13 January 2022

Dear Partners and Friends

We hope you've had an enjoyable break over the Festive season, and we wish you all the best for a happy, healthy and successful 2022!

During the quarter ended 31 December 2021, global markets performed strongly, with the MSCI World Index in AUD up 7.1%. However, this headline number doesn't show the full picture, given that most of this strong performance was driven by a small number of the mega cap stocks in the index performing extremely strongly in the quarter, namely: Apple (up 25%), Microsoft (up 19%), Tesla (up 36%), Alphabet (up 9%) and Nvidia (up 42%). Looking beyond the top stocks, the picture looked very different with many companies, particularly the higher growth companies experiencing significant declines in the quarter. The fear of inflation, the end of quantitative easing and the expectation of rising interest rates has lead to a rotation out of high growth stocks and into the perceived safety of mega cap stocks such as Apple and Microsoft.

The Orsaro Global Fund had a negative return of –1.1%* (after fees) for the quarter ending 31 December 2021. The table below illustrates the performance of the Fund to 31 December 2021* and over various time periods versus the benchmark:

	Dec Quarter	One Year	Since Inception Annualised**
Orsaro Global Fund*	-1.1%	16.0%	20.2% p.a.
MSCI World Index (AUD)	7.1%	29.0%	15.1% p.a.

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

Unit Price @ 31 December 2021	$1.9435

The Top 5 contributors to performance for the quarter were The Trade Desk, Nvidia, Meta Platforms (formerly Facebook), Mastercard and Microsoft. The Top 5 detractors from performance for the quarter were Peloton, Docusign, Upstart, Roku and Draftkings.

Whilst the Fund was impacted by the significant drawdowns in many of our high growth companies such as Peloton (-59%), Docusign (-41%) and Roku (-27%), our "barbell" approach to portfolio management cushioned the downside, with the Fund only being down slightly for the quarter. The Fund's top/high conviction holdings include a broad exposure to a diversified range of sectors including banking, healthcare, logistics and hospitality.

As discussed above, we have seen significant falls in the share prices of many high growth companies, but as renowned financial author, Morgan Housel, stated:

"Volatility is the price of admission. The prize inside are superior long-term returns. You have to pay the price to get the returns."

A perfect example of this, is our best performing company in the Fund, The Trade Desk. We have owned this Company since launching the Fund and over this period have experienced several substantial drawdowns as per the table below:

Since May 2018	
> 20% Drawdown	4 Times
> 30% Drawdown	2 Times
> 50% Drawdown	2 Times

Despite these drawdowns, The Trade Desk is up over ***1,350%*** since our initial purchase and over ***525%*** on our average purchase price.

As discussed above, Peloton and Docusign have experienced significant sell-offs during the quarter, so we discuss below what transpired with both companies, and our thoughts for both over the long-term.

Peloton

Many of you would have heard about Peloton from our Investor Presentations in March 2021. In addition, Peloton recently launched in Australia in July 2021. Peloton has experienced significant growth since its founding in 2012, which was accelerated by the pandemic. Total revenue has experienced a compound rate of growth of 107% per annum over the last 4 years, with 120% growth for the financial year ending 30 June 2021. Connected Fitness subscribers (i.e. monthly subscribers that also own the hardware) have growth even faster at 115% per annum for the last 4 years. There is no doubt demand was accelerated during the pandemic, and in Peloton's first quarter's results in November 2021, Peloton advised the market it had seen a slow-down in demand. Peloton revised down its guidance for the 2022 Financial Year for Total Revenue to $4.4-$4.8 billion down from $5.4 billion and 3.35-3.45 million Connected Fitness subscribers down from 3.63 million.

The market did not take kindly to this downgrade, and the stock has fallen almost 60% since the day of its results announcement on 4 November. We do feel management has made some key mistakes over the past few months, as follows:

1. On the earnings call, the CFO, Jill Woodworth, advised that the company would not need to raise capital, yet a few days later, Peloton raised over $1 billion. We were disappointed by this.
2. With the substantial growth experienced during the pandemic, the focus on costs was not as disciplined as it should have been, and management has flagged the need to better control its costs; and finally
3. Given the uncertainty brought on by the pandemic and the ending of lockdowns particularly in the USA which coincided with the summer months, we believe management should have been more cautious and should not have provided guidance for the full year of 2022.

Having said all of the above, we believe in the long-term opportunity for Peloton. Engagement remains high with the average monthly workouts per Connected Fitness subscriber at 16.6 and 12-month retention rate at 92%. Peloton has only recently launched its new Tread product (i.e. running) which will take a few years to reach meaningful scale, and currently they have only launched in 5 markets (USA, UK, Canada, Germany and Australia). The opportunity to grow the business over the next 10 years is substantial, but this will require management to execute effectively. We will be watching management very closely to monitor how they execute, given some of the missteps to date.

<u>Docusign</u>

Similar to Peloton and many other digital transformation companies, Docusign experienced tremendous growth and a huge pull forward of demand during the pandemic for its market leading e-signature product. Even to Docusign's surprise, this strong growth continued throughout the first half of 2021, but in the third quarter ending 31 October 2021, Docusign, in its earnings release on 2 December 2021, reported that it had started seeing demand drop. Whilst subscription revenue grew a strong 44% for the third quarter vs last year, year-on-year billings growth fell to 28% down from 47% and 54% growth in the previous two quarters. Billings growth is a lead indicator for subscription growth and hence illustrates the pullback in demand. Like Peloton, Docusign shares have fallen significantly (-35%) since reporting their results on 2 December.

Given the demand was so strong for Docusign's products, the CEO, Dan Springer, acknowledged there was a lack of focus on new sales demand generation. He has assured the market that he was to blame for this and this will be rectified so that Docusign gets back to its time-tested sales motion. Dan has backed up his conviction by buying USD4.8 million worth of Docusign shares in the open market following the significant decline post results.

We believe these are short to medium term headwinds for Docusign and over the long term, the business is well placed to continue to dominate the e-signature category, and also the new broader agreement category serviced by the Docusign Agreement Cloud (which has increased Docusign's total addressable market to $52 billion).

Finally, we mentioned in our last quarterly letter that we had cautiously built up the cash position in the Fund to take advantage of the volatility that we were seeing in the market. With the significant sell off in growth companies, we have taken advantage of this opportunity to carefully deploy some of the Fund’s cash into a few of our best ideas.

We would once again like to thank all of our investors for your support. 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

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