19 October 2018

Dear Partners and Friends,

We are pleased to report on our second quarter of operations since our fund was launched on May 11th 2018. Post our initial setup and launch in the June quarter, what was encouraging for us this quarter, was settling into a cadence of calls with companies, quarterly results conference calls, developing broker relationships, visiting select domestic Australian companies and planning and executing on our first International research trip.

One of our main aspirations in setting up the fund was to gain the scale to allow us to travel and gain access to global corporates and see more of the globe first hand to enable us to make better informed investment decisions. It was thus a great joy for us to take our first research trip in August 2018 to Hong Kong and Macau where we met with companies in both cities. We gained many insights into some key developments taking place in Asia (if you haven't already read our update letter on this trip, please click **here** to read this letter). Trips like this only fuel our desire to double down on these research efforts as we look to the USA for our next trip to visit a host of companies on our watch list.

The MSCI World Index rose 4.53% for the September quarter. This robust performance doesn't talk to some of the dramatic global events that unfolded in the quarter. This quarter, markets were faced with a continued USA led trade war with China, emerging market woes (currency crises in Turkey and Argentina) and political upheaval in Italy as regards the new government's desire for a currency outside of the euro common monetary system and for wider deficits than those mandated under EU rules. On the positive side, USA GDP growth and corporate earnings were robust, and the old NAFTA agreement with both Mexico and Canada was renegotiated.

Against this backdrop, the Orsaro Global Fund rose 3.85% during the quarter. Since inception the fund is up 8.12% vs the MSCI World Index up 2.85% over the same period (just a reminder that our portfolio looks nothing like the MSCI World Index and hence whilst we seek to benchmark ourselves against this index over long periods of time, we truly are benchmark agnostic i.e. we build our portfolio from the bottom up via stock picking, without any regard for index constituents and weightings).

The main contributors to performance during the September quarter were positions in The Trade Desk, HCA Healthcare, Teledoc, Walt Disney and XPO Logistics. The key detractors from performance were from Twitter, JD Group and Naspers. We have provided more detailed commentary on a few of these companies below.

HCA HEALTHCARE

HCA is one of the largest listed Hospital groups in the USA, operating in 42 markets, with 178 hospitals, and 47,000 licenced beds. HCA rose in response to robust 2nd quarter numbers reported in July 2018. Revenue rose ahead of expectations, supported by accelerating same facility admissions as well as strong pricing power, and this flowed through to the bottom line. The company is very cash generative and bought back $470m of shares during the quarter (since 2011, HCA has spent $12bn on buying back its own shares). Even post the strong rally in the stock, it is still not expensive on a forward price earnings ratio of 13x 2019 earnings.

TELADOC

Teladoc is the global leader in telemedicine, providing virtual care to patients globally, through having a localised doctor who can provide general or specialised health care advice/direct the patient through the next set of actions to take. Through their apps, clients can access health professionals around the globe at a much reduced cost versus the current physical world (the saving per visit averages around $472). Visitation continues to grow, with more than 530,000 visits facilitated each quarter. Their clients consist of large health insurers (such as United Health and Aetna) and Fortune 500 companies (including Google, Pfizer and Apple) who pay Teladoc a recurring access fee to provide an alternative to visiting a doctor's rooms.

Teladoc has seen a compound annual revenue growth rate of 75% from 2014 – 2018. New customer wins, like Exon Mobil, together with growth in utilisation rates, means that we can expect growth rates to continue into the foreseeable future. The move to wearable devices (think Teladoc using a watch to monitor blood pressure), growth in AI driven health care, a push by the US Government to include telemedicine in Medicare services and the multiple speciality services yet to be launched, translates into significant runway ahead. We are of the view that with one of the only respected, truly global brands, Teladoc is well positioned to capitalise on the secular shift towards telemedicine and gain market share.

THE TRADE DESK

Those of you who attended our recent Investor presentations will recall one of the companies that we presented on called The Trade Desk. To recap, The Trade Desk is a pioneer in programmatic advertising, providing a cloud-based platform for its clients to access digital advertising inventory.

The Trade Desk's second quarter results were once again well above expectations with growth in revenue of 54% versus the second quarter of 2017.

We continue to believe in the long-term story behind The Trade Desk, which benefits from a number of tailwinds including, the shift from a traditional advertising process to programmatic; shift to digital advertising, growth in ad-funded streaming services in audio and video, growth in mobile phone usage, growth in the emerging middle-class consumer, and more. The addressable advertising market that is expected to

shift to programmatic is substantial and we think The Trade Desk has a good chance of being one of the leading players in the programmatic advertising industry.

TWITTER

After providing a nice boost the previous quarter, Twitter was our largest detractor this quarter. The catalyst for the correction in Twitter's share price was due to social media privacy concerns, and Facebook's second quarter result putting downward pressurise on the social media sector. During the second quarter, Twitter announced it was actively blocking millions of fake accounts, which led to a flat Monthly Active User number which was a result below market expectations. We, however, were encouraged by the percentage growth in Daily Active Users continuing in the teens, the increasing ad engagement and decreasing cost per ad engagement.

We continue to view Twitter as a fantastic platform to gain live news and insights into topics of interest. The current clean-up of fake accounts is in our view the correct step, reducing the risk of regulatory intervention and therefore bodes well for future advertising spending growth on the platform. Revenue growth expected in the high teens this year, together with increasing free cash flow, bodes well for our investment thesis.

JD.com

JD.com is China's second largest online retailer, behind Alibaba. JD.com is more like Amazon than Alibaba in that it has built a business selling goods directly to consumers, as well as acting as a middleman for third parties. JD.com has also focussed on building its own logistics services delivering to 1,400 districts and counties in China. Our thesis behind investing in JD.com had a number of tenets including the growing Chinese middle class consumer, the significant growth in e-commerce in China, strong strategic partnerships with Tencent, Walmart and Alphabet, a strong entrepreneurial leader in Richard Liu, and an unwavering focus on authenticity of goods/products sold on JD.com. JD's second quarter results showed significant growth in revenue of 35% year over year, but due to significant investment in the business saw pressure on the operating margins of the company. We were comfortable with this given the long runway for growth ahead and JD.com's continued strategy of investing in the business.

However, things took an unexpected turn when JD.com's CEO, Richard Liu, was arrested in the United States for the alleged rape of a young Chinese student. Whilst we still believe in the long-term opportunity for JD.com, we cut our position substantially based on the poor corporate governance exhibited throughout this episode by the board of directors. We have taken the view that if Liu is cleared of the charges, and the board implements a better governance structure we would re-visit the long- term investment thesis.

We ended the 3rd quarter with 20% of the fund sitting in cash (we held 22% of the portfolio in cash at the end of June). On the back of the stronger USA data as well as slightly more hawkish rhetoric from Fed chairman Powell as regards "rates being a long way from neutral", bond yields have risen fairly dramatically in recent weeks. With rising bond yields, equities going forward are certain to face more competition from bonds as an asset class. This together with the Fed continuing to withdraw

liquidity from markets, caused us to take the view that we needed to hold a fair amount of cash to capitalise on any risk sell offs (As of the writing of this letter, this has proven to be the right move with markets increasing volatile in October and selling off quite significantly so far this month). We are excited about certain opportunities that are starting to present themselves.

It is important for our investors to remember that we are focused on investment performance over decades and not quarters. We see volatility in the short term as an opportunity for the Fund to take advantage of price dislocations and to deploy our investor’s capital in great quality businesses.

We are always available to answer any of your questions, so 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.