ORSARO CAPITAL

20 January 2020

Dear Partners and Friends

The second quarter of the financial year was once again filled with constant noise, but also a "breakthrough" in the ongoing trade negotiations between China and the USA. This led to a risk friendly environment over the last two months of 2019, which saw equity markets perform strongly and commodity currencies, like the Australian dollar, which are proxies for world growth, also rally strongly. It was also a period that was characterised by continued rotation from secular high growth companies into cyclical companies and those that offered growth at more reasonable valuations.

We generally were pleased with the 3rd Quarter reporting period, which saw the majority of our investments performing in line with or exceeding our expectations, confirming our investment theses for these companies. We were pleased to see a broadening of performance across our portfolio over the quarter.

There are plenty of headlines pointing to the extremely strong performance of equity markets this past calendar year, with the S&P 500 up around 29% in 2019. However, it is important to remember that the global market correction that started in October 2018 and accelerated through to the end of December 2018 makes this number a bit misleading. Timeframes are a fantastic way to distort returns. For example, shifting that timeframe one month earlier drops the performance to around 15%. In fact, shifting the timeframe to 12 months ending August 2019 gives a return of just 2.2%. We prefer to measure our performance over 5 to 10 years.

This highlights the importance of investing through cycles as ultra-long-term investors, and not trying to predict short term market movements. The opportunities presented to investors in December 2018 and early January 2019 were fantastic. Two examples of these were Apple and Alibaba, both of which are large cap companies that we accumulated a position in during this time and **continue to hold** in the Fund.

Apple - Up 107% since January low

At the beginning of 2019, Apple shares were trading at $157.74. As previously discussed, this correction in global markets was due to a range of factors, but most notably, worries over rising US interest rates leading to a US recession and the US-China trade war causing a global economic slowdown. These fears became a short-term reality for Apple shareholders when Tim Cook, the CEO of Apple issued a letter to its investors on 2 January 2019 advising of a reduction in their guidance for fiscal

2019 first quarter sales. As a result, Apple shares fell to close at a low of $142.19 on 3 January 2019.

As ultra-long-term investors, one could look at this news with a different lens to the overall market. Yes, Apple was going to have a tough time with sales in the short-term, but over the long-term, this was an incredible business with the world's leading smartphone, a fast growing Wearables business (AppleWatch and AirPods) and a powerful ecosystem spawning the creation of a fast growing Services business (think AppleCare, iCloud, Apple Music, Apple TV, etc.). At this closing low of $142, if you excluded Apple's net cash ($130bn), one could buy Apple shares for about 10x earnings. One of the world's greatest branded consumer goods and services companies was trading at **10x earnings**!

Fast forward 12 months and Apple shares ended 2019 at $293.65. That's an 86% gain over 12 months and a 107% gain from the low of 3 January 2019. Whilst the large dislocation in valuation has been normalised, today we own a company on 22x forward earnings net of cash.

Alibaba - Up 63% since January low

One of our key themes since the Fund's inception has been the emerging Chinese consumer. With the Chinese middle class expected to grow to 850 million by 2030, Alibaba gives us direct exposure to the growth opportunity ahead. The trade war fears and market correction provided us a great opportunity to accumulate a position in Alibaba.

Alibaba is the dominant e-commerce platform in China, providing global and local brands access to the Chinese consumer through its T-Mall and Taobao marketplaces. In addition, their large bricks and mortar operations, logistics network and ownership in Ant Financial (owner of Alipay) completes a compelling ecosystem, which now accounts for over 66% of Gross Merchandise Value in China and is growing at over 40%. They are also the leading Cloud provider in China, with their cloud business growing north of 60%.

After trading at $196 in April 2018, Alibaba started 2019 trading at $137.07 falling to a low of $129.83 in January 2019. By the end of 2019, Alibaba was trading at $212.10, which is a 55% return over 12 months and a 63% since its low in January.

In the December quarter, we initiated new 'starter' positions in two companies, which we look forward to discussing more about in the future once we have built out our positions. We also made the tough decision to exit the Fund's position in two companies, where we felt our investment thesis was no longer intact.

We have held Twitter and TripAdvisor since inception of the Fund. We viewed both companies as having compelling platforms with great growth opportunities ahead. Our reasons for exiting however differ between the two.

In the case of Twitter, we lost faith in management's ability to further monetise the platform effectively. This last quarter saw a significant misstep by management leading us to feel that they had dropped the ball. This compounded our concerns around Jack Dorsey being a part-time CEO, who splits his time between Square and Twitter. His recent decision to go live in Africa for 6 months re-inforced our decision to part ways with Twitter.

In the case of TripAdvisor, it has become very clear that they and other online travel comparison sites are effectively having their lunch eaten by Google. The reliance on Google for web traffic worked in the early days but Google's comparison widgets have had a large impact on these models that rely on SEO traffic and basically now directly compete with Google. We prefer to invest in companies who can be masters of their own destiny.

As at 31 December 2019, the Fund was 92.6% invested (with 7.4% cash exposure).

The table below illustrates the performance of the Fund at 31 December 2019 (net of fees) over various time periods versus the benchmark:

	December Quarter	Half Year FY20	Since Inception*
Orsaro Global Fund	6.4%	9.4%	25.2%
MSCI World Index	8.2%	8.3%	11.1%

**Inception date is 11 May 2018*

Redemption Unit Price @ 31 December 2019	$1.2523

We have a busy research period coming up over the next five months, with two research trips scheduled to the USA, where we will be meeting several companies, attending conferences as well as spending time with like-minded fund managers. We look forward to sharing our experiences with you at our next Investor Day.

To all our Investors, we wish you all a happy and healthy 2020. Thank you for your support and as always, we would be more than happy to sit down and have a coffee with you to discuss how we are managing the Fund. Alternatively, please feel free to contact us if you have any queries.

Kind Regards

Gavin, Marc and Richard
Fund Managers of the Orsaro Global Fund

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