



29 August 2018

Dear Partners and Friends

Last week, the Orsaro Capital team returned from our investment research trip to Hong Kong and Macau. As our investors will know, one of our key investment themes is the “Emerging Market Middle Class Consumer”, so this trip gave us the opportunity to meet with a few companies in Asia, and also to observe these emerging market consumers, particularly in Macau.

Stepping off the plane in Hong Kong, we set a goal to see how far we could get without having to use any cash! We hopped in a taxi to our hotel, and our goal ended swiftly when we arrived at our destination and the taxi driver told us that taxis in Hong Kong only accept CASH! Clearly the move to a cashless society globally has a long way to run.

The one plus side of our taxi ride was the “Avengers” action figures displayed proudly on the dashboard as can be seen in the photo below. It was great to see Marvel’s Avengers which is owned by The Walt Disney Company (DIS) has such a global fan base.



The next morning, we set off early on our packed Ferry ride to Macau and spent the next 3 days exploring as much of Macau on foot as we could, averaging 14 Kms per day. Five years ago, one of our fund managers, Gavin Donner visited Macau, and was very unimpressed, as there were very few spectacular hotels and the place almost felt like a ghost town. Fast forward to today and Macau has exploded with hotels, casinos, entertainment, infrastructure and more. We visited the older casinos on the Macau Peninsula and all the newer properties in Macau Cotai. The Peninsula is the older part of Macau and less exciting from a tourist perspective.

Macau Cotai, on the other hand, is far more impressive and continues to attract a significant amount of capital investment. The hotels and casinos both developed and in the planning by companies including MGM, Las Vegas Sands, Wynn Resorts, Galaxy Entertainment group and Melco, are creating what we can only describe as the Las Vegas of the East . There are however some pretty interesting differences, which we will discuss below



Morpheus Resort by Melco (designed by the late Zaha Hadid)



Venetian resort by Las Vegas Sands



Parisian Resort by Las Vegas Sands



MGM Cotai by MGM China (stacked jewellery boxes design)



Wynn Palace Cotai by Wynn Resorts

To cope with the current volume of tourism to Macau and the expected future growth, there has been significant infrastructure development backed by the Chinese Government. Whilst we arrived at the crowded Macau Peninsula Ferry terminal, we departed through the impressive new Taipa Ferry terminal(Cotai). A monorail is currently under construction and due to open in 2019 which would link the Taipa Ferry terminal to all the major hotels in Macau Cotai. In addition, the newly completed 55km Hong Kong-Zhuhai-Macau bridge is due to open in the next few months. This appears to be a game changer as it will facilitate international guests flying into Hong Kong International Airport as well as high speed rail lines from Mainland China coming into Zhuhai. Visitors can all then easily be transferred to Macau via the hotel transport services. Macau certainly seems very well placed to accommodate substantial growth in leisure travel over the coming years.

It was staggering to witness the sheer volume of people in Macau particularly at the Venetian and Galaxy properties, both in their casino and shopping areas. It was also exciting to see the strong brand recognition that Western brands have built with the emerging market consumers. There was no shortage of people with bags from Gucci and Louis Vuitton and people wearing Nike, Adidas and Under Armour clothes or shoes and of course an abundance of Apple devices including phones, watches and airpods. It was also encouraging to see the extensive distribution and marketing of global spirits companies like Diageo (Johnny Walker) and Pernod Ricard (Martell Cognac and Chivas Regal) across both retail outlets as well as Duty Free (travel retail).



After 30 minutes of trying to find a table at The Venetian food court, Richard and Marc made some new friends

We had the opportunity to meet with company management at some of the listed entities operating in Macau. This enabled us to better understand the ramp up that is happening currently and the dynamic surrounding Chinese Government control of tourist visas, gaming license regulation, infrastructure development and a focus on experiences beyond gaming. In the years ahead, Macau will see more live entertainment, sporting events and theme parks.

We also learned a lot about the gambling habits in Macau. Generally, gamblers inherently believe they are lucky and hence prefer to play a game of luck rather than skill. This explains why over 95% of the gambling tables in the casinos are Baccarat, a game of pure luck (and fortunately for the casinos have the lowest payout ratio). Poker, Blackjack, Roulette etc are rarely seen.

A couple of other key takeaways were as follows:

1. The minimum bet is very high. For example, the minimum bet we saw in general gaming areas was MOP300 which is about AUD50. This high minimum bet explains part of the reason why Macau's casino revenue (Tables and Slots) is about 5 times the size of Vegas. (\$33Bn vs \$7Bn in 2017, with 88% of revenue in Macau from Baccarat vs 30% in Vegas).
2. A big part of the gambling culture in Vegas involves drinking alcohol. Conversely, in Macau, we were taken aback by the fact that the gamblers did not drink alcohol while they gambled. This was due to their belief that drinking alcohol while gambling will negatively affect their vision, judgement and ultimately their luck.
3. Macau is not only focused on the Chinese gambler. They want to be the Vegas of Asia and are trying to attract gamers from all across the Asian region.



The Orsaro Team in the Atrium of The Spectacle at MGM Cotai.

After 3 busy days in Macau, we returned to Hong Kong for one night and a final day of company meetings as well as a talk on Electric Vehicles hosted by the Hong Kong Society of Financial Analysts.

One of our other themes is the Ageing Demographic, and it was great to have the opportunity to meet with a Hong Kong listed Biopharmaceutical company making great strides in China. Previously, many of the medicines have been too expensive for Chinese citizens, but with the Chinese Government taking on more of a social responsibility by adding many drugs to a national reimbursement drug list, these drugs have become available at a much more affordable price. We expect usage to explode because of this, and we continue to research various pharmaceutical companies who will benefit from this trend.

The talk on electric vehicles was also an eye opener from a China perspective. It is estimated that China will account for 48% of all electric vehicles sold globally in 2018. Going forward, China has capped the number of new combustion engine sales at 28 million vehicles per annum. In addition, China is driving hard to become a world leading manufacturer of electric vehicles. This has given us food for thought in terms of investigating the winners and losers from this move to electric vehicles.

Finally, it would be re-miss of us if we failed to mention some of the deep due diligence that we did during our leisure time drinking coffee at a new Starbucks Reserve store or trying out a burger at Shake Shack.



We never thought a bunch of Melbourne coffee snobs would rave about a Starbucks coffee.

Overall, it was a fantastic trip, and we gained some valuable insights into some of our current portfolio companies as well as a few companies on our radar.

If you have any of questions, please feel free to contact us.

Kind regards

Gavin, Marc and Richard

Fund Managers of the Orsaro Global Fund

## Disclaimer

This report has been prepared by Orsaro Capital Pty Ltd as a Corporate Authorised Representative (AR No. 001262116) of Vasco Investment Managers Limited (AFSL No. 344486). Orsaro Capital Pty Ltd is the Investment Manager of the Orsaro Global Fund (**Fund**), an unregistered managed investment scheme. Orsaro Capital Pty Ltd's authority under its Corporate Authorised Representative Agreement with Vasco Investment Managers Limited is limited to general advice regarding the Fund only. Any other advice provided is not provided pursuant to this agreement. Vasco Investment Managers Limited is the Trustee of the Fund.

This document contains information about the potential issue of interests in the Fund to investors that are wholesale clients as defined in s761G of the Corporations Act 2001 (Cth) (Act) or sophisticated investors as defined in s761G of the Act. It is not intended to be used by any other persons in any other jurisdiction if and to the extent that to do so would be in breach of Australian laws, or the laws of any foreign jurisdiction.

This report contains general information only and is not intended to provide any person with financial advice. It does not take into account any person's (or class of persons) investment objectives, financial situation or particular needs, and should not be used as the basis for making an investment in the Fund.

Neither Orsaro Capital Pty Ltd nor Vasco Investment Managers Ltd make any representation as to the accuracy, completeness, relevance or suitability of the information, conclusions, recommendations or opinions contained in this report (including, but not limited to any forecasts made). No liability is accepted by any of these entities or their respective directors, officers, employees, agents or advisors for any such information, conclusions, recommendations or opinions to the fullest extent possible under applicable laws.

This publication may contain forward looking statements regarding our intent, belief or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. Orsaro Capital Pty Ltd does not undertake any obligation to revise any forward looking statements to reflect events and circumstances after the date of this publication.

Neither Orsaro Capital Pty Ltd nor Vasco Investment Managers Limited guarantee the repayment of capital, the performance of any investment or the rate of return for the Fund. Past performance is not necessarily indicative of future performance.

This document is not an Information Memorandum for the purposes of the Act. Accordingly, it does not purport to contain all information that potential investors may need to make an informed assessment as to whether or not to invest in the Fund.

Some numerical figures in this publication have been subject to rounding adjustments.