earnings growth is underpinned by strong structural growth tailwinds in commercial aviation (passenger growth, stronger airline profitability) and the company is part of a strong duopoly that will not be broken for at least another decade. Furthermore, airline travel is a key component of China's own growth plans and shifting orders to Airbus is not feasible with both suppliers having 8-year production backlogs, and Airbus itself having some production delays. While trading on a PE of around 21x NTM earnings is not optically cheap, it is not unreasonable for a company that has a half trillion-dollar order backlog, that should support a high single digit sales growth p.a. and mid-teen EPS growth p.a. over the next 3 years. Furthermore, Boeing is very lightly geared and along with Airbus has been prudent in expanding production, which should mean it is better supported should a recession hit.