

# MUNRO GLOBAL GROWTH FUND

## ABSOLUTE RETURNS

### DECEMBER 2019 QUARTERLY UPDATE

#### QUARTERLY HIGHLIGHTS

- Munro Global Growth Fund delivered strong performance for the December quarter, +5.0%, driven by buoyant equity markets but somewhat offset by a strengthening AUD.
- Net equity exposure was increased to over 90% to allow the Fund to benefit from the positive market backdrop. Performance was driven by Alibaba post its Hong Kong listing and High Performance Computing names in ASML and TSMC (page 3).
- Looking ahead we expect a strong start to the year for equity markets as growth re-accelerates and central banks are likely to keep interest rates low. As the year progresses, the US Presidential election in November looks to be the most obvious source of market volatility (page 2).

QUARTER#	5.0%
----------	------

SINCE INCEPTION (P.A.)#	11.8%
-------------------------	-------

#### 2020 MARKET OUTLOOK VIDEO



In this six minute video, Munro Partners' Chief Investment Officer, Nick Griffin, shares his thoughts on the following:

1. The year that was 2019
2. Market outlook 2020
3. Two new Areas of Interest
  - High Performance Computing
  - Climate

The video can be viewed on YouTube, via the play button on the left, [click here](#) or via our website: [www.munropartners.com.au](http://www.munropartners.com.au).

#### FUND FEATURES

GLOBAL GROWTH EQUITIES  
ABSOLUTE RETURNS  
30-50 POSITIONS  
CAPITAL PRESERVATION MINDSET  
\$378M FUND FUM  
\$1,014M STRATEGY FUM

#### CONTENTS

FUND AND MARKET UPDATE	PAGE 2
STOCK STORIES	PAGE 3
KEY STATISTICS	PAGE 4

**IMPORTANT INFORMATION:** #As at 31 December 2019. 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. BPS refers to Basis Points. AOlS refers to Areas of Interest. GSFM Responsible Entity Services Limited ABN 48 129 256 104 AFSL 321517 (GRES) is the responsible entity of the Munro Global Growth Fund ARSN 612 854 547 (Fund) APIR MUA0002AU and is the issuer of this information. This information has been prepared without taking account of the objectives, financial situation or needs of individuals. Before making an investment decision in relation to the Fund, investors should consider the appropriateness of this information, having regard to their own objectives, financial situation and needs and read and consider the product disclosure statement for the Fund dated 25 March 2019 (PDS) which may be obtained from [www.gsfm.com.au](http://www.gsfm.com.au), [www.munropartners.com.au](http://www.munropartners.com.au) or by calling 1300 133 451. None of GRES, Munro Partners, its related bodies or associates nor any other person guarantees the repayment of capital or the performance of the Fund or any particular returns from the Fund. No representation or warranty is made concerning the accuracy of any data contained in this document. The Fund's holdings, exposure and allocations depict end of quarter figures and may have changed materially or not disclosed due to confidentiality reasons. Numbers may not sum due to rounding or compounding returns. This document was issued on 13 January 2020.



# MUNRO GLOBAL GROWTH FUND

## ABSOLUTE RETURNS

### DECEMBER 2019 QUARTERLY UPDATE

#### FUND COMMENTARY

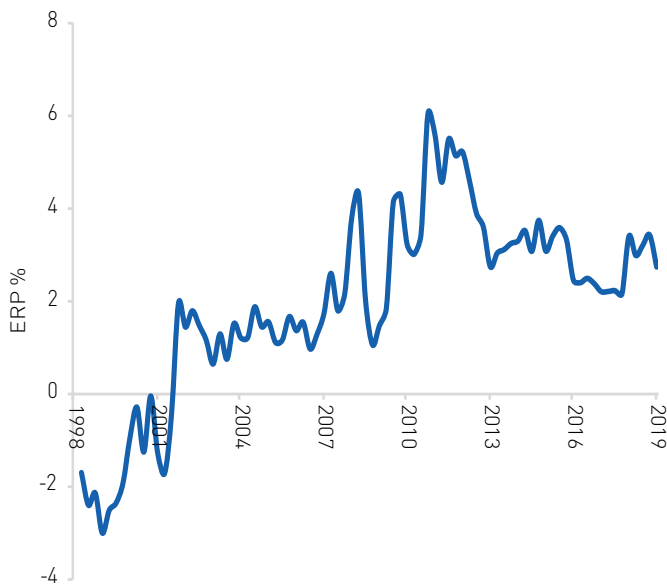
Equity markets globally were higher over the quarter as the US-China Phase One trade deal was finally agreed and the UK election resulted in a resounding win to Boris Johnson's Conservative Party. Furthermore, the US Federal Reserve essentially gave a green light to add risk by telegraphing that it would allow inflation to run ahead of target before reversing its recent 'insurance cuts'.

Net market exposure was increased over the quarter to above 90% to allow the Fund to benefit from the positive backdrop. Exposure was lifted in several the Fund's key structural growth stocks which were initially left behind in the rally as the market first reached for lower valuation cyclical companies that are considered the larger direct beneficiaries of a macro improvement.

From a stock attribution perspective, positive contributions came from Alibaba and Microsoft, while High Performance Computing names ASML and TSMC were also strong. The largest detractors to performance were Boeing which continued to struggle post the 737 MAX grounding and has now been exited. Short positions in Takeaway.com and Harley-Davidson also detracted from overall performance.

On currencies, the Fund held roughly 50/50 in AUD/USD over the quarter, the weakening USD versus most currencies meant the Fund derived a 245bps loss from foreign currency compared to the MSCI index AUD's 320bps loss over the quarter.

#### LOW RATES SUPPORT EQUITY MARKETS



**EQUITY RISK PREMIUM (ERP) = 1/PE S&P 500 - US 10 YR**

Source: Bloomberg 31 December 2019

#### MARKET OUTLOOK

##### 2020 VISION



##### MUNRO PARTNERS MARKET OUTLOOK VIDEO

Looking back at 2019, the lesson for all investors is that interest rates matter. Despite weak growth, weak earnings and an ongoing trade war between the world's two major superpowers, equities managed to deliver a stellar year as the 'Powell Pivot' in early January underwrote equity market valuations. With a US / China 'Phase One' trade deal now inked, the US Federal Reserve is hoping to keep rates on hold for the entirety of 2020 and should that happen, we would expect another positive year ahead for equity markets.

Why? Because interest rates are extremely low. Low rates give investors very little opportunity to earn a return in safe asset classes, so we expect equity markets to be favoured through 2020 as investors look to improve overall portfolio returns. Central Banks looking to stimulate growth are likely to encourage this behaviour as a way of simulating wealth creation and hence economic activity. With inflation still too low, this could even leave room for central banks to target an 'inflation overshoot' as justification for low interest rate settings prolonging longer than what would normally be expected. Consequently, we see the first half of 2020 at least being a very benign environment for equity markets.

The major near-term risk to this outlook is economic growth and consequently earnings not recovering into 2020 as many now expect. Considering the recent trade deal and low nature of inventories globally we see this as unlikely, but this remains a near term possibility. As the year progresses, issues such as the return of inflation, 'Trade Wars' and eventually the US election will undoubtedly appear as a source of volatility. Of these, the US presidential election looks like the big one and the noise levels will begin to rise with the Democratic primaries running March through to July. Should Warren or Sanders prevail, this would create a large overhang for markets. Biden or Bloomberg versus Trump would be of significantly less concern for investors.



# MUNRO GLOBAL GROWTH FUND

## ABSOLUTE RETURNS

### DECEMBER 2019 QUARTERLY UPDATE

#### STOCK STORY - ALIBABA



AREA OF INTEREST:

E-COMMERCE

MARKET CAP:

US\$580B

Alibaba contributed 99bps (combined US & Hong Kong listings) to performance over the December quarter.

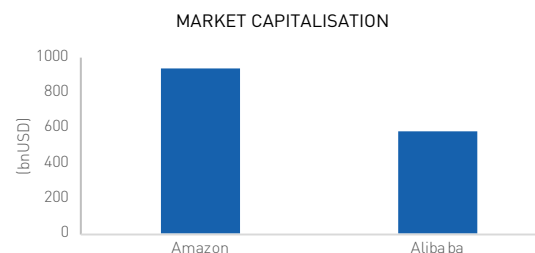
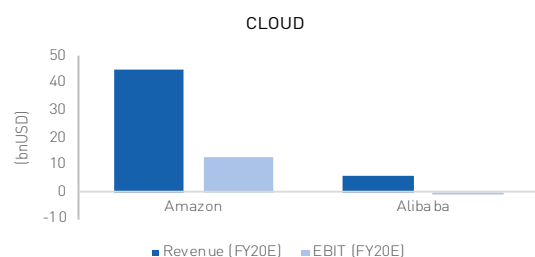
Alibaba has been a core holding in the fund for nearly two years. However, despite delivering revenue and earnings growth of 100% and 300% respectively over the last two years, its share price has remained stubbornly static, as its multiple compressed to take account of a range of issues. The most obvious have been the trade dispute between the US and China, concerns around its Variable Interest Entity (VIE) ownership structure and the exit of Yahoo as a large original shareholder.

In November, after several false starts, Alibaba finally listed on the Hong Kong stock exchange. We see this as a strong catalyst for the stock as ultimately, via stock connect arrangements with Shanghai, this will allow domestic Chinese nationals to own a piece of their Chinese National Champion.

In short, we view Alibaba as being like the Amazon of China; dominating the dual growth areas of E-Commerce and Cloud Computing.

Alibaba also has the tailwinds of a larger Gross Merchandise Value (GMV) market and being earlier in its penetration and profitability, particularly on the cloud side of the business. The Hong Kong listing simply removes much of the overhang that was depressing the stock's valuation.

During the quarter, the Fund took the opportunity of the new primary listing to double its holding in the company and is now in our top 5 holdings. We anticipate the valuation gap of Alibaba to peers continuing to close over the months ahead as stock connect arrangements with Shanghai are formalised.



#### STOCK STORY - TSMC



AREA OF INTEREST: HIGH PERFORMANCE COMPUTE

MARKET CAP:

US\$285B

Taiwan Semiconductor Manufacturing Corporation (TSMC) added 74 bps to performance in the December quarter. In previous monthly reports we have discussed the role of ASML and its EUV technology in helping extend Moore's Law and enabling shrink beyond the 10-nanometre node.

As the world's biggest semiconductor foundry, TSMC is the chief beneficiary of this new technology and hence is the 2nd key pillar in our High Performance Computing Area of Interest.

The cost of adopting EUV technology is prohibitively high for most semiconductor foundries and consequently, TSMC has extended its technology lead over its main competitors (e.g. Samsung, Intel and Global Foundries) by aggressively adopting the technology.

This has allowed them to attract more leading-edge business from fabless chip makers such as AMD, Nvidia and the Chinese players. These chip makers crave the leading-edge solutions as it allows them to sell into the global arms race that is occurring to adopt Artificial Intelligence, 5G and autonomous driving. This in turn facilitates an increasing share of the semiconductor market to TSMC, while also allowing them to earn higher margins as competition is reduced at the leading-edge nodes.

Finally, being Taiwan based, TSMC appears to be increasingly playing the role of Switzerland as the chief weapons manufacturer in the technology arms race that is occurring between China and the US. We see all these dynamics contributing to 20% EPS CAGR over the next 3 years; with the stock trading at 20 times forward earnings with a 4% dividend yield, and little in the way of competition on the horizon, this still looks underappreciated.

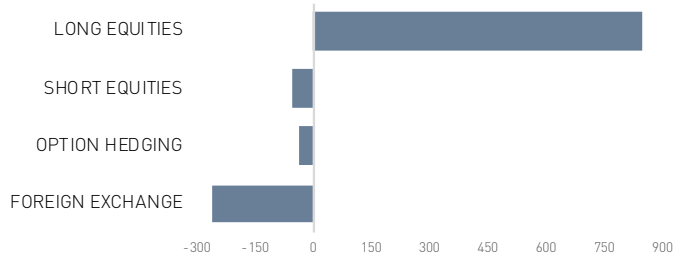


# MUNRO GLOBAL GROWTH FUND

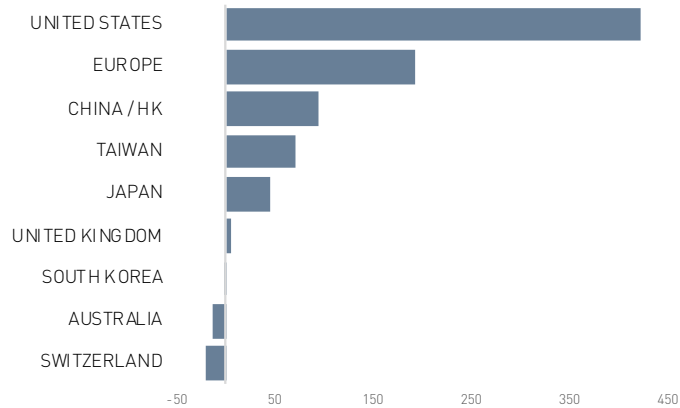
## ABSOLUTE RETURNS DECEMBER 2019 QUARTERLY UPDATE

### QUARTERLY FUND ATTRIBUTION

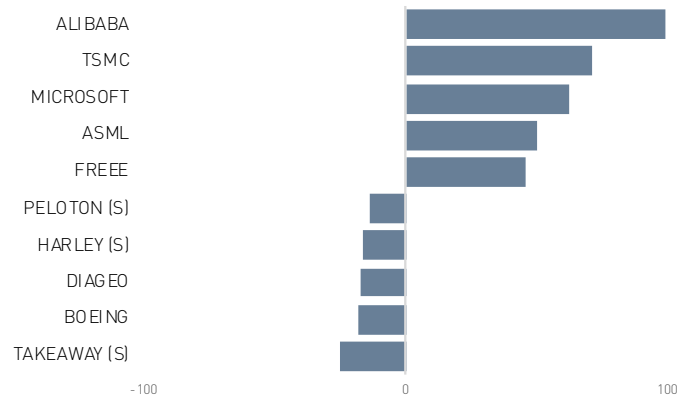
#### BY INVESTMENT CATEGORY



#### BY REGION



#### BY CONTRIBUTORS (TOP & BOTTOM)



### QUARTER END EXPOSURE

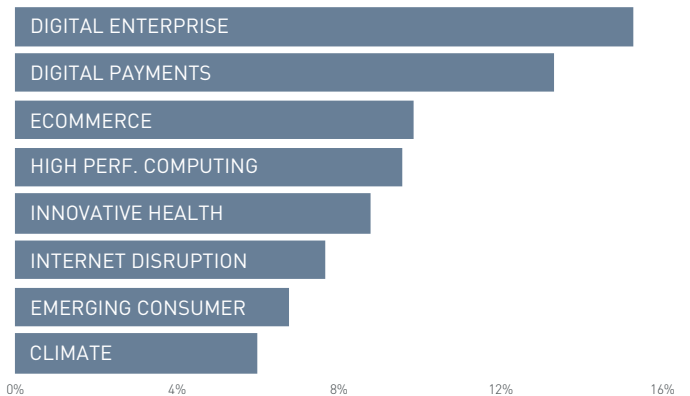
#### BY INVESTMENT CATEGORY

GROSS	108%	TOTAL POSITIONS	42
LONG	101%	LONG POSITIONS	36
SHORT	7%	SHORT POSITIONS	6
NET	94%		
DELTA ADJUSTED NET	97%		
CURRENCY HEDGE (AUD)	59%		

#### BY REGION

Region	GROSS	NET	CURR.
AUSTRALIA	0.0%	0.0%	58.8%
UNITED STATES	70.3%	65.4%	40.5%
UNITED KINGDOM	1.5%	1.5%	-0.1%
HONG KONG/CHINA	5.5%	5.5%	0.0%
EURO AREA	25.3%	22.3%	0.2%
FINLAND	1.5%	1.5%	
FRANCE	10.2%	7.2%	
GERMANY	2.4%	2.4%	
ITALY	2.3%	2.3%	
NETHERLANDS	3.8%	3.8%	
PORTUGAL	2.0%	2.0%	
SPAIN	2.9%	2.9%	
SWITZERLAND	1.4%	-1.4%	0.1%
JAPAN	3.6%	1.2%	0.5%
EXPOSURE	107.6%	94.4%	100.0%
DELTA ADJ. EXPOSURE	110.3%	97.1%	

#### BY AREAS OF INTEREST (AOI)



PERFORMANCE	3MTHS	6MTHS	1YR	2YRS (P.A.)	3YRS (P.A.)	INCEPTION (P.A.)	INCEPTION CUMULATIVE
MUNRO GLOBAL GROWTH FUND (AUD)	5.0%	3.9%	12.3%	7.3%	12.8%	11.8%	46.4%
MSCI AC WORLD TR INDEX (AUD)	4.5%	8.7%	26.8%	13.0%	13.6%	14.1%	57.0%

	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%	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%							3.9%

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.

