20 January 2021

Dear Partners and Friends

The Orsaro Global Fund advanced 10.8% (after fees) for the quarter ending 31 December 2020, bringing to a close a successful calendar year for the Fund, on the back of a traumatic year around the globe, which was dominated by the Covid-19 pandemic. The table below illustrates the performance of the Fund to 31 December 2020* over various time periods and versus the benchmark:

| | December Quarter | One Year | Since Inception** | Since Inception Annualised |
|---|---|---|---|---|
| Orsaro Global Fund | 10.8% | 34.5% | 68.7% | 21.9% p.a. |
| MSCI World Index (AUD) | 5.6% | 3.9% | 23.1% | 8.2% p.a. |

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

| | |
|---|---|
| Unit Price @ 31 December 2020 | $1.6756 |

Given the severity of the Covid-19 crisis, it's hard to believe that the S&P500 Index performed so well over the course of calendar year 2020, rising 16.6% (including rallying just over 70% off the low point reached on 23 March 2020). Despite worsening daily Covid-19 infection rates in most of USA and Europe throughout the year, markets rose in response to massive fiscal stimulus injected by the major global central banks, abundant liquidity, ultra-low interest rates, optimism about successful vaccines being developed, as well as "stay at home" stocks significantly outperforming the rest of the market.

As detailed in our past few quarterly newsletters, the Fund has benefitted significantly from some of these "stay at home" winners, led by our holdings in The Trade Desk, Roku, Nvidia, Shopify, Workday, and Peloton.

As long-term investors, we are cautious optimists, and hence from the beginning of this health crisis, we have taken the stance that "science will win the day", and that with the entire medical world focused on solving one problem, we have held onto the belief that a medical solution to this crisis will ultimately be found.

There is an old saying in markets that "Noah started building the Ark long before the floods arrived", and with this in mind over the last few months, we have been building our positions in a number of what is best described as “epicenter” stocks i.e. businesses that are at the center of this “social recession” and have been particularly hard-hit. These are mainly in industries where consumers have not felt safe to participate in e.g. travel and leisure, entertainment, live sports events, and eating out of the home, to name a few.

We have had to be patient throughout the year as these stocks have been shunned in favor of the high growth, technology led names. However, we believe the catalyst for change arrived in mid-November when Pfizer and BioNTech, followed shortly thereafter by Moderna, announced their Phase 3 Covid-19 vaccine trial results, with much higher versus expected efficacy (95%) in treating the virus. This positive vaccine news led to a dramatic re-rating of some of these epicenter stocks in our portfolio including; The Walt Disney Company, Ryman Hospitality, XPO Logistics, and USA Banks.

With overall markets hitting all-time highs, together with record retail participation, and exuberant extrapolation of recent trends, we are concerned about the valuations of many of the high growth businesses in the market. Cognizant of the desire to protect capital, we have trimmed the position sizes of some of the companies in our portfolio where we believe their valuations are excessive. With that said, we have invested additional capital behind some of the companies mentioned above as “epicenter” stocks where we believe valuations are reasonable, management teams have taken out costs in response to the crisis, and which will therefore exhibit high degrees of operational leverage as the economy bounces back.

## Ryman Hospitality (RHP)

One of these classic “epicenter” stocks is Ryman Hospitality. We have included the link to a video we made in June 2020 where we spoke through our initial thesis behind investing in Ryman Hospitality (please click here to watch the video).

Ryman has performed strongly for the Fund, up 120% from the Fund’s average cost price. However, other than this and the need for us to exercise a bit of patience, not a lot has changed since we initiated this position. Management has done a good job at the large group hotels in continuing to lower the monthly cash burn, and attracting leisure travelers to their hotels. The team has also seen success in re-booking cancelled 2020 conferences into 2021 and beyond. They have solid forward bookings/room nights on their books for ‘21/22 and with the arrival of positive vaccine news, we look forward to a normalizing of their conference/group business. With corporates now facing distributed workforces with many staff working from home, we believe at a point in the future, the desire and need to get their teams together and interact in person may be even stronger than pre-crisis (it’s not easy to build a corporate culture and integrate new team members into that culture via a remote workforce).

At the entertainment business, the pivot towards streaming their Country music content from venues like the Grand Old Opry continues at pace, and deals to stream their “Circle” content via the likes of The Roku Channel augurs well for this hidden gem of an asset. We believe this entertainment asset will most likely be spun out into a separately listed vehicle once critical mass is attained.

Please see the Appendix to this letter, where we have provided a detailed discussion of a few of the other companies referred to above, namely: The Walt Disney Company, XPO Logistics and large USA Banks.

For the December quarter, our Top 5 performers were The Trade Desk, Roku, Ryman Hospitality, XPO Logistics and The Walt Disney Company. Our Top 5 detractors were Alibaba, Nvidia, Fastly, Digital Realty and Facebook. As discussed in the previous quarterly newsletter, we lifted our Australian dollar hedge in its entirety in Q2 (too soon, with the benefit of hindsight) such that the continued rally in the Australian dollar was a major headwind/detractor for the Fund over the fourth quarter.

To conclude, despite elements of euphoria/frothy behavior in the stock market in terms of certain valuations, we are reasonably confident on the prospect of an economic recovery. Stimulus works with a lagged effect, and thus most of the stimulus spending will take hold in the coming year (households have built up large savings which can be drawn down to boost overall consumer spending).

The vaccines (despite the short-term hiccups in terms of roll out) will boost confidence as we move through the year. The digitization of the global economy continues, and we don’t expect this trend to reverse. Where we deem valuation to be on our side, we have held onto our target weightings in many of these structural growth companies (e.g., Facebook, Alphabet/Google). We believe we have positioned the Fund to take advantage of the current and emerging environment. We continue to work hard to identify those companies where dislocations in their operations provide opportunity, and we look forward to discussing these with you when we next meet (hopefully soon and in person)

If you have any queries, or would like to catch-up for a coffee, please do not hesitate to contact us

Kind Regards

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

## APPENDIX

### The Walt Disney Company (DIS)

If you had to pick a business that would be most significantly impacted by the need to social distance and avoid crowds, you couldn't find a better placed company than Disney with its theme parks and resort hotels around the world, Disney Cruise lines, lack of crowds at sports events (ESPN), delayed releases of major film studio titles at the Box Office, and even the difficulties with crews/actors in creating content.

The converse of this, is that we believe Disney is incredibly well positioned for a future that includes some kind of return to normal. Management have made a very successful pivot to a direct-to-consumer platform via their launch of the Disney+ streaming channel, which has exceeded all expectations in terms of subscriber numbers. The slate of content scheduled for release over the coming years, together with the continued global rollout of its general entertainment content via the Disney+ and Star brands, and it's positioning in the fast-growing Indian market via Hotstar, leaves Disney very well placed to compete and thrive going forward.

### XPO Logistics (XPO)

XPO Logistics is a cyclical business, which has been through a torrid time over the last few years, with the industrial economy struggling in both the USA and UK/Europe. Whilst they were initially hard hit at the beginning of the Covid-19 crisis as economies were shut down and industrial tonnages being moved fell sharply, they have begun to recover more recently, being a key player in last mile logistics (think of consumers at home shopping for heavy duty items like furniture, exercise/fitness equipment, and do-it-yourself home projects) as well as e-commerce and supply chain logistics.

XPO being positioned right across the transport spectrum, trades at a significant discount on a sum of the parts basis to its pure-play peers, which has frustrated its management team no end. Prior to the pandemic, it began conducting a strategic review to sell off parts of its business to attempt to close this discount, and in the last few months it was rumored to be selling its European logistics business.

We were opposed to such a fire sale, as we felt that whilst it would unlock some measure of value in the short term, you would be selling quality assets at the bottom of the cycle based on non-normalized earnings which we deemed unattractive. We think very highly of this management team and its ability to create long-term value and were delighted when in early December it announced plans to split into two separately traded/listed vehicles - one housing its North American freight transport business, and the other being a pure-play global contract logistics player.

Whilst we have more work to do on the two distinct entities, we believe both are well placed to benefit from a cyclical recovery into '21 and beyond.

## USA Banks

Look no further than the USA Banks for the most hated, cyclical sector which has broadly underperformed since the aftermath of the Global Financial Crisis (GFC) in 2008/09. Whereas in the GFC, the banks due to sub-prime lending and speculative derivative activity (collateralized mortgage obligations) were at the epicenter of all that was wrong with the global financial system (they were “too big to fail”), in this crisis the banks have been part of the solution – extending loans to small businesses as part of the government’s PPP (paycheck protection program), providing forbearance on mortgage and credit card debt to consumers through the initial months of the crisis, extending vast amounts of credit lines/revolvers to corporate USA to provide liquidity for the continuation of their operations, and via public debt and equity markets, assisting corporate USA with repairing its collective balance sheet.

The banks were all hard hit in this crisis as the market expected their bad debts to soar in response to rising unemployment rates (consumer debt), and exposure to affected industries in the travel, hotel, entertainment and commercial real estate (working from home would require far less commercial real estate/office space) sectors. Early on in the crisis, in quarter 1 and quarter 2 of 2020, they raised significant provisions for doubtful debts.

In preparation for the arrival of a vaccine we have been adding to our positions in JP Morgan, Bank of America and Wells Fargo. We believe these stocks are inexpensive and can look forward to the following catalysts (1) as the economy recovers, the large provisions raised may prove unnecessary, and at some point, some of these provisions could be released through the income statement, (2) the Federal Reserve prohibited these companies from buying back their own stock through this crisis. This constraint has now been lifted, and these banks can start to buy back their own shares from the beginning of 2021 (stocks like Wells Fargo trade at a discount to tangible book value, so such buybacks would be very accretive to improving earnings per share and returns on capital employed), (3) interest rates are at very low levels. If the economy returns to normal given the vaccine and very large stimulus programs, bond yields could begin to rise in response to any signs of inflation – banks are a good play on being short the bond market, as their net interest income benefits from rising interest rates.

Whilst we own all 3 banks, we have recently tilted the exposure more towards Wells Fargo (WFC) as we believe in the ability of the new CEO Charlie Scharf (ex-Visa and Bank of New York Mellon) to turn this bank around. WFC has suffered due to the poor trading practices of past management teams and its cost structure is bloated.

We believe Scharf will reduce the complexity of the organization, take out costs whilst at the same time reinvesting in the business via technology to drive further efficiency gains. Whilst we are unsure of the timing, we believe these efforts will at some point result in the consent order which WFC is under being lifted, which would allow it to expand its balance sheet once again/which will drive loan growth.

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