



2 March 2020

Dear Partners and Friends

Last week, global investment markets experienced an extremely rapid sell-off, falling over 12% from the all-time market highs reached on 19 February 2020. As I am sure everyone of you is aware, the Coronavirus which started in China is now spreading across the world with large numbers of cases having been identified in Italy, South Korea, Iran and many other countries including Australia and the USA. Countries are restricting travel to/from certain countries, and companies globally are cancelling conferences and 'non-essential' travel both domestically and internationally.

We are not epidemiologists, and hence cannot provide an expert opinion on the Coronavirus, and in particular when or whether a cure will be found or how long it will take to contain the virus. We also cannot quantify the extent of the financial impact of the virus on global economies, but we are certain that there will be a significant financial impact at least in the short term. This is not the first virus the world has seen, as we have gone through SARS, MERS, H1N1 (Swine Flu) etc, and whilst we are unsure of how severe this pathogen is, we do have some element of faith in mankind/science that a vaccine will ultimately be found and developed, albeit that this may take considerable time to be tested and approved.

It should also not be underestimated the role that social media is playing in spreading fear and panic amongst the investing and general public. This hardly existed in previous "virus/epidemic" events and is adding to the volatility in markets as well as causing changes in consumer behaviour.

Hence, the purpose of writing this letter is to give a current update on the Fund, as well as to explain to our investors how we are positioning the Orsaro Global Fund in light of this financial impact from the Coronavirus and to ensure we position the Fund optimally for ultra-long-term outperformance.

Prior to the market fall last week, the Fund was well positioned to withstand a market correction for the following reasons:

1. The cash balance of the Fund was over 11% (and remains about this level as of the date of this letter), as we were concerned with the 'animal spirits' in the market especially given the Coronavirus was already well known.
2. The Fund holds a strong portfolio of companies with strong balance sheets.

3. The Fund does not hedge currency at this stage, so the fall in the AUD vs other currencies particularly the USD has provided a natural hedge to the Fund, and we believe it will continue to do so.

At the end of February 2020, the Fund is up 1.4% for the quarter to date, 11% for the financial year to date and 27% since inception in May 2018 (these performance numbers are net of all fees and based on investment manager estimates as the Fund administrator is still finalising month end accounts).

### **So how are we positioning the Fund going forward?**

We continue to 'tweak' the portfolio by reducing the weightings in companies that are more cyclical in nature such as travel related/exposed companies, and increase our weightings to companies that have extremely strong balance sheets and strong business tailwinds over the ultra-long term, and that have benefitted from recent price dislocations.

We believe the Coronavirus will have material financial consequences for businesses in the short term, and those with weak balance sheets may find themselves in financial stress. Conversely, companies with strong balance sheets will weather the storm more easily, and find opportunities as they have cash to deploy (either via acquiring their own shares or making strategic acquisitions of distressed companies).

In addition, we believe the Coronavirus will cause people and businesses to change the way they behave, and this may create long-term shifts in behaviour. For example, e-commerce, tele-health and video communication are all benefitting from a shift in behaviour due to the Coronavirus. However, once people and businesses experience the benefits of these behavioural shifts, it is unlikely they will completely return to how things were done before.

Finally, with our strong cash balance in the Fund, we are net buyers in the market as we see great opportunities to buy our favourite companies at significantly reduced prices.

### **How can investors take advantage of the market sell-off?**

A number of our investors have contacted us over the weekend to ask whether they can put more money in the Fund given the market correction. Usually our Trustee will only calculate a unit price at the end of the month and accept new investments at this time.

However, we have been in discussions with our Trustee about calculating an intra-month unit price and accepting new investments at that price. The Trustee has agreed to allow this given the significant market volatility so if the market falls further this month and we have significant interest, **then we will accept new investments mid-March.**

We understand that market volatility can be scary for investors, and if you would like, we would be more than happy to sit down and have a coffee with you, to discuss how we are positioning the Fund to perform over the ultra-long-term.

Kind regards

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

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