MUNRO PARTNERS

MUNRO GLOBAL GROWTH FUND
DECEMBER 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%	-5.4%	-3.1%	-1.4%							**-4.6%**

MONTHLY SUMMARY

The Munro Global Growth Fund returned -1.4% for the month of December, comprising a return of -2.7% from equities and +1.3% from currency. The MSCI AC World Index (AUD) meanwhile returned -3.6% for the month (-7.3% from equities and 3.7% from currency). For the calendar year, the Munro Global Growth Fund returned 2.6%, with +0.1% coming from equities and +2.5% from currency. The MSCI AC World Index (AUD) return for the calendar year was +0.6% (-7.7% from equities and +8.3% from currency).

It was a particularly negative month for global equity markets in local currencies, with the US S&P 500 down 9%, the Japanese TOPIX fell 10.3%, and the European STOXX index declined by 5.4%. The key events for the month were the reaction to the ongoing US-China Trade War tensions and the actions of the US Federal Reserve, where most participants were disappointed with the Fed choosing to maintain its tightening bias in December. On a stock-specific basis, there were few hiding places in what was a widespread sell-off in global equity markets. For the month, the best performers were all short positions, such as Yaskawa Electric, H&M, and VAT Group. Detractors for the month included Amazon, Blue Prism, and Microsoft. On currencies, the Fund remains predominately hedged with a 35% holding in foreign currencies mainly in USD.

MONTHLY OUTLOOK

The Fund continues to maintain a high cash weighting of roughly 50% as it has done since mid October. While our remaining long positions have suffered disproportionately versus the broader market, performance has been aided by short positions and put option protection through this volatile period. Looking ahead, we see some promising areas for earnings growth in 2019 (See page 2), however in the short term we remain somewhat cautious. Global economic data points including PMI surveys and recent corporate earnings releases (e.g. Apple, Fedex, BASF) have been coming in weaker, and we feel it is still too early to say this is completely ‘priced in’ with the S&P 500 at a PE of 14.4x and 7% earnings growth for FY19. In our experience, we generally need to see analyst EPS expectations officially lowered before the bottoming process concludes. Secondly, the market needs to see a path to earnings recovery and here the US Federal reserve will need to pause its interest rate hiking cycle. Currently, the Fed has indicated two more rate hikes for 2019, but we note that Fed officials have ample opportunity over coming weeks to offer a more dovish commentary. Elsewhere, a resolution of the so-called US-China trade war would also help, and we note further discussions are scheduled for January. We would stress we need to see a material and lasting walk back from the Fed and Trump to allow the market to look through the ensuing earnings decline. In the absence of these happening, we will be endeavouring to remain patient and vigilant on capital protection as this bottoming process plays out over time.

FUND SUMMARY

KEY NUMBERS	
UNIT PRICE	$1.2282
EXIT PRICE	$1.2264
ENTRY PRICE	$1.2300
FUND FUM	$307.0m
STRATEGY FUM	$384.4m
APIR	MUA0002AU

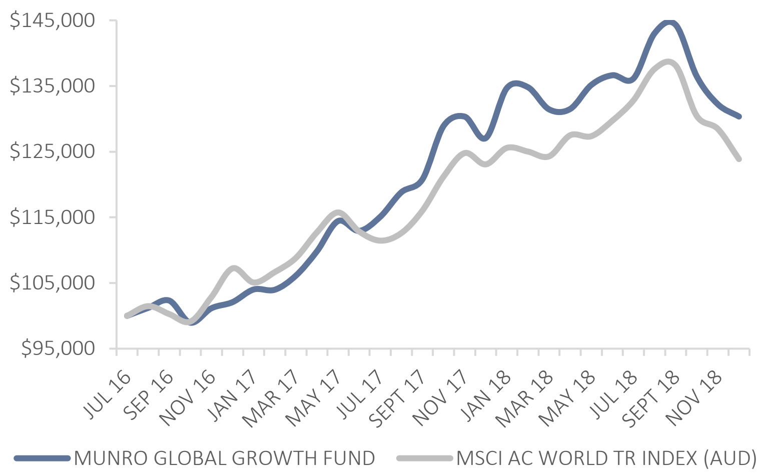
KEY FACTS	
NUMBER OF STOCKS	30-50 POSITIONS
CASH WEIGHTING	0-100%
CURRENCY HEDGING	0-100%
MANAGEMENT COSTS	1.35% P.A.
PERFORMANCE FEE	10.00%

TOP 5 HOLDINGS

STOCK	COUNTRY	INDUSTRY	WEIGHT
MICROSOFT	US	INFO TECH.	4.1%
AMAZON	US	CONSUMER DISC.	3.7%
ALPHABET	US	COMM. SERVICES	3.6%
CISCO SYSTEMS	US	INFO TECH.	2.9%
UNITED HEALTH	US	HEALTH CARE	2.5%

HISTORICAL PERFORMANCE [1]

GROWTH OF $100,000



PERFORMANCE SUMMARY AS AT 31 DECEMBER 2018 [1]

	1MTH	3MTHS	6MTHS	1YR	2YRS	INCEPTION (P.A.)	INCEPTION CUMULATIVE
MUNRO GLOBAL GROWTH FUND (AUD)	**-1.4%**	**-9.7%**	**-4.6%**	**2.6%**	**13.0%**	**11.6%**	**30.3%**
MSCI AC WORLD TR INDEX (AUD)	-3.6%	-10.3%	-4.5%	0.6%	7.5%	9.3%	23.9%
OVER / UNDER PERFORMANCE	**2.2%**	**0.7%**	**-0.1%**	**1.9%**	**5.5%**	**2.3%**	**6.5%**

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

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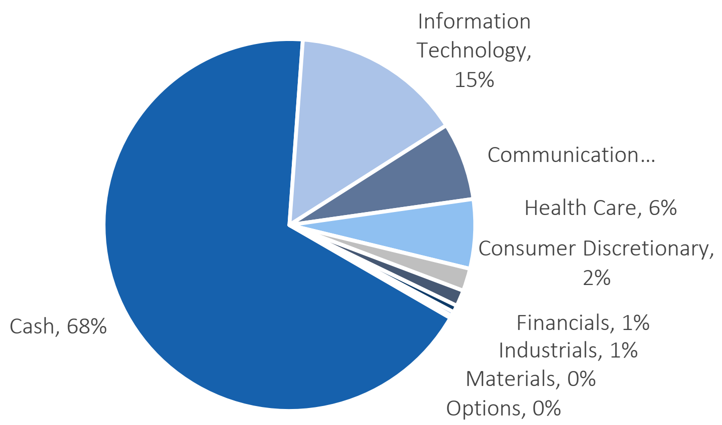
The Munro Global Growth Fund is an absolute return international equities fund with a core focus on growth equities. The Fund is index-unaware, aiming for meaningful absolute returns through the investment cycle, whilst maintaining a capital preservation mindset. The Fund's flexible mandate allows it to dynamically manage its market exposure and 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	
YASKAWA ELECTRIC	JN	AMAZON	US
HENNES & MAURITZ	SW	BLUE PRISM	UK
VAT GROUP	SZ	MICROSOFT	US
CHINA TOWER CORP	HK	INTUITIVE SURGICAL	US
BMW	GE	UNITED HEALTH	US

FUND EXPOSURE

CURRENCY REGION	GROSS EXPOSURE	NET EXPOSURE	CURRENCY EXPOSURE
AUSTRALIA	0.0%	0.0%	63.8%
NORTH AMERICA	38.2%	32.8%	35.6%
UNITED KINGDOM	3.7%	2.2%	-0.1%
EURO AREA	5.1%	0.0%	0.1%
FRANCE	1.0%	1.0%	
GERMANY	4.0%	-1.0%	
SWITZERLAND	2.9%	-2.9%	0.1%
SWEDEN	2.7%	0.3%	0.4%
JAPAN	1.9%	-1.9%	0.6%
HONG KONG/CHINA	1.6%	1.6%	-0.5%
EXPOSURE	**56.0%**	**32.0%**	**100.0%**
DELTA ADJ. EXPOSURE	60.6%	27.4%	

REVIEW OF 2018

Before providing a more detailed outlook for 2019, it is worth pausing and reflecting how poor 2018 was for all asset classes. Below we flag the annualised return for major equity markets and other asset classes for calendar 2018.

S&P 500	-6.2%	HK Hang Seng	-13.6%
Eurostoxx 600	-13.2%	Shanghai Comp.	-24.6%
UK FTSE	-12.5%	Nikkei 225	-12.1%
Commodities	-12.4%	US HY Credit	-2.1%

In this environment, it was pleasing to still produce positive returns in the Fund for the year, without relying on the falling AUD to mask negative equity returns. That said, returns were still below our target levels and it begs the question of where will we look to make money in 2019? While we expect volatility to continue at least in the early part of 2019, it is important to remember that a good portion of the negative market adjustment has already occurred and when volatility subsides, we see a number of areas where strong earnings trends should drive stock returns over the year ahead.

KEY AREAS OF INTEREST FOR 2019

The Digital Enterprise. Despite the recent volatility, we remain unashamed bulls on Software and Internet names within the Technology sector. We live in a period of unprecedented digital disruption and this continues to force enterprises to embrace digital solutions at an accelerating rate. Whether this is via adopting Cloud Computing, Software as a Service, E-Commerce or Cybersecurity, we see all these areas accelerating again in 2019 despite the weaker economic outlook. We expect key winners such as **Microsoft**, **Amazon**, **ServiceNow** and **Cisco** to remain features in the Fund for the year ahead.

Innovative Health. Genomics is one of the few technologies in the world that is progressing faster than Moore's Law and together they are bringing significant disruption to the healthcare sector. We see numerous winners in Healthcare that can use evolving technologies to create better outcomes for patients and payers in the years ahead. Here we would highlight diagnostics companies **Thermo Fisher** and **Danaher**, medical insurance companies **UnitedHeath** and **Centene** and medical equipment companies **Stryker** and **Intuitive Surgical** as all potential beneficiaries here and likely to also feature in the year ahead.

Short Selling. Short selling added over 200bps to annual performance in 2018 with all these gains achieved in the fourth quarter. Despite these wins we feel we could have done better, market conditions are finally rewarding short sellers with earnings disappointments now disproportionately punished versus earnings beats. Consequently, we feel we can improve on this outcome in 2019. Key areas of focus will be semiconductors and the resulting supply chain as the major area of disruption in the US – China trade war (e.g. **VAT Group**), apparel makers who are struggling to evolve towards omni channel retailing (e.g. **Ralph Lauren**) and legacy auto manufactures and their suppliers who are getting left behind in the rapid shift in environmental standards and emergence of electric vehicles (e.g. **BMW**).