13 October 2022

Dear Partners and Friends

After a positive start to the quarter, volatility returned with a vengeance in mid-August with world equity markets selling off significantly, culminating in the worst month for US markets since the Covid turmoil in March 2020. In September alone, the S&P500 fell 9.3% to hit a new 52-week low, while the Nasdaq Composite Index fell 10.5%.

The sell-off was broad-based across multiple asset classes, following the commentary from Federal Reserve Chairman Jerome Powell in August that interest rate hikes would continue at a rapid pace until inflation was under control. Market participants quickly moved from “hoping” that the Federal Reserve would slow the pace and size of rate hikes, to worrying that central banks would do too much, too quickly, resulting in a severe recession down the track. These fears were further driven by August inflation numbers that came in far above expectations, followed by another large 75bp rate hike by the Federal Reservice in September.

For the quarter ending 30 September 2022, the S&P500 fell 5.3% while the Nasdaq fell 4%.

The Orsaro Global Fund had a return of -1.1% (after fees) for the quarter ending 30 September 2022. The table below illustrates the performance of the Fund to 30 September 2022 and over various time periods versus the benchmark:

	September Quarter	One Year	Since Inception Annualised
Orsaro Global Fund*	-1.1%	-39.0%	4.4%
MSCI World Index (AUD)	0.3%	-9.7%	8.1%

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

Unit Price @ 30 September 2022	$1.1979

Our top 10 positions in the Fund as of 30 September 2022 are as follows

Company	% of portfolio
The Trade Desk	7.3%
Alphabet	5.8%
Wells Fargo	5.8%
Pernod Ricard	5.4%
The Walt Disney Company	5.2%
Ryman Hospitality Properties	5.1%
Mastercard	5.0%
Berkshire Hathaway	4.5%
Meta Platforms	4.5%
Microsoft	4.1%

Ultimately equity markets get priced off future earnings expectations, and the sell-off we have witnessed this quarter is reflecting the major slowdown in earnings that is now being expected in the face of a recession. Whilst we have no ability to predict when markets will bottom out, we can focus on what matters most over the long term - **business fundamentals**.

In addition to quarterly earnings reports, there were also many company presentations and investor days to digest over the last 3 months, giving us more insight into how our portfolio companies are performing and importantly how management is dealing with the multitude of business challenges being felt around the globe. The management teams who make the tough decisions and navigate this period well, will come out of this period even stronger and will provide excellent returns for investors who can exercise patience over the long-term. By focusing on this, we as long-term investors can continue to accumulate and hold quality companies through periods of extreme volatility.

An excellent example of this is our largest position in the Fund, The Trade Desk (TTD), which we have owned since inception of the Fund. TTD's share price corrected from a high of $114 in November last year to $39 in July this year, which provided us our first opportunity in a long time to accumulate more shares pushing it back to our number one holding.

With a likely global recession on the horizon, why would the Fund maintain and even think of increasing its investment in a programmatic advertising business? That is a great question given that advertising is inherently cyclical, and is normally one of the first/easiest places to cut expenditure when fears of a recession come to the fore.

Firstly, as mentioned in our June quarterly letter, we met with the CEO, Jeff Green and Vice President of Investor Relations, Chris Toth in Ventura (just outside Los Angeles) in June of this year. This meeting reinforced our confidence in the underlying business, and its visionary leadership. Secondly, on 9 August 2022, TTD released its results for the Second Quarter of 2022, and these results were stellar, with revenue growing 35% year-on-year, coupled with strong profitability metrics and a secure balance sheet (over $1.2bn cash/cash equivalents and zero debt). The company also guided for continued strong results for the Third Quarter. These results were a standout when compared to the other players in the digital advertising industry that experienced a significant slowdown in the quarter, as evidenced by results from Meta (formerly Facebook), Snapchat, Pinterest, and others.

Finally, on 4 October 2022, TTD held its Investor Day in New York, its first since the last one we attended in March 2019. Unfortunately, we could not attend this event in person, but watched the replay of this event. The key takeaways from this event were as follows:

1. The company is led by a visionary CEO with a top-quality leadership team.

2. This shift of advertising dollars from linear TV to Connected TV (CTV) is happening but is still very early on in this transition, with many years left to play out. TTD is the best positioned to take advantage of this secular shift.

3. A new category called Shopper Marketing is emerging with an estimated $100Bn total addressable market, and TTD is well positioned to take advantage of this category with leading global retailer partnerships including Walmart, Target, Walgreens, Albertsons, Flybuys, Carrefour, and many others.

4. TTD is leading the open internet into the future, with the creation of UID2.0, a better approach to identity for advertisers, publishers and consumers across the open internet. UID2.0 will help advertisers utilise customer data in a privacy safe manner to better target audiences in the face of challenges created by Apple's IDFA and Google's cookie deprecation.

It is rare to find a business which has multiple tailwinds for growth, and such a strong management team. We believe we have found that in The Trade Desk, and expect to own this business for the long-term.

Finally, at the start of September, we made the difficult decision to exit one of our core holdings, Nvidia. It is a company we greatly admire and believe in for the long term and recently presented on. However, the introduction of chip technology export restrictions to China in September by the USA government made us reassess the risk of holding this position. While these new rules only impact Nvidia's new data centre chips for now, we have no clarity as to how this plays out and whether we could see retaliatory action by China on other aspects of Nvidia's business i.e. gaming and automotive. Revenue from China accounts for about 25% of Nvidia's total revenue, and for a company that trades on a premium valuation, we did not feel this geo-political risk could be adequately quantified. While we no longer hold Nvidia, it is a business that we will continue to monitor closely.

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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