ORSARO
CAPITAL

17 January 2023

Dear Partners and Friends

The December quarter saw a continuation in market volatility, with ongoing macroeconomic uncertainty, coupled with fears of a global recession in 2023. After a relatively calm October and November, selling returned in December after the Federal Reserve surprised the market when they indicated continued aggressive rate rises were still on the cards. In the December quarter, the S&P500 was up approximately 7%, whilst growth-oriented investments continued to lag the overall market, as reflected by the Nasdaq Composite Index being down -1%.

The Orsaro Global Fund had a return of –2.5% (after fees) for the quarter ending 31 December 2022. Whilst the underlying Fund portfolio increased about 3% during the quarter, the Australian dollar appreciated approx. 5.5% against the US dollar, which was a headwind to performance for the Fund. The table below illustrates the performance of the Fund to 31 December 2022 and over various time periods versus the benchmark:

	December Quarter	One Year	Since Inception Annualised
Orsaro Global Fund*	-2.5%	-39.9%	3.6%
MSCI World Index (AUD)	4.1%	-12.2%	8.5%

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

Unit Price @ 31 December 2022	$1.1682

Our top 10 positions in the Fund as of 31 December 2022 were as follows

Company	% of portfolio
The Trade Desk	6.5%
Mastercard	6.0%
Wells Fargo	5.8%
Pernod Ricard	5.6%
Alphabet (Google)	5.2%
HCA Hospitals	5.0%
GXO Logistics	4.7%
The Walt Disney Company	4.6%
Ryman Hospitality Properties	4.5%
Microsoft	4.1%

Whilst we are cognisant of the macroeconomic environment in managing the Fund, we do not believe that we (or anyone for the matter) have the skills or expertise to accurately predict what the global economy will do in 2023 and beyond. What we do know is that in 10 years' time, economies will have grown substantially, and our portfolio companies will be much larger businesses versus where they are today.

As we have said before, in the short-term, the stock market is a voting machine, but in the long-term it is a weighing machine, and ultimately, share prices will reflect the underlying performance of the businesses themselves. With this in mind, we thought it would be worthwhile briefly discussing how each of the Fund's top 10 businesses performed in the last quarterly reporting period i.e. the quarter ending 30 September 2022.

The Trade Desk
The Trade Desk was once again the standout performer in the digital advertising industry with revenue growth of 31%, which was significantly ahead of the rest of the market (advertising is the easiest expense for corporates to cut back on in the short-term). Connected TV continues to have significant tailwinds for growth, and Shopper Marketing continues to provide exciting optionality for the business as it continues to sign deals with the world's top retailers (Walmart, Walgreens, Target, Tesco, etc.). The Trade Desk continues to be one of the few fast growing technology companies with strong profitability and outsized optionality, as eventually the vast majority of global advertising moves to programmatic.

Despite the exceptional quarter, The Trade Desk shares were down 25% in the September quarter. We are confident in the long-term potential of the business.

Mastercard
Mastercard continued its strong performance with revenue growth of 15% on a reported basis, and 23% growth on a currency neutral basis in Q3. Cross border travel continues to recover from the pandemic and has been a strong tailwind for the business. Mastercard continues to operate its business efficiently with operating leverage, such that its adjusted earnings per share grew 22% (on a currency neutral basis). Pleasingly, in December, Mastercard announced a new share repurchase program of $9 billion.

Mastercard shares were up 22% this quarter.

Wells Fargo
Wells Fargo had a good quarter with overall revenue up 3.5%, and net interest income up 36% versus a year ago, due to rising interest rates. CEO Charlie Scharf and his team continued the hard work necessary to remediate the business practices to deal with the multitude of consent orders imposed on Wells Fargo historically (in the quarter, it took a $2bn accrual charge related to a variety of historical matters, including litigation, customer remediation and regulatory matters). We continue to believe Scharf and his team are on the right path and over the long term, Wells Fargo will be a stronger business with efficiency/profitability in line with its best-in-class peers. At some point, the asset cap will be lifted, and this will act as a boost to top line growth.

Wells Fargo shares were up 3% this quarter.

Pernod Ricard
Pernod Ricard reported that it has had a dynamic start to the fiscal year 2023, with organic sales up 11% in their first quarter (Sept quarter). In particular, it saw strong growth in China and India. The move away from covid zero is positive for Pernod's business in China in the long-term. Pernod continues to benefit from trends such as premiumisation, cocktail making at home, convenience (ready to drink cocktails in a can) and growth in the emerging middle-class consumer (e.g. 20m Indians reach legal drinking age each year). Pernod announced a share buyback of €500-750m, which it intends to execute prior to the end of fiscal year 2023.

Pernod Ricard shares were down 3% this quarter.

Alphabet
Alphabet's revenue grew 6% on a reported basis, and 11% currency neutral. Alphabet's growth has slowed down in this challenging macroeconomic environment and given the significant growth in its expenses in 2021, its operating income was $17bn down from $21bn a year ago. Alphabet's business fundamentals remain strong, and increased management focus on operational efficiency will lead to a more profitable business in the future. Alphabet repurchased over $15bn of its shares during the quarter, and still has over $100bn in net cash.

Alphabet shares were down 8% this quarter.

HCA Hospitals
HCA Hospitals continues to recover from the covid pandemic. Whilst year over year covid admissions were down 60% (Delta virus in Q3 of '21) more importantly non-covid admissions grew 7% during the quarter, with long-term health care demand drivers reasserting themselves. Shortages of labour was a constraint on growth in 2022, and as labour improves (they recently bought Galen school of nursing and are expanding campuses/enrolments dramatically) volumes will pick up into '23 and

beyond. HCA has bought back $5.5bn of its shares YTD in ‘22, and since 2011 has shrunk the share count by a spectacular 42% (management continue to be very good allocators of capital).

HCA shares were up 31% this quarter.

GXO Logistics
GXO had another strong quarter with revenue of $2.3bn up 16% organically year over year, with adjusted EPS up 34% year over year. Year-to-date, GXO has won new business of over $1bn, and has a strong sales pipeline of approx. $2bn. GXO received regulatory approval for its acquisition of Clipper Logistics, and its integration is underway, with planned cost synergies in 2023 and 2024. We believe the tailwind of companies nearshoring their logistics, following the chaos caused by the pandemic, will be a significant benefit for GXO. Other structural tailwinds which will benefit GXO are e-commerce, outsourcing of logistics, reverse logistics (inventory returns) and automation. Whilst macro factors have dominated in the short-term, we believe this is a strong, well managed business that is gaining market share in a fragmented market, and the fundamentals will assert themselves over the long-term.

GXO shares were up 22% this quarter

The Walt Disney Company
Disney’s revenue was up 9% in the quarter to $20bn, with total segment operating income up 1% to $1.6bn. Disney+ subscribers grew 36% to 164m, ESPN+ grew 42% to 24m, and Hulu was up 8% to 47m. However, operating losses in the direct-to-consumer business (streaming) were larger than expected and totalled $1.5bn in the quarter. Despite strong attendance at the Disney theme parks, the operating margin was only 15%, well below historical levels and expectations. Subsequent to the quarter end, Bob Chapek was fired as CEO and replaced by the previous long-time CEO, Bob Iger. Whilst there are short-term issues at Disney, we still believe in the long-term potential of the business with its incredible Intellectual Property and diverse businesses across Parks and Entertainment.

Walt Disney shares were down 8% this quarter.

Ryman Hospitality Properties
Ryman benefitted from the continued rebound in group travel, together with continued healthy leisure travel demand. It is difficult to compare 2022 performance to 2021, as Ryman was heavily impacted by the pandemic in 2021. The third quarter of 2022 represented the second consecutive post-pandemic quarter of profitability. During the quarter, the company continued to have strong bookings for group travel for future years, coupled with a 25% increase in the average daily room rate (ADR) versus 2019. Ryman expressed confidence in its full year results for 2022 and accordingly, has re-instated its quarterly cash dividend.

Ryman Hospitality shares were up 11% this quarter.

Microsoft
Microsoft had another strong quarter reporting revenue of $50bn, up 11% (and 16% in constant currency). Operating income was $21.5bn up 6% (and 15% in constant currency). Microsoft Cloud (Azure) revenue was $25.7bn up 24% (and 31% in constant currency). Despite the macroeconomic uncertainty, Microsoft continues to believe that “digital technology is the ultimate tailwind”, and it continues to see healthy demand across its commercial business.

MIcrosoft shares were up 3% this quarter.

In summary, we are confident in the long-term performance of the Fund’s portfolio of companies. The current difficult market environment demands patience by investors and the fortitude to “sit tight” and focus on the underlying businesses and their long-term potential.

Finally, we were excited to move into our new offices in December. We are now located at 19 Claremont Avenue, Malvern VIC 3144. If you are in the area, please pop in and say hello.

We would like to thank all of our investors for your continued support during a very challenging 2022, and wish you all a happy, healthy and successful 2023.

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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