ORSARO CAPITAL

07 October 2020

Dear Partners and Friends

The Orsaro Global Fund wrapped up a busy September Quarter generating returns of 9.2% (after fees). The table below illustrates the performance of the Fund to 30 September 2020* over various time periods versus the benchmark:

	September Quarter	One Year	Since Inception**	Since Inception Annualised
Orsaro Global Fund	9.2%	29.0%	52.2%	19.2% p.a.
MSCI World Index (AUD)	3.3%	2.2%	16.6%	6.6% p.a.

**Performance is after fees and with distributions re-invested*
***Inception date is 11 May 2018*

Unit Price @ 30 September 2020	$1.5116

If 2020 was a movie, we would describe it as far-fetched with all the ridiculous twists and turns we have experienced. The quarter just passed did not stray from this theme, with daily headlines surrounding Covid-19, China, TikTok, fiscal stimulus and the upcoming US presidential elections.

As Fund Managers, we attempt to shut out what we consider to be noise, and focus our efforts on the underlying business fundamentals, which ultimately are the drivers of returns over the ultra long-term. It was a busy quarter for us, holding a number of calls with portfolio companies and listening to virtual Investor days and conferences. All of this research reinforced the clear trend that the 'winners' are benefiting in this environment, and conversely, the very real headwinds faced by those companies whose business models are being greatly impacted.

One only needs to highlight two companies' results this past quarter to see this so clearly. On the one hand, Shopify, a portfolio company, grew their revenue 97% from the same quarter a year ago! This was driven by more and more retail shifting to e-commerce solutions resulting in a 71% increase in new online stores being set up on their platform over the previous 3 months alone, a truly staggering result. Shopify is not only a website builder, but they also offer a complete multi-channel e-commerce solution (starting price as low as US$29 per month), allowing merchants a one stop solution to manage multiple stores across multiple channels (Facebook, Instagram, Google, Amazon and Walmart.com to name a few). Merchants have access to multiple e-commerce solutions, including Payments, Point of Sale solutions, Shipping and Shopify Capital (providing cash advances and loans to merchants).

Shopify is not limited to small businesses anymore, with an increasing number of large global brands (e.g. Heineken, General Mills, Lindt, etc.) using Shopify for their e-commerce platform through the Shopify Plus offering. New customer adds to Shopify Plus hit a record in the last 3 months. The Shopify Fulfilment Network, which is currently in beta testing in North America, is the next step in their growth plan, allowing all Shopify merchants to access the warehousing capabilities and fulfilment solutions of bigger players and at a competitive price. If you combine all their merchants, Shopify is now the second largest online retailer in the USA behind Amazon. The digital transformation that started in March, has certainly not slowed down, but neither have valuations in these companies, and we need to be mindful of not paying too much now for future returns. We do however see massive opportunities for Shopify over the next 10+ years, and will continue to hold our position in this exciting and innovative company.

On the flip side, Pernod Ricard (listed in France) another portfolio company, has been hit hard by the global pandemic. A lot of alcohol consumption (circa 30% in a market like the USA) happens "on-premise" i.e. in bars, restaurants, night clubs etc, so with governments restricting large indoor gatherings, the on-premise alcohol consumption has fallen dramatically. Another key channel for Pernod has been travel retail (duty free purchases), and with a collapse in international travel, these end markets have also ground to a halt. Pernod also has a large exposure to India (it is the market leader in the largest whisky market in the world), and had to shut down all their manufacturing during Q2 2020 as India enforced a lockdown, and currently Covid-19 infections in this country remain elevated.

A lot of consumption has shifted to off-premise i.e. individuals consuming in their homes, and sales in this channel have been very strong as consumers sheltering in place have had "Zoom cocktails" with friends and family. Pernod Ricard is exceptionally well placed as economies begin to open up again. Whilst some may argue life as we previously knew it will never return to normal, we are of the view that if and when vaccines/therapeutics are available, there will be pent-up demand on the part of us all to re-establish those human connections, and share moments of conviviality over a drink. Pernod Ricard has strong brands (Jamesons, Glenlivet, Absolut, Chivas Regal, Jacobs Creek etc), an excellent management team, strong free cash flow, and has sophisticated routes to market across both the developed and the emerging world. We have added to our position in this company and believe it is well placed to survive this pandemic and thrive into the future.

Looking at our top 5 contributors to and detractors from performance for the quarter, we can see clearly how these trends have played out with their share price movement for the quarter in brackets. Our top 5 contributors for the quarter were The Trade Desk (+23%), Roku (+56%), Docusign (+21%), Nvidia (+37%) and Alibaba (+31%). Our top 5 detractors were Wells Fargo (-11%), Ericsson (-8%), JP Morgan (-1%), Pernod Ricard (-2%) and Bank of America (-2%).

This past quarter, we exited a position we held in Teladoc Health. We have held Teladoc in the Fund since inception, and accumulated shares at around $55. Our thesis was simply that telehealth and artificial intelligence would mean more patients would turn to telehealth over the long term, as part of their overall medical care solution. This thesis was greatly accelerated owing to Covid-19. While we liked

Teladoc, one of our concerns was their increasingly aggressive strategy of growth via acquisition. Initially these were small “bolt-on” acquisitions, but as Teladoc grew, so did the size of their acquisitions.

In January this year they made their largest acquisition to date, purchasing unlisted Intouch Health, a virtual care solution for in-hospital care, for $600 million. This was completed in July 2020 and we looked forward to Teledoc focusing on growing organically, once this business was fully integrated. However, only one month later they announced the $18.5 billion acquisition of Livongo, a listed virtual health care provider specialising in chronic conditions. This deal was so large, it essentially could be viewed as a merger of equals. It was also after the value of Livongo had already gone up 7x since April! Implementing acquisitions carries a lot of risk, and with valuations stretched, we made the decision to fully exit our position at over $210.

The remainder of 2020 promises to be as headline driven as the previous 9 months, with the upcoming US presidential election only 4 weeks away, and results of potentially promising Covid-19 vaccine Phase III trials due shortly. We feel there will be no shortage of volatility, but as always, our focus will remain on the underlying businesses we invest in, and what they are expected to earn over the next 3, 5 or even 10 years. As of writing, we sit with approximately 13% cash, ready to deploy as and when opportunities present themselves.

If you have any queries, or would like to catch-up for a virtual coffee, please do not hesitate to contact us. We also look forward to catching up in person as soon as restrictions are lifted in Melbourne.

Kind Regards

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

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