9 July 2021

Dear Partners and Friends

The year to 30 June 2021 marks the Orsaro Global Fund's third full financial year in operation.

The Orsaro Global Fund delivered a strong return of 38.9%** (after fees) for the Financial Year ending 30 June 2021. The table below illustrates the performance of the Fund to 30 June 2021 (after fees) and over various time periods versus the benchmark:

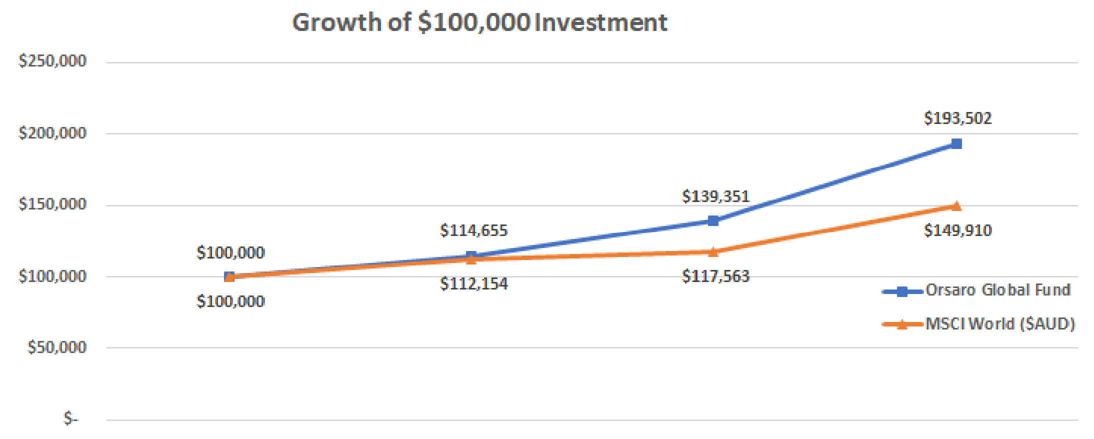
	June Quarter	One Year	Since Inception Annualised*
Orsaro Global Fund**	9.2%	38.9%	23.4% p.a.
MSCI World Index (AUD)	9.3%	27.5%	13.8% p.a.

**Inception date is 11 May 2018*

Unit Price @ 30 June 2021**	$1.9217

***Interim unit price and hence performance figures may be subject to change following tax review of the financial statements for FY21.*

The chart below illustrates the growth in value of $100,000 invested in the Fund at inception with distributions re-invested, and versus the same amount invested into the MSCI World Index (both in Australian dollars).



	11/05/2018	30/06/2019	30/06/2020	30/06/2021
Orsaro Global Fund	$100,000	$114,655	$139,351	$193,502
MSCI World ($AUD)	$100,000	$112,154	$117,563	$149,910

The financial year started with a sustained rally in "stay-at-home/work from home" shares, with many of these high growth names peaking early in 2021 and then suffering significant drops as money rotated into "economic re-opening" shares.

As previously outlined in our December 2020 letter, we opportunistically trimmed some of our high growth investments and bought into selected companies that had been left behind through the market rally of 2020. When looking at our top 5 contributors to performance this financial year, we can see how this approach allowed our portfolio to perform well even with some of our high growth names suffering large pullbacks.

The following tables highlight our top 5 contributors and detractors to Fund performance over the 2021 Financial Year, as well as the absolute performance for each company:

Top 5 Contributors

	Absolute Performance	*% Contribution to Fund Performance*
Roku	262%	5.87%
The Trade Desk	75%	4.81%
Ryman Hospitality	109%	2.57%
Alphabet (Google)	63%	2.33%
HCA Healthcare	96%	2.26%
TOTAL TOP 5		**17.84%**

Top 5 Detractors

	Absolute Performance	% Detraction from fund Performance
London Stock Exchange Group	-13%	-0.22%
Wynn Macau	-6%	-0.13%
Fastly	-36%	-0.10%
Kindred Biosciences	-10%	-0.03%
Digital Realty	-4%	-0.01%
TOTAL BOTTOM 5		**-0.49%**

The rally in the Australian dollar vs the US Dollar of 9.8% over the year, was also a detractor from overall Fund performance.

If one looks at attribution beyond just the Top 5 Contributors, it was also encouraging to see the strong performance was broad-based across our overall portfolio with the Top 10 shares contributing 27.6% to performance; the Top 15: 33%; and Top 20: 37.1%

There is a saying that volatility is the cost of long-term returns, and the rotation out of high growth companies, owing to inflationary fears and the subsequent rise in the USA 10-year bond yield, allowed us to start re-allocating cash to companies whose share prices for the first time in months were starting to offer satisfactory returns after falling from their all-time highs. These included Nvidia (down 25%), DocuSign (down 35%), Roku (down 44%), The Trade Desk (down 52%), Peloton (down 53%) and Unity Software (down 57%). In the appendix to this letter, we have included a more detailed discussion on Nvidia, Peloton and Unity Software, the latter of which is a new company that we have invested in and not spoken about previously.

As we have previously communicated, a key part of our investment philosophy is to “water the flowers and pull the weeds”. This means we continue to invest behind those companies who deliver according to our investment thesis, and whose management continues to execute in line with, or beyond our expectations. Conversely those companies where the thesis has drifted and whose management performance has been sub-par, we look to exit.

In line with this philosophy, and in addition to the companies mentioned above, we continued to invest behind many of the Fund’s investments including Facebook, XPO Logistics, Shopify, Walt Disney and Ryman Hospitality.

We also made the decision to completely exit our investments in Digital Realty, Kindred Biosciences, London Stock Exchange and AMA Group (the latter company we discuss further in the Appendix).

We would once again like to thank all of our investors for your support. Your trust in us and our investment philosophy gives us the ability to focus on the long term, which we believe should enable us to generate market beating returns over the ultra-long term.

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

Unity Software

Unity Software is a company that we haven't written about before in previous newsletters. Unity provides an end-to-end development platform, providing tools to create, run and monetise real time 2D and 3D content for mobile phones, PC's, consoles and virtual reality devices. Previously a game developer or media creator would need to build these from scratch costing a significant amount of time and money. Unity helps solve this problem by providing a set of tools to creators to allow them to focus purely on building the content.

They operate two key product solutions - Create and Operate. Create Solutions is a subscription service primarily used by game developers to build games for multiple platforms. Some notable titles powered by Unity include Pokemon Go and Assassins Creed. Importantly, they do not compete with the developers using Unity by creating their own competing games.

Operate Solutions provides the tools to monetise these games and engage with players through in-app purchases, advertising and in-depth game data. This is a usage based and revenue share model, meaning that when customers succeed and grow, so does Unity. The targeted advertising business is particularly appealing considering the vast amount of first party data Unity receives on their users. Last quarter, this equated to 15 billion in app events each day across 20 platforms! This first party data helps to insulate Unity against the changes Apple is implementing for IOS users, and in fact, in our opinion gives them a key competitive advantage going forward.

Although Unity is perceived as a game engine, we are excited about the opportunities outside of gaming. Examples include car companies like Mercedes, Audi and Toyota using Unity for design, and media companies like Disney using the engine to create movies, most notably "The Lion King". In fact, any company with a use for Realtime 3D can consider Unity for their requirements.

With the company guiding to a long term 30% compound average growth rate in revenues, a competent leadership team, and multiple tailwinds including the growth of the metaverse and virtual reality, we felt that the significant pullback in the share price provided an attractive entry point into this company. We look forward to monitoring Unity and our thesis for many years to come.

Nvidia

It was this time last year that we mentioned Jensen Huang, the founder and CEO of Nvidia, as one of our top CEOs navigating through the outbreak of Covid. He has continued to drive Nvidia's growth with his astounding vision of the future. Their new slate of products to be released over the next year only goes to prove just how far ahead they are of the competition.

Nvidia’s technology is powering many long-term growth thematics, including Cloud Computing, Artificial Intelligence (AI), Edge Computing, Self-Driving cars, Gaming and the Metaverse. The company has performed exceptionally well over the last year driven by the growth in their data centre processors, new release of gaming processors and upcoming AI chips. In addition to this, with the optionality around self-driving cars, we continue to see a bright future for Nvidia. After the stock price corrected from $615 in February to $462 by March, we used the opportunity to buy more Nvidia for the Fund.

Peloton

In our March investor presentations in Melbourne and Sydney, we presented for the first time on Peloton. Peloton shares reached an all-time high in mid-January 2021 and by the time of our first presentation on 19 March 2021, the shares had fallen approximately 40% from these highs (due to the market sell-off in high growth companies that had benefitted from the ‘stay at home’ thematic). Given this drawdown and our variant perception in the long term theme of connected fitness in the home, we saw this as an opportune time to continue accumulating shares in Peloton.

However, in business there are always many challenges, and Peloton faced one of the most significant challenges in its history, with the tragic death of a child involving its Tread+ product (treadmill). This led to an investigation by the Consumer Products Safety Commission (CPSC) in the USA, and Peloton ultimately having to cease sales of its Tread and Tread+ products, as well as issue a recall and offer refunds on the 109,000 Tread+ treadmills in the USA sold since launch in 2018.

Peloton shares fell dramatically following this event, and at one point were down 54% from the all-time high reached in mid-January. We spent a considerable amount of time investigating the impact of this recall, including listening to management discuss the impact of this event on the company’s financials. Management’s total estimated adverse revenue impact expected for its fourth quarter ending June 2021 is $165M. The recall will also mean the company will incur higher logistics costs to pick-up Treadmills that customers wish to return (approx. 900bp headwind to Connected Fitness gross margin).

Peloton is exploring several product modifications to its Tread+ product, and once approved by the CPSC, they will once again start selling the Tread+ product. It is important to note that Peloton stopped selling its lower priced Tread product which had some minor product issues. It is expecting to re-launch this product in mid-to-late July in the UK, Canada and the USA.

We concluded that this product recall was a short-term “hurdle” in what is a very bright long-term future for Peloton, and we used the significant sell-off due to the recall to accumulate more shares in Peloton.

AMA Group

Subsequent to us investing in AMA Group, we witnessed a number of what we perceived to be mis-steps on the part of senior management. (1) Prior to acquiring Capital Smart, they bid for the assets of a light manufacturing business called Horizon. Given that Australia is not hugely competitive in manufacturing, and that this was a non-core asset (not in their core wheelhouse of panel repair), we were perplexed with this strategic move, and thought it was more financial engineering than based on sound strategic logic. Had they succeeded with this purchase, their balance sheet would have been materially weakened, and they would have most likely been unable to embark on the critical acquisition of Capital Smart.

(2) With their eye off the ball looking at numerous acquisitions and the Capital Smart deal, the management team failed to adequately price the changing nature of the car fleet on the Australian roads as the vehicles shifted to more technology and to SUV's which differed from the pricing template which the company had embedded in its pricing models. This led to a pricing deficit on insured cars being repaired which management took way too long to identify and respond to.

Whilst we had previously referred to these events as "yellow cards", the final straw came when the company sued it's CEO in the Federal Court for unauthorised expenditures and loans, and dismissed him, replacing him with a fairly "inexperienced" board member. This was not the first board fight that we had lived through, but for us this proved to be a "red card" event as the change/movement in the leadership team and corporate governance concerns became too great to ignore. We pride ourselves on being patient, long-term investors, but when the facts change, we are moved to action. We exited this position in full in the 1st quarter of 2021.

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