



6 April 2022

Dear Partners and Friends

The sell-off in high growth companies that started during the December 2021 quarter, gained momentum in the March 2022 quarter, with significant falls in these companies. This was driven by fears around rising inflation (US CPI of 8%), the end of quantitative easing and the expectation of significant interest rates hikes.

Despite some solid earnings results, fears and volatility escalated as Russia invaded Ukraine which sent commodity prices soaring, compounding inflation fears and interest rate expectations. This was further exacerbated by China going into further lockdowns due to a resurgence of Covid amidst the Omicron variants. The March 2022 quarter ended with US bond yields inverting, seen by many as a precursor to a recession, further compounding investor fears and multiple macro worries that have all seemed to arrive at the same time.

The result was the first negative quarter for US equity markets in two years and the worst period since the first quarter of 2020, with the Nasdaq down 9% for the March 2022 quarter.

The Orsaro Global Fund had a negative return of -16%\* (after fees) for the quarter ending 31 March 2022. The table below illustrates the performance of the Fund to 31 March 2022\* and over various time periods versus the benchmark:

	March Quarter	One Year	Since Inception Annualised**
Orsaro Global Fund*	-16.0%	-7.2%	13.6% p.a.
MSCI World Index (AUD)	-8.2%	11.7%	11.6% p.a.

\*Performance is after fees and with distributions re-invested

\*\*Inception date is 11 May 2018

Unit Price @ 31 March 2022	\$1.6329
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We have seen an abrupt change in mindset around growth companies from buy them at any price, to sell them at any price. The speed and extent of the falls in some stocks has been astounding, with indiscriminate selling and wild swings occurring on a regular basis. The share price falls have been far greater than what the indices reflect with falls of anywhere between 25% and 80% in many of these high growth companies.

As always, our focus for the Fund remains on the underlying businesses we invest in. Companies that consistently deliver will outperform over the ultra-long-term, and

the extent to which some share prices have corrected has given us some of the best buying opportunities we have seen for a while.

We ended the quarter with only 4.25% in cash, as we actively deployed capital into companies that have executed well and whose share prices now offer very attractive returns. While month to month and quarter to quarter performance will always be volatile, it is the performance over multi-year periods we are focused on.

In deciding how to allocate capital during the quarter in the face of such extreme price movements, we took the following approach:

### **Bucket 1**

This included portfolio companies that are seen as defensive and are in many cases covid recovery stocks or higher yield plays. They have held up exceptionally well owing to pent up demand as the world re-opens, and have benefitted from investors rotating their capital into “safe” investments. These included companies (performance for the quarter shown in brackets) like Market Corporation (+20%), Berkshire Hathaway (+18%), Ryman Hospitality (+1%) and HCA Hospitals (-2%). Towards the end of the quarter, we slightly trimmed some exposure on a few of these “Bucket 1” companies to re-allocate capital to other portfolio companies where we saw more attractive return profiles.

### **Bucket 2**

This group comprised those portfolio companies that had excellent quarterly results, but whose share prices still ended up falling substantially with the rest of the market. We used the market sell-off as an opportunity to deploy funds into some of these portfolio companies (peak to trough declines shown in brackets) including Alphabet (-18%), Microsoft (-20%), Bank of America (-24%), Mastercard (-24%), GXO Logistics (-32%) and Estee Lauder (-34%).

### **Bucket 3**

This bucket included those companies whose share prices fell dramatically through this period while delivering solid results and executing extremely well through a challenging environment. We took advantage of some extreme falls to allocate capital more aggressively than we did to Bucket 2. Some of the portfolio companies we allocated capital to within this bucket (peak to trough declines shown in brackets) included Shopify (-63%), Roku (-59%), Unity Software (-49%), Digital Ocean (-48%), Netflix (-46%), and The Trade Desk (-45%). In many cases, this is the first quarter since 2020 that we have allocated funds to these companies, after trimming some of our high growth exposure in early to mid-2021.

Finally, it is worth commenting on the approach we are currently taking to currency hedging. We tend to hedge our USD/AUD currency exposure when the currency is either at extremes (e.g. sub 60c during March 2020 Covid shock) or where we have a strong view that the currency may have dislocated from near term fundamentals. Towards the end of 2021, given the resurgence of commodities and the re-opening of the Australian economy, we felt it prudent to hedge our currency exposure as the AUD fell into the low 70's. We currently have approximately 45% of our US Dollar exposure now hedged back into AUD.

With so much going on from a stock specific to a macro level, it is timely that we will be hosting our next Investor Presentation in Melbourne on 29 April 2022 to discuss these items and our portfolio in greater detail. We will also be conducting a number of smaller group meetings in Sydney in May. We look forward to seeing everyone either in Melbourne or Sydney. Please reach out if you have not received an invite in Melbourne or Sydney and would like to attend one of these events.

We are also delighted that for the first time in 3 years, we can travel again to the USA in June to visit some of our portfolio companies as well as attend a 4-day US company conference in Chicago. We look forward to providing feedback on our return.

Once again, we would 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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