9 January 2024

Dear Partners and Friends

After a difficult third quarter for global equity markets, the final quarter of 2023 has been a better period for equities (despite the outbreak of war in the Middle East), with the Orsaro Global Fund rising 9%. The table below illustrates the performance of the Fund to 31 December 2023 over various time periods and versus the benchmark:

	December Quarter	One Year	Since Inception Annualised**
Orsaro Global Fund*	9.0%	39.1%	9.1% p.a.
MSCI World Index (AUD)	5.4%	23.0%	11.0% p.a.

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

***Inception date is 11 May 2018*

Unit Price @ 31 December 2023	$1.6246

The stock market in calendar 2023 was dominated by a few key themes : (1) Tight monetary policy by the USA Federal Reserve in its fight against inflation, (2) record inflows into money market funds to pick up additional yield, (3) enthusiasm surrounding Artificial Intelligence (AI) and the impact on shares with exposure to this theme, which led to significant outperformance by “the magnificent seven stocks” (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia and Tesla), and underperformance by the remaining S&P493, and lastly (4) Ozempic – the rise of weight loss drugs and the flow through impact to consumer staples and healthcare shares (think people consuming less calories and requiring less medical procedures due to better health outcomes).

Our thoughts on some of these issues and actions taken in the Fund are as follows:

(1) Throughout the year the market has been too optimistic in calling for Fed rate cuts, but after pausing their rate hikes mid-year, the Fed announced a major pivot at its final meeting in December 2023, taking out the final hike they had previously pencilled in, and in response to their lower inflation forecasts, they are now forecasting 3 rate cuts in 2024. It appears as if inflation is coming down faster than had been anticipated, and hence given the long lags of monetary policy, their attention is now shifting away from inflation and towards managing the business cycle. We are unsure as to the exact timing of interest rate cuts, but it seems clear that the peak of the rate hike cycle is over for

now, and this leads to more optimism in terms of the future outlook for markets (who don't like to "fight the Fed").

Allied to this theme is that of mergers and acquisitions (M&A), where volumes have fallen substantially over the last few years as participants haven't been able to get a firm grip on their "cost of financing". With this fear now partly alleviated, we believe capital markets will now see a return to more M&A transactions (we started to see this resume in late 2023).

As markets get a taste of a brighter day ahead, they look to increase exposure to riskier assets. One of these "risk-on" trades (and coupled with the fact that due to higher inflation, there is less scope to cut rates aggressively in Australia) is the Australian dollar (AUD). Starting in Q3, we began to hedge part of the portfolio against a rising AUD, such that at the time of writing we have hedged approximately 50% of the portfolio at an average price of 64c vs. the US Dollar. This will afford the portfolio some protection against a weaker US dollar as money flows into risky assets globally, and as rates begin to be lowered in the USA.

(2) There has been a stampede out of "no/low" interest deposits and into money market funds, such that cash on the sidelines is estimated to be in the vicinity of USD6 trillion. With the potential for rates to start to fall, some of these substantial cash balances will look to move into areas which offer more attractive returns (we think the mid-cap exposure within our Fund could be a beneficiary of this trend).

(3) As regards AI enthusiasm, the Fund participated in this theme in 2023 via its holdings in shares such as Amazon, Alphabet and Microsoft. As a result of crowding in these magnificent 7 shares, market performance has been very narrow resulting in the underperformance of the S&P Index by the broader S&P 493 shares. In fact, a record 72% of shares have underperformed the S&P 500 in 2023. In response to valuations which we regard as offering less margin of safety (lower future returns), we have started lightening our weightings in certain of these large cap technology "AI winners". At the same time, we have been adding to our mid-cap holdings as well as working on a number of new mid-cap ideas where we would like to build conviction and apply capital to this "unloved" area of the market.

(4) USA markets have moved quickly to discount the impact of people consuming less calories as a result of these weight loss drugs (even extends to airlines using less fuel assuming every passenger they carry through a year loses 10% of their body weight). We have no long exposure to companies who sell snacks, sugar heavy carbonated soft drinks, and fast food. However, we have seen an impact on the share prices of Pernod Ricard (luxury spirits) and HCA Healthcare (hospital operator). Whilst this trend is real, we believe many of the associated health benefits accrue over very long periods of time, so we feel some of this impact is already discounted into their share prices. We will continue to monitor developments closely.

Our top 10 positions in the Fund (in alphabetic order) as of 31 December 2023 were as follows:

Company
Amazon
GXO
HCA Healthcare
Mastercard
Pernod Ricard
Ryman Hospitality Properties
Shopify
The Trade Desk
The Walt Disney Company
Wells Fargo

The period during and post the Covid-19 pandemic was challenging for most companies on so many fronts including supply chain difficulties, ensuring adequate supplies of the right inventories, forecasting challenges, working from home and the knock-on impact on commercial real estate/how much office space is truly needed. Whilst these trends have been slow to normalise, we believe that now a few years on, many of these aberrations have now normalised and perhaps we are looking at a more normal business cycle going forward. Our portfolio companies have navigated these last few years well, and we believe the companies we own are well placed as we progress through 2024.

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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Some numerical figures in this publication have been subject to rounding adjustments.