Orca Global Disruption Fund December 2022 Quarterly

GLOBAL DISRUPTION FUND

FUND PERFORMANCE[1]

Fund performance	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)
Orca Global Disruption Fund	-9.9%	-10.6%	-44.3%	-19.6%	-3.7%	4.4%	5.9%
MSCI ACWI Index (Net, AUD)	3.5%	3.7%	-12.9%	4.5%	5.0%	8.1%	9.4%
Excess Return	-13.4%	-14.2%	-31.4%	-24.1%	-8.7%	-3.7%	-3.4%

Notes: Data as at 31 December 2022 unless stated. Numbers may not sum due to rounding. Past performance is not indicative of future performance.

MARKET COMMENTARY

Global equities returned +3.5% (MSCI ACWI) for the December quarter (note, all figures are in Australian dollar (AUD) terms unless otherwise stated) with the market advancing +9.4% in US dollar (USD) terms as the USD weakened 6.1% against the AUD. For the year, Global equities returned -12.9%.

Despite headline resilience, markets remained volatile as investors weighed positive signs of easing inflation against central bank commitments to hold rates higher for longer coupled with rising expectations of a global recession in 2023.

US markets started the quarter strongly returning +8.6% (S&P 500 Index,) in October, led by Value stocks and sectors (MSCI World Value Index +10.2%) such as Energy, Financials and Materials, as Growth underperformed (MSCI World Growth Index +5.1%). The US Federal Reserve (Fed) raised interest rates +75 basis points (bp) during September and again in November marking the fourth consecutive hike of the same magnitude. Federal Open Market Committee (FOMC) members reiterated the need for rates to remain restrictive to tackle inflation, while Chairman Powell indicated potential to slow down the pace of future hikes as rates approached a sufficient level to slow the economy. In December, following signs inflation was moderating, the Fed stepped down to a 50 bp raise, coinciding with economic data showing early signs of deceleration.

Asian markets bounced during the quarter with Hong Kong outperforming (Hang Seng +9.1%) and Japan (Nikkei 225) +4.9% while Chinese (CSI 300 Index) markets recovered from October lows to close -0.8%, on strong momentum following constructive G20 meetings between President Joe Biden and Chinese leader Xi Jinping and China's move away from strict zero Covid policies in December.

European (STOXX Europe 600 Index) equity markets rose +13.5% with gains from Energy, Financials, Industrials and Consumer Discretionary sectors. Equities were supported by hopes inflation was slowing with data pointing to sequential declines in November. The European Central Bank (ECB) raised rates by 50 bp in December, a step down from two previous 75 bp hikes, while indicating rates would rise further. UK equities (FTSE 100 Index) returned +10.8% as the political landscape stabilised following the appointment of Rishi Sunak as Prime Minister and the wind back of controversial unfunded policies of the previous administration. The Bank of England (BoE) also moved to reduce the pace of interest rate hikes.

Value (+7.7%) outperformed this quarter with Growth (-1.2%) aggressively sold off late in the period. On a sector basis Energy (+13.0%), Materials (+10.6%), Financials (+9.5%), Healthcare (+6.8%), Consumer Staples (+5.4%) and Utilities (+4.9%) all outperformed. Information Technology (IT, -0.9%), Communication Services (-5.2%) and Consumer Discretionary (-7.9%) underperformed the broader global market.

Despite the appreciation in broader markets, technology stocks were sold off with the Nasdaq Composite Index (Nasdaq) falling -6.4% led by a sell-off in megacap technology stocks following a weaker than expected reporting season. Within IT, cyclical subsectors performed best with Semiconductors (+3.5%) the standout on expectations of a 2H23 demand recovery, while Software (-1.5%), Internet (-6.9%) and Hardware (-7.9%) underperformed.

The Nasdaq finished the year down 28.6% which was the largest drawdown since the Global Financial Crisis in 2008 (-30%), and the bursting of the technology bubble in 2000 (-28%). All technology sectors saw significant drawdowns with Internet (-44%), Semis (-32%), Software (-26%) and Hardware (-21%).

1. All returns are total returns, inclusive of reinvested distributions and net of fees and costs using net asset value per unit from inception to, and including, 31 January 2021 and exit unit price from this date. Past performance is not a reliable indicator of future performance. Inception 25 July 2017.

GLOBAL DISRUPTION FUND

FUND UPDATE

For the December quarter, the Orca Global Disruption Fund returned -9.9%, compared with the MSCI All Countries World Index (Index) which returned +3.5%. Since inception, the Fund is up 5.9% p.a. compared to the Index +9.4% p.a.

2022 was a challenging year particularly for growth and technology equity investors. We believe the decline in market valuation of companies in these segments have mainly been driven by the rapid change in global interest rates with the Fed raising rates from 0.25% to 4.5% to combat higher inflation. This has also driven a significant market rotation away from growth stocks to value and higher yielding segments of the market. In addition, a significant number of technology companies are navigating the impact of a normalisation of digitisation trends which were rapidly accelerated during the Covid pandemic.

While we are disappointed and humbled by the Fund's weak performance over the past year, this has not affected our long-term outlook. We remain optimistic on the impact of technologically driven disruption and the value creation that will likely follow. In our view, the pace of disruption and innovation has not slowed, and we saw some important breakthroughs in 2022. While we continued to see the adoption of cloud computing, digital transformation and decarbonization, we think 2022 will be known as the year of the emergence of Artificial Intelligence (AI). We saw this first with image generation models such as DALL-E and then late in the year with ChatGPT, the first text generation model to breakthrough in a major way. Microsoft's CEO Satya Nadella believes the next major computing platform is being born with the advances in AI. We believe the Fund is well placed to benefit from this thematic through the positions in semiconductor companies ASML, TSMC, Nvidia and cloud providers Microsoft, Amazon and Alphabet.

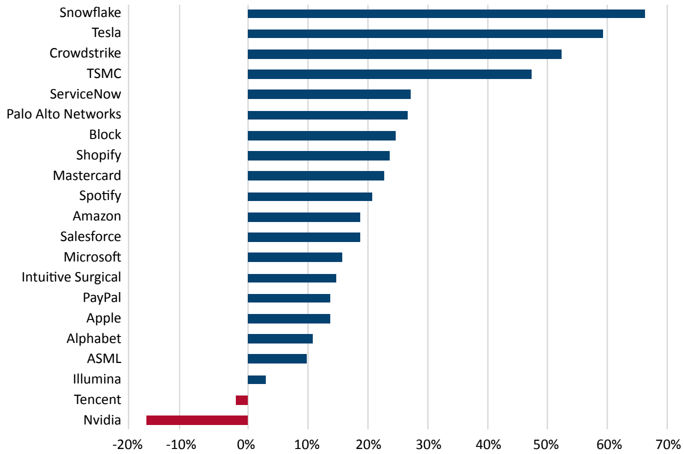
Despite the recent declines in value of the companies in the Fund, we believe that underlying company fundamentals are robust, with their total addressable markets remaining large (in some cases expanding), their competitive positions remain strong as do their long-term earnings potential. Despite all the market noise and pessimism, the Fund's companies delivered revenue growth of 22% (on a constant currency basis) during the September quarter which we believe demonstrates continued robust fundamental performance.

While a potential recession will have some near-term impact (e.g. a number of companies are guiding to slowing growth in coming quarters), our view is that the companies that we hold will remain resilient during an economic downturn.

This view is premised on the following:

- Exposure to disruption thematics will continue to drive secular growth – cloud computing, software driving digital transformation, cybersecurity, decarbonization, artificial intelligence, healthcare innovation including robotics and genomics. We highlight the increasing opportunities that some of the companies are seeing with ASML upgrading its longer-term guidance at its Capital Markets day in November (more on this below).
- Strong competitive positions with the companies providing essential products and services to businesses and consumers.
- Strong balance sheets with the majority of holdings in net cash positions – net debt (cash)/EBITDA of Fund is (0.6x) vs the broader market at 1.2x.
- Many management teams have pivoted to right size their cost bases to preserve margins in anticipation of more difficult times.

SEPTEMBER QUARTER REVENUE GROWTH (% ON PRIOR CORRESPONDING PERIOD) – CONSTANT CURRENCY



Source: Company data, Investment Manager. Note: PayPal excludes eBay, Block excludes Bitcoin and AfterPay acquisition

For the quarter the strongest contributors to performance were ASML (+24.7%), Mastercard (+16.0%) and Intuitive Surgical (+34.2%). Weaker contributors were CrowdStrike (-39.4%), Amazon (-29.5%) and Tesla (-56.0%).

ASML (+24.7%) reported a solid September quarter result with revenues +10%, operating margins of 33% and EPS all ahead of consensus. ASML's order book also grew +44% to a record €8.9bn, well ahead of market expectations. FY22 revenue and gross margin guidance was raised, with demand remaining ahead of supply and shipment expectations which bodes well for strong growth in FY23.

In November, ASML held its Capital Markets Day where it upgraded long term revenue guidance for FY25 and FY30 – it now expects FY20-FY25 CAGR of +17-23% (up from +11-17%) and FY20-FY30 CAGR of +12-16% (up from +11%). ASML also expects higher gross margins than previously anticipated. Underpinning ASML's more positive outlook is increasing demand for its lithography tools used to produce semiconductors for both advanced and mature markets. This is driven by: (1) mega trends including cloud, AI, 5G, new computing platforms such as AR/VR and also the transition to renewable energy; and (2) increasing investment as countries and major foundries seek to diversify geographic footprints.

Mastercard (+16.0%) reported strong September quarter results with revenues growing +23%, operating income +27% and EPS +22% (in constant currency). Mastercard continues to see resilient consumer spending and continued recovery in cross border travel (volumes +44%). For the December quarter the company expects to grow at a high mid-teens percentage rate.

Intuitive Surgical (+34.2%) reported better than expected quarterly results with revenue growth +15% (constant currency) and EPS flat (8% ahead of market expectations). Procedure growth grew at +20% with the company upgrading its full-year guidance to +17-18% (from +14-16.5%). Intuitive placed a total of 305 systems during the quarter (vs 336 in 3Q21) with the installed base of robotic systems increasing by +13%. Pleasingly, the company's newer product also grew strongly with the newly launched Ion bronchoscope performing strongly. On the company's ability to withstand a recession, management pointed out that 80% of the revenue is subscription like and visible.

CrowdStrike (-39.4%) reported a solid quarterly result with revenues +53% and operating margins of 15.4%, both ahead of market expectations. Despite strong headline performance, the market focused on deceleration in net new ARR growth which slowed to +17%, modestly below expectations. Management believe factors behind the slowdown were: (1) Non-enterprise deals taking longer to close on budgetary pressures – importantly management expect these have been delayed rather than lost; and (2) Enterprise customers opting to phase in new subscriptions, impacting the timing of some revenues. Positively, guidance was reiterated for FY23 revenue growth of +54% while operating income expectations were raised ahead of market expectations. Preliminary guidance was provided for FY24 which conservatively assumes macro pressures persist into the 1H, resulting in subscription revenues growth at the lower end of 30 to 40 percent. Despite near term macro challenges, management believe the competitive environment remains favourable, with structural demand underpinned by rising cyber threats, increased regulatory requirements and customer preference to consolidate IT spend with fewer vendors.

Amazon (-29.5%) reported a mixed September quarter result with revenues +19% (in constant currency (cc)) while operating income declined 57% which was in-line with guidance. Revenues in the US retail business grew +20%, International -5% (+12% cc), AWS +27.5% and advertising +25%. Management guided next quarter revenue growth to decelerate (+7% to +12% cc) with operating income $0 to $4bn, below market expectations. Amazon indicated that macro-economic conditions have caused a slowdown in the retail business (particularly in Europe) and at AWS where it is helping customers optimise cloud computing spend. In our view, these issues are not structural, and the longer-term outlook continues to be positive: (1) economic recessions have historically served to accelerate the shift to ecommerce and cloud computing; and (2) Amazon's competitive position continues to strengthen given its investments. While Amazon has more work to do on optimising its cost base, we believe that it will likely deliver strong operating leverage in the medium term. During the quarter, Amazon indicated it was going to lay off thousands of employees (confirmed to be 18k in January) mainly across its corporate divisions.

Tesla (-56.0%) declined due to: (1) Elon Musk's acquisition of Twitter; and (2) concerns over a slowdown in demand in its automotive business.

While the Twitter acquisition has likely created an overhang over the Tesla share price, we think this will be more short term in nature. In our view, Tesla is executing well on its long-term business plan, continues to innovate, and has a strong product pipeline. Elon Musk has indicated (1) he will not sell anymore Tesla shares for some time following the sale of $3.6bn of shares during the December quarter, and (2) he is currently looking for a full-time CEO for Twitter now that he has made key changes to place the company on a more sustainable path.

In our view, if a recession does materialise, this will impact overall demand in the automotive industry and the demand for Tesla products. We may have seen the early signs of this with Tesla reporting 4Q deliveries of 405k (+31% growth but below market expectations of +418k and Tesla guidance of just below +50%), weakness in China and a reduction in backlogs in US. In response, in early January, Tesla lowered pricing by 10-15% across US, Europe and China. While this will have a near term economic impact, we believe this is a strong long-term strategy:

- It will drive volume and market share in an economic slowdown.
- The price cuts will mean that the majority of Tesla's models will be eligible for US government credits of $7,500 (which makes their cars even cheaper for consumers which will drive further demand). In addition, Tesla is well placed to benefit from Inflation Reduction Act tax credits as it scales its EV battery production.
- Tesla's unit costs are coming down as they scale their new Giga factories in Berlin and Texas and the company has indicated that they are seeing input cost deflation in raw materials over the past quarter.
- This will pressure Tesla's competitors significantly during a slowdown – most of Tesla's competitors lose money on electric vehicles and this could get worse if they respond. We note that Tesla's financial position is extremely strong – it has industry leading profit margins at 17%, is on track to generate $6bn of free cash flow in 2022 with over $20bn of net cash on the balance sheet.

Overall, our conviction on Tesla is strong given it is leveraged to the shift to electric vehicles and at some point in the future, autonomous mobility. We believe that Tesla is executing well with robust business fundamentals and significant competitive advantages (e.g. vertical integration, software, manufacturing and ability to attract the best engineering talent). We note that Tesla's return on invested capital of 35 to 40 percent is a sign of an extremely strong business.

FUND CHANGES

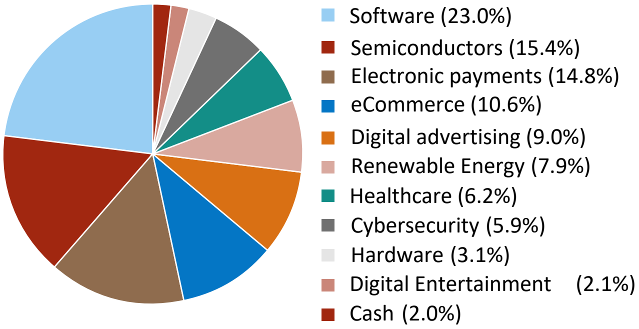
Health technology company **IQVIA**, the largest global contract research organisation (CRO) and leading healthcare data and analytics provider was added to the Fund this quarter.

IQVIA is a pureplay beneficiary of the secular trends towards clinical trial outsourcing and digitisation in biopharma. IQVIA is well placed to grow strongly, given: (1) its best of breed orientation, (2) the resilience of the pharma R&D wallet, which historically has grown in spite of market volatility, and (3) strong secular tailwinds for its data-differentiated RWE (real world evidence) offering. For the past 5 years, IQVIA has compounded revenues at +12% and EPS at +17%.

As a provider of biopharma outsourcing services, IQVIA's growth and performance are primarily dependent on the pharma R&D wallet. This as an enviable position in a recession, given a high level of historical resilience in the pharma R&D wallet that is independent of market and macro volatility. Looking back to the recession of '08/'09, R&D spend as a percentage of total revenues was essentially flat for the Top 25 pharma companies in the years before/following the downturn.

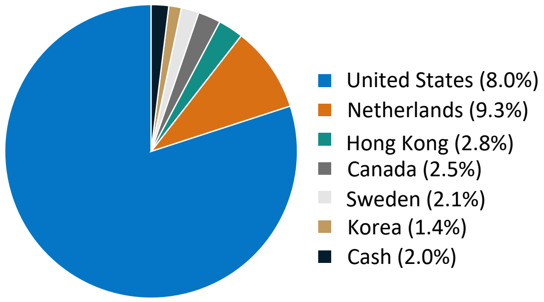
Given the strong rebound in Chinese Internet stocks, driven in-part by anticipation of China's reopening and improved regulatory conditions, Tencent was sold out of the Fund during the quarter to reallocate to new investments. While we expect Tencent will remain a leader in gaming, social and cloud we believe the continued uncertainty with regard to political stability and the economic backdrop means there are more attractive opportunities elsewhere.

THEMATIC EXPOSURE



Source: Investment Manager, Bloomberg

GEOGRAPHIC REVENUE EXPOSURE



Source: Bloomberg, Country of Domicile

TOP 10 FUND HOLDINGS AS AT 31 DECEMBER 2022

NAME	SECTOR
Adyen	Electronic payments
Alphabet Inc	Digital advertising
Amazon.com Inc	eCommerce
ASML Holding	Semiconductors
Mastercard Inc	Electronic payments
Microsoft Corp	Software
Palo Alto Networks	Cybersecurity
ServiceNow	Software
Tesla	Renewable energy
TSMC	Semiconductors

This fund is appropriate for investors with “High” and “Very High” risk and return profiles. A suitable investor for this fund is prepared to accept high risk in the pursuit of capital growth with a medium to long investment timeframe. Investors should refer to the TMD for further information.

Orca Global Disruption Fund

TOP 10 HOLDINGS AS AT 31 DECEMBER 2022

Adyen – is a payments platform business. Adyen's products include online payments, point of sale, marketplaces, and unified commerce. The company was founded by Pieter van der Does and Arnout Schuijff in 2006 and is headquartered in Amsterdam, Netherlands.

Alphabet – key products include Google, Android, Maps, Chrome, YouTube and Google Play which all have over 1 billion active users. The core product is Search where the company is the clear market leader with an estimated desktop search market share of 80% – more than 10x its closest peer. The company is owner-managed and controlled through its founders Larry Page and Sergey Brin and currently operates in more than 40 countries worldwide.

Amazon – is the global leader in internet retail and cloud based computing. From its listing in 1997 as primarily an online book retailer, Amazon has now expanded its offering to most areas of consumer merchandise, whilst also developing market leading cloud computing services. It has a relentless focus on low cost operations, constant reinvestment and customer service. The company is owner-managed and controlled by its founder Jeff Bezos.

ASML – is a leading global specialist semiconductor company focused on the development and production of advanced semiconductor manufacturing equipment and lithography related systems. The equipment produced by ASML is used by global foundries and semiconductor companies that produce memory and logic chips. Major customers include: Taiwan Semiconductor (TSMC), Samsung and Intel. ASML is dominant in market share and is the sole provider of next generation semiconductor manufacturing equipment known as EUV. The company was founded in 1984 and is based in the Netherlands.

Mastercard, Inc – Mastercard is a global technology company in the payments industry. The company's mission is to connect and power an inclusive, digital economy that benefits everyone, everywhere by making transactions safe, simple, smart, and accessible. The firm connects consumers, financial institutions, merchants, governments and business across more than 210 countries and territories. The company was founded in November 1966 and is headquartered in Purchase, NY.

Microsoft Corporation – is a multinational technology company that manufactures, licenses, supports and sells computer software, personal computers, consumer electronics and services. The Company's main segments include Intelligent Cloud, More Personal Computing, Productivity and Business Process. Its products include cross device productivity applications, server applications, business solution applications, desktop and server management tools, software development-tools, video games, and training and certification of computer system integrators and developers. The Company also designs, manufactures and sells devices including personal computers, tablets, gaming and entertainment consoles, and other intelligent devices that integrate with its cloud-based offerings.

Palo Alto Networks, Inc. – is a leading cybersecurity company providing both hardware and software solutions to customers. Palo Alto has a transitioned from a cyclical product focused business to a recurring revenue model with next generation cybersecurity subscription offerings spanning network security, cloud security and security operations, complementing its core firewall business. The company was founded by Nir Zuk in March 2005 and is currently led by CEO Nikesh Arora with headquarters in Santa Clara, California.

ServiceNow – provides cloud-based software solutions enabling enterprises to define, structure, manage and automate services. ServiceNow's core products provide workflow tools for IT departments enabling the delivery of service management applications. The company also offers software solutions catering to other enterprise functions including customer service, human resources and security operations. All products are built on a single platform providing flexibility for user customisation, and are delivered over the internet, enabling simple configuration and rapid deployment. The company was founded in 2004 and has headquarters in Santa Clara, California.

Taiwan Semiconductor Manufacturing Co (TSMC) – is the largest dedicated global foundry for the manufacture of semiconductor chips. TSMC produces chips for a wide range of uses including data centres, networking equipment, smartphones, tablets, PCs and gaming consoles. TSMC has a broad customer base of major hardware and fabless semiconductor companies including Apple, Qualcomm, Nvidia, AMD, MediaTek and HiSilicon (Huawei). The company is leveraged to chip demand from emerging themes such as 5G, IoT and artificial intelligence. TSMC was founded in 1987 and is based in Hsinchu, Taiwan.

Tesla – Tesla's mission is to accelerate the world's transition to sustainable energy. It designs, develops, manufactures and sells electric vehicles and scalable clean energy generation and storage products. Tesla launched its first-generation electric roadster in 2008, before producing the Model S sedan (2012), Model X SUV (2015) and mass market Model 3 (2017). Manufacturing operations are located in the US, Canada, Germany and China. As of 3Q21 Tesla has achieved quarterly production of over 230k cars with CEO Elon Musk stating ambitions to produce 20 million cars annually by 2030. Tesla was founded in 2003 in California. Co-founders include Martin Eberhard, Marc Terpenning, Ian Wright, Elon Musk and JB Straubel.

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