

Kauri Communiqué

Keeping you up to date with Kauri Asset Management and the Markets

As records tumble, is there any stopping the FAANG stocks?

We take a look at how the mega-tech stocks reported over earnings season, including the key themes that have sparked their success.



+ Monthly Portfolio Reports

Our portfolio managers take you through the main contributors and cover any changes across both the Australian and US markets.



MICHAEL SMITH
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With another round of earnings behind us, the market has navigated through some short-term volatility brought about by the GameStop short squeeze, and is now beginning to reflect on the magnitude of the results handed down.

As at February 8, half way through earnings season, 80% of companies across the S&P 500 have beat earnings estimates. Once again leading the way as you might expect is big tech.

The pandemic has brought with it a host of changes as far as digitisation and working or staying 'connected' from home.

The latest results from the likes of the FAANG stocks, and Microsoft to boot, only serve to assure us in our view that many of these changes will be enduring.

What's more, with subdued sentiment around the time these results were released, the numbers delivered have given us the confidence to add to our holdings in some of these stocks.

Social networking underpins Facebook

Starting with Facebook (FB), the social media giant delivered revenue of US\$28.1 billion versus estimates of US\$26.4 billion. The company's advertising segment picked up dramatically, while the average revenue per user hit an all-time high of US\$10.14, equivalent to 19% growth year-on-year and 30% growth quarter-on-quarter.

Online commerce has also been a boon for the tech firm, and while the company noted the risk these trends could reverse, in our view we have seen enough evidence to suggest this may well be one of the more prevalent themes into the mid-to-long term. Even the company's small but rapidly growing consumer hardware division is adding weight, with virtual reality headsets and video-chatting services proving popular such that revenue grew 156% to US\$885 million.

5G iPhones drive Apple's bumper result

Perhaps the standout result from reporting season thus far, expectations were already high for Apple (AAPL), but the company didn't just meet these expectations, it blew them away.

Apple notched up its largest revenue quarter in its history, raking in US\$111.4 billion in sales across the first-quarter of FY21, nearly US\$10 billion more than forecast by the market.

That revenue number represented year-on-year growth of 21%, a significant achievement at any time, let alone the midst of the pandemic where things spiralled out of control in the US during this period.

The highlight for us in Apple's results was how evenly spread the strong performance was across each of the company's product categories.

There was double-digit growth in each category. Although the new 5G iPhone proved a particular catalyst for the company, it was actually the category with the 'slowest' growth at 17% year over year, despite this being one of the best results for the division in some time.

Margins were also higher, and had it not been for extended store closures in some regions, overall earnings would have been even higher. In our view, these results cemented why Apple is the most valuable company in the world, and if consumers are caught in the midst of a 'supercycle' of upgrades following the 5G rollout, this could signal much more growth ahead.

Online shopping surge lifts Amazon

Also delivering its largest quarter of revenue ever, Amazon (AMZN) generated US\$125.6 billion in sales during the final quarter of last year.

While we had great expectations for the ecommerce giant amid the shift to ecommerce and the postponed Prime Day event falling in this quarter, this result was still far better than we could have anticipated, with earnings per share at US\$14.09 nearly double that forecast across the market.

Guidance was also strong, with the next post-holiday-season quarter expected to see revenue again come in above US\$100 billion. Jeff Bezos' retirement was a surprise to us, but we also see this as one company that has all the tailwinds in its favour to keep delivering major earnings growth.

Google's ecosystem fires on all cylinders

In the final quarter of 2020, Alphabet (GOOGL) put to bed the notion that advertising spend would take a hit amid the pandemic. The company smashed expectations for both revenue and earnings, with total advertising revenue up 9.8% to US\$37.1 billion compared with a year prior.

Google hasn't been the only company to ride this uptrend, with the likes of Snap and Pinterest reporting a similar observation. This suggests to us that advertising expenditure is back in full swing once again.

Beyond that, its YouTube division has benefitted from more individuals consuming media from home, while hardware equipment sales have also surged as consumers seemingly upgrade to the latest devices.

Microsoft's cloud powers work from home

With the pandemic worsening during the quarter, and businesses across most of the world still pushing remote work, Microsoft was one of the major beneficiaries as the growth of its cloud business accelerated.

Total revenue growth came in at 17% on an annualised basis, which was ahead of the 12% from the quarter prior. The Intelligent Cloud division saw revenue growth of 23% year-on-year, with the Azure segment growing 50%, well ahead of market forecasts suggesting 42% growth. There was also a tailwind for personal computing as gaming took hold.

Not only did revenue and earnings come in significantly above expectations, but the forward guidance provided also gives us confidence. We also see a future where businesses will continue to invest in cloud capabilities and more workers will have flexibility with their working arrangements, both of which can underpin future growth.

Big tech delivers in spades

The results from big tech underscore how significant digitisation has played into their hands. Whether it be: our desire to connect and socialise via virtual mediums in these tough times; the desire to own the latest hardware; the leap to embrace ecommerce; advertising to digital audiences; or remote work spurring continued uptake of the cloud - big tech is flexing its muscles with growth that shows no sign of abating.

Update: Yield Portfolio

As you'll be aware by now, over the month of January we came to the decision to disband the Yield Portfolio.

This was not an easy decision for us. We had just started to see the reward of our investment efforts from across the last year take hold.

Nonetheless, we have come to this decision on the basis that the Yield Portfolio has a substantially similar objective as that of our Hub24 – Balanced Portfolio.

During CY20, the Hub24 Balanced Portfolio achieved an average return of 12.4% across our clients, compared with a 1.5% fall in the ASX 200.

Investors in the Yield Portfolio have been given the option to roll over their equity into the Hub24 Balanced Portfolio, which from now on will serve as the reference for those who were invested in the Yield Portfolio.

We thank you for your understanding and should you have any further queries about how this change affects you, or the portfolio, do not hesitate to contact us.

**MICHAEL SMITH**

Head of Research and
Senior Investment Advisor

International

International Growth Portfolio

Portfolio NAV eased by 0.6% in January, after taking into account advisor fees. The key benchmark indexes skewed towards negative returns for the month, and while our performance fared better than the Dow Jones and S&P 500, which declined 2% and 1.1% respectively, returns trailed the tech-heavy Nasdaq, which advanced 1.4%.

Across our core holdings, there was an even spread of stocks that delivered growth to portfolio NAV and those that weighed on NAV.

The largest drag on the portfolio came from two holdings that have served us well over recent months, with profit taking having an influence in the wake of both company's quarterly earnings reports. Intuitive Surgical (ISRG) and Visa (V) slumped 8.6% and 11.7% respectively last month.

In the case of ISRG, a modest year-on-year increase in both net revenue and net income for the quarter was very encouraging given the impact that COVID-19 has continued to have on the US healthcare system. Management's cautious decision to withhold guidance may have spooked investors, but we think this was a prudent decision given the country still remains in a battle to quash the pandemic as it rolls out vaccines.

Visa's results impressed us, with transaction volume growth offsetting a fall in revenue and net income. The company's commitment to another US\$8 billion in share buybacks was also a vote of confidence in our books, so we have maintained the entirety of our position for now.

The single-biggest mover across the entirety of our portfolio was Taiwan Semiconductor Manufacturing (TSM), which unlike the two stocks mentioned above, delivered a buoyant trading outlook. Shaping the company's confidence in its outlook is the demand for chips in the automotive sector, particularly as EV development picks up.

With the USD/AUD rate rising from 1.2999 to 1.3084, and breaking a multi-month trend in the process, there were some modest currency gains for the portfolio that offset the underlying drop across our core holdings, before accounting for advisor fees.

Apple (AAPL), Alibaba (BABA) and Microsoft (MSFT) were the only positions we added to last month, driven by our belief that these stocks were trading at attractive valuations. All things being equal, we will continue to look for opportunities to 'buy the dip' as we believe the prospect of new stimulus, ongoing low rates, and impressive earnings results lend to a higher market. Unrealised profits ended January at 16.9% of portfolio NAV.

Performance:

Index	January Performance	2021 Performance
Dow Jones	-2.0%	-2.0%
NASDAQ	0.3%	0.3%
S&P 500	-1.1%	-1.1%
Global Growth Portfolio	-0.6%	-0.6%

Top 10 Holdings:

Code	Company Name	Weighting %
PYPL	PayPal	6.15%
SQ	Square	5.09%
TSM	Taiwan Semi	4.97%
BIDU	Baidu	4.90%
MSFT	Microsoft	4.84%
GOOGL	Alphabet	4.49%
AAPL	Apple	4.47%
ADBE	Adobe	4.25%
ISRG	Intuitive	4.04%
TEAM	Atlassian	4.03%



DANIEL WONG
Research Analyst



ALEX NEGROH
Research Analyst

Hub 24 - Balanced

Balanced Portfolio

The collective value of the portfolio drifted lower in January, underperforming the Growth Portfolio and the ASX, with NAV declining 0.7%.

Santos (STO) was one of the better performers that helped to mitigate losses, with the stock rising 3.8%. At one stage the stock was up nearly 20%, however, in light of the difficult time for the company over recent months, we were still pleased with the month-end result.

Demand for oil has started to pick up across the world, and the surprise production cut from Saudi Arabia helped lift fuel prices. As the world continues to open up, largely driven by the rollout of COVID vaccines, we anticipate that the trends supporting oil will continue through much of 2021.

Elsewhere, Jumbo Interactive (JIN) has started to show signs of life after trading sideways for much of recent time. The stock was able to reach a near 52-week high around the middle of the month, and based on early trading in February thus far, looks set to make another run at this level.

Increasing interest in the betting space has fuelled the rise for Jumbo. There is a risk that Tabcorp may not renew their licencing arrangement with the company, however, we are comfortable with the scope of our current position and excited by the firm's long-term growth prospects.

While our exposure to Lynas Rare Earths (LYC) and Galaxy Resources (GXY) has been instrumental in driving NAV growth across the portfolio, we have also decided to add Tribeca Global Natural Resources (TGF), which gives us access to lithium, copper and nickel via the one instrument.

Driving our decision is our belief that there is a valuation case to be made on account of the disparity between the share price and the fund's NTA. The two have been converging, but as they are still some distance apart, we believe there is an arbitrage opportunity here.

With the Reserve Bank of Australia committing to further bond-buying activity to start the month of February, as well as interest rates locked in until at least 2024, there is strong support for the local stock market and we expect that various companies could surprise as earnings season gets under way this month.

Performance:

Index	January Performance	2021 Performance
ASX 200	0.3%	0.3%
ALLORDS	0.3%	0.3%
Balanced Portfolio	-0.7%	-0.7%

Top 10 Holdings:

Code	Company Name	Weighting %
HM1	Hearts & Minds	5.3%
FANG	Fang ETF	5.1%
Cash	Cash	5.1%
APT	Afterpay	4.1%
CBA	Comm Bank	3.9%
WBCPJ	WBC Note	3.4%
NABPD	NAB Note	3.3%
BHP	BHP Group	3.1%
RIO	Rio Tinto	3.0%
HUB	HUB24	2.8%



ALEX NEGROH
Research Analyst



DANIEL WONG
Research Analyst

Hub 24 - Growth

Growth Portfolio

Our Growth Portfolio backed up a strong result from December with yet another month of outperformance. In total, NAV grew by 1%, while the ASX 200 inched higher by just 0.3%.

The divergence between the performance of the Growth Portfolio and the Balanced Portfolio was a direct result of increased exposure to the buy-now pay-later segment.

Continued faith in this segment has proven to be rewarding, especially our investment in industry front-runner Afterpay (APT), which jumped 14.5% across the month and at one stage passed \$150 per share.

Meanwhile, Sezzle (SZL) also had a bumper month, with the stock soaring more than 30% and complementing the growth objectives of our portfolio. On the back of a strong quarterly trading update, including record revenue, we added to our existing holdings in another BNPL stock, Laybuy (LBY), which helped us average our costs.

Lithium exposure remains a core theme in the Growth Portfolio. Galaxy Resources (GXY) and Lynas Rare Earths (LYC) were both up around 20%, further underpinning our outperformance relative to the ASX.

One drag on the portfolio was Xero (XRO), which slid nearly 12% across the month. Although disappointing, the result is not overly concerning to us at this stage as it did hit a series of new all-time highs before the pullback.

Furthermore, Xero's outlook is appealing in our eyes, with zero debt and significant growth. The drop looks more attributable to profit taking than anything, and as such, we may consider adding to our position upon any further weakness.

Another stock that we have high optimism for is Alliance Aviation Services (AQZ). The company is a provider of contract, charter and allied aviation services, and has just struck a deal with Qantas.

Much like NRW Holdings (NWH), AQZ services the iron ore majors, which gives us indirect exposure to resources and the super cycle that seems to be playing out at the moment.

As global equities continue to march higher, and mega-tech firms report well overseas, our view is that there is sufficient momentum in play to support growth stocks at the moment as a risk-on appetite prevails.

Performance:

Index	January Performance	2021 Performance
ASX 200	0.3%	0.3%
ALLORDS	0.3%	0.3%
Growth Portfolio	1.0%	1.0%

Top 10 Holdings:

Code	Company Name	Weighting %
MQGPC	Mac Hybrid	5.2%
HM1	H & Minds	5.0%
FANG	FANG ETF	4.8%
Cash	Cash	4.5%
XRO	Xero	3.6%
RIO	Rio Tinto	3.5%
CBAPE	CBA Hybrid	3.3%
APT	Afterpay	2.9%
LYC	Lynas Corp	2.9%
CBA	Comm Bank	2.7%



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