MUNRO PARTNERS

MUNRO GLOBAL GROWTH FUND
JANUARY 2019

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%	-5.4%	-3.1%	-1.4%	2.1%						**-2.6%**

MONTHLY SUMMARY

The Munro Global Growth Fund returned +2.1% for the month of January, comprising a return of +3.5% from equities and -1.3% from currency. The MSCI AC World Index (AUD) meanwhile returned +4.2% for the month (+7.2% from equities and -3.1% from currency).

Global equity markets rebounded strongly following the previously weak month of December. The key event for the month was the "Powell Put". Federal Reserve Chairman Jerome Powell announced on January 4th that they would be patient which was taken as code for a pause in rate hikes. This led to a strong relief rally in stock markets that continued as Powell again reinforced his dovish pivot at the official Fed meeting later in the month.

On a stock-specific basis, several of the Fund's holdings saw strong earnings upgrades, with share prices appreciating significantly. Positive performance for the Fund was driven by ServiceNow which reported strong quarterly results (see page 2); Stryker Corp and Boeing. On the negative side, the Fund gave back some of its Q4 gains on option hedging and short positions which were a considerable drag on relative performance (see page 2). On currencies, the Fund remains predominately hedged with a 40% holding in foreign currencies, mainly in USD. The USD weakened for the month this resulted in a 134 bps loss for the Fund from foreign exchange movements. By comparison, the fully unhedged index lost 305 bps from currencies.

MONTHLY OUTLOOK

In the December monthly report, we flagged the Fund's higher cash weighting of roughly 50% over calendar Q4 2018. We wrote that to deploy some of that large cash balance we would need to see "a material and lasting walk back from the Federal Reserve or Donald Trump to allow the market to look through the ensuing earnings decline" and this is indeed what occurred. The Federal reserve's about face from December (proposing two rate hikes in 2019) to January (a meaningful pause, with balance sheet flexibility) is both a stunning and a material development for markets. This Fed, like its predecessors, have had their fair share of communication issues, but ultimately have come down on the side of lower interest rates for longer. This favours equities; as despite a weakening macro many stocks can still grow or maintain earnings and the relative valuation of equities versus bonds has improved dramatically. While the road ahead is undoubtably bumpy as trade issues, Brexit and government shutdowns will continue to create volatility, we think equities can now climb the wall of worry in the medium term. The Fund has consequently added exposure and sits above 60% net exposure and 70% gross exposure, with scope to add to leading companies tied to structural growth tailwinds across technology, communications, healthcare, payments and premiumisation trends, which have become less crowded with the general market exodus.

FUND SUMMARY

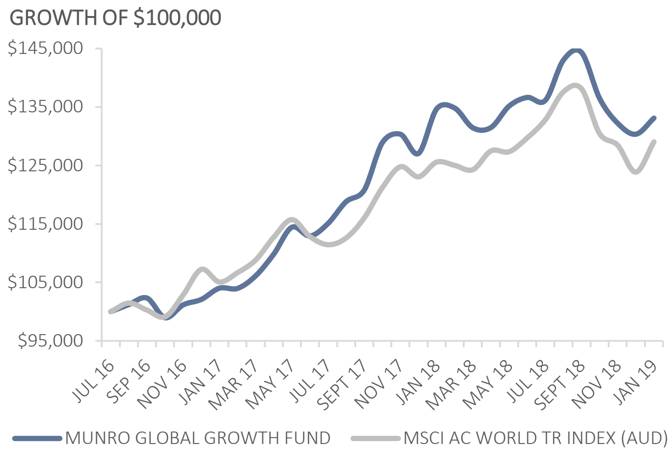
KEY NUMBERS	
UNIT PRICE	$1.2542
EXIT PRICE	$1.2523
ENTRY PRICE	$1.2561
FUND FUM	$324.5m
STRATEGY FUM	$421.8m
APIR	MUA0002AU

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%
ALPHABET	US	COMM. SERVICES	5.0%
MICROSOFT	US	INFO TECH.	4.3%
CISCO SYSTEMS	US	INFO TECH.	3.4%
ADOBE	US	INFO TECH.	2.7%

HISTORICAL PERFORMANCE [1]



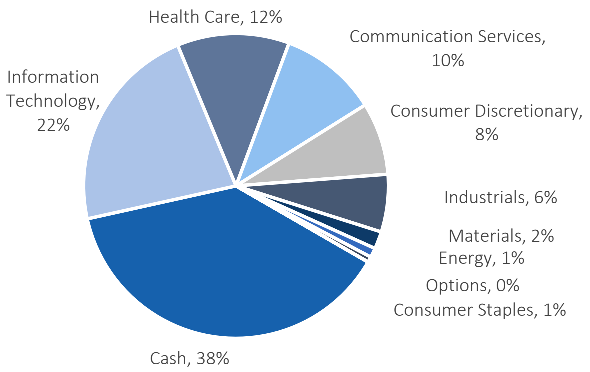
PERFORMANCE SUMMARY AS AT 31 JANUARY 2019 [1]

	1MTH	3MTHS	6MTHS	1YR	2YRS	INCEPTION (P.A.)	INCEPTION CUMULATIVE
MUNRO GLOBAL GROWTH FUND (AUD)	**2.1%**	**-2.5%**	**-2.2%**	**-1.2%**	**13.1%**	**12.1%**	**33.1%**
MSCI AC WORLD TR INDEX (AUD)	4.2%	-1.1%	-2.9%	2.8%	10.8%	10.7%	29.0%
OVER / UNDER PERFORMANCE	**-2.1%**	**-1.4%**	**0.7%**	**-3.9%**	**2.3%**	**1.4%**	**4.1%**

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, while maintaining a capital preservation mindset. The Fund's flexible mandate allows it to dynamically manage its market exposure and 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	
AMAZON	US	VAT GROUP	SW
BLUE PRISM	UK	INFINEON	GE
SERVICENOW	US	NEXT	UK
BOEING	US	SMC	JP
ALPHABET	US	SILTRONIC	GE

FUND EXPOSURE

CURRENCY REGION	GROSS EXPOSURE	NET EXPOSURE	CURRENCY EXPOSURE
AUSTRALIA	0.0%	0.0%	59.4%
NORTH AMERICA	55.7%	52.2%	39.8%
UNITED KINGDOM	4.0%	3.0%	0.3%
EURO AREA	7.1%	4.1%	-0.1%
FRANCE	4.3%	4.3%	
GERMANY	1.5%	-1.5%	
SPAIN	1.2%	1.2%	
SWITZERLAND	0.6%	-0.6%	-0.1%
SWEDEN	1.4%	1.4%	0.4%
JAPAN	1.3%	-1.3%	0.5%
HONG KONG/CHINA	2.9%	2.9%	-0.2%
EXPOSURE	**72.8%**	**61.8%**	**100.0%**
DELTA ADJ. EXPOSURE	73.7%	60.9%	

SERVICENOW

US Software as a Service (SaaS) player ServiceNow was a strong contributor to Fund performance for the month (+42bps) after reporting strong billings growth in 2018. The company also provided robust guidance of +31% billings growth for 2019, which was substantially higher than consensus expectations. The market had not been positioned for such high growth rates and were fearful that a tough macroeconomic environment would impact the growth of software companies. There were also fears that the US government shutdown would see deal slippages that would impact the company's results and guidance. These fears were allayed by the strong results, with the "digital transformation" story, or 'Digital Enterprise' Area of Interest thesis still very much intact. CEO, John Donahoe, commented at the earnings results presentation that digital transformation is not a business buzzword, "it's actually a core strategic reality, in fact, survival in some companies".

ServiceNow provides enterprise software for IT support, known as IT Software Management (ITSM). The company is using a well-known SaaS strategy of "land and expand", whereby they land in the IT department, and as device agnostic web-based software, can expand easily across different departments across the organisation. This further entrenching itself with clients and the network effects are kicking in, highly visible revenues and cash flows are reinvested into further product enhancements, leading to higher uptake of new products and so forth. This flywheel is accelerating for ServiceNow despite the macro environment, which highlights the productivity and cost improvements their products are adding to corporations all over the world.

OPTION HEDGING

The Fund lost 67bps from option hedging and 85bps on short positions over month of January. Despite locking in considerable gains though the 4th quarter, we chose to maintain some downside option protection through the early part of January to protect the Fund against any further downside volatility in global equity markets. Consequently, what helped hedge our portfolio in December proved a drag on performance in January, but it was insurance we were happy to own through what was a particularly volatile period for global equities.

Similarly, on the short side, despite locking in considerable gains through the 4th quarter, shorts were difficult in January as a rising tide lifted all boats. Our short positions in the Apparel sector and Auto sector did relatively well versus a rising market, but our shorts in Semiconductors were more problematic as investors looked to buy what were very weak results in anticipation of an upturn turn in 2nd half.

While we still struggle to see earnings in the sector improving in the short run, we accept that most of the easy gains in this area have probably been made, with the valuations now at a point where just getting the earnings call right may not be enough to ensure further downside.