Orca Global Disruption Fund June 2023 Quarterly

FUND PERFORMANCE[1]

Fund performance	3 Months	6 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception(p.a.)
Orca Global Disruption Fund	15.9%	44.7%	29.5%	1.9%	8.0%	12.2%
MSCI ACWI Index (Net, AUD)	6.7%	16.5%	20.8%	12.2%	10.4%	11.4%
Excess Return	9.2%	28.2%	8.7%	-10.3%	-2.4%	0.8%

Notes: Data as at 30 June 2023 unless stated. Unit price (exit) at 30 June 2023: $2.5444. Fund size: $160.6 million. Numbers may not sum due to rounding. Past performance is not indicative of future performance. Benchmark is for comparison purposes only, see Disclaimer for further information.

MARKET COMMENTARY

Global equities (MSCI AC World Index (Index)) returned +6.7% for the June quarter (note, all figures are in Australian dollars (AUD) unless otherwise stated) with the market advancing +6.2% (in US dollar (USD) terms) as the AUD declined marginally against the USD.

US market (S&P 500 Index) performance was strong during the quarter, with the S&P 500 Index rising +8.8%, with most gains achieved in June. The US Federal Reserve (Fed) raised interest rates by 25 basis points (bp) in May, electing to pause hikes in June, while the dot plot of rate predictions revealed Federal Open Market Committee (FOMC) members expect two further 25bp rises in 2023. US inflation continued to ease in May with headline CPI +4.0% coming in below market expectations, while unemployment rose more than expected to 3.7% (vs April: 3.4%) despite the labour market remaining tight. The momentum from Generative Artificial Intelligence (AI) continued to lift technology stocks including semiconductors and cloud computing providers.

Asian equity markets (MSCI AC Asia Ex. Japan Index) were mixed during the second quarter declining -0.8% with China (-9.3%) underperforming as reopening strength moderated. Economic data revealed manufacturing slowed further in May on weakening consumer and export demand with the Purchasing Managers' Index declining to 48.4 (vs April: 49.2) and remaining in contraction territory (<50). Global demand for Chinese products has weakened following successive interest rate hikes by central banks to tame inflation. Hong Kong shares (Hang Seng Index) were also impacted by the slowing Chinese economy with equities down -5.5% over the quarter. India, Taiwan and South Korean equity markets all gained. Japanese equities (Nikkei 225) performed strongly rising +9.5%, with the Nikkei reaching 33-year highs.

European equity markets (STOXX Europe 600) rose 3.6% with strength from Financials and Information Technology (IT), while Consumer Staples, Materials and Communications Services sectors underperformed. The European Central Bank (ECB) raised rates twice to 4.0%. Headline inflation declined from 6.1% in May to 5.5% in June, however core inflation rose to +5.4% in June (from 5.3% in May). UK equities (FTSE 100 Index) declined in local currency terms over the quarter with Energy and Materials facing headwinds from softer commodity prices and concerns over the outlook for China. The BoE twice raised rates (+0.25%) in May and +0.5% in June following stronger than expected core inflation data and robust labour market.

Easing inflation and tailwinds from Generative AI supported Growth (MSCI Growth Index +10.6%) outperformance vs Value (MSCI Growth Index +3.7%). From a sector perspective, IT (+15.2%), Consumer Discretionary (+11.0%) and Communications Services (+10.1%) outperformed global equities. Financials (+5.5%), Health Care (+2.9%), Consumer Staples (+0.8%), Materials (+0.4%), Energy (-0.1%) and Utilities (-0.1%) underperformed the broader global index.

The Nasdaq Index (NASDAQ Composite Index) rose +13.6%, benefitting from AI tailwinds, with broad-based sub-sector strength from Software (S&P 500 Software Industry, +17.3%), Hardware (S&P 500 Technology Hardware & Equipment Index, +14.6%), Semiconductors (Philadelphia Stock Exchange Semiconductor Index, +14.2%) and Internet (NASDAQ CTA Internet Index, +11.4%).

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.

FUND UPDATE

For the June quarter, the Orca Global Disruption Fund (**Fund**) returned +15.9%, compared with the MSCI All Countries World Index (**Index**) which returned +6.7%. Since inception, the Fund is up 12.2% p.a. vs the Index +11.4% p.a.

Despite continued macroeconomic uncertainty and rising bond yields, the Fund outperformed during the quarter driven by:

- A better-than-expected reporting season. Overall, the Fund delivered +23% revenue growth in the March quarter (largely consistent with prior quarters) with continued good execution on cost control and margin improvement. We note that 95% of portfolio companies beat or met market expectations (based on Bloomberg consensus) at both the revenue and earnings levels.
- Continued rapid innovation and progress of Generative AI and applications and use cases continuing to emerge as highlighted at events including the Google I/O conference and Microsoft Build developer conference.
- The first signs of tangible evidence of Generative AI demand impacting Company earnings. This was highlighted by Nvidia's blowout result and commentary from Microsoft that it expects its next generation AI business to be the fastest growing $10bn business in its history. More detail on AI is included below. While Generative AI has attracted significant hype, and lifted valuations across a broad range of companies, we note that very few of these have been accompanied by improving earnings estimates as yet.

AI has been a key focus thematic for the Global Disruption Fund for several years and has significant leverage to the evolution and adoption of AI. As illustrated below, we believe the AI value stack can be simplified into three layers: (1) Applications; (2) Models; and (3) Infrastructure. Given it is still very early, it is not clear to us how much value could accrue and who could be the long-term winners at the Application and Model layers. However, what we do know is that that the majority of Generative AI passes through the infrastructure layer. In our view, semiconductor companies and cloud computing providers are the "picks and shovels" of the AI era and will likely be the early to medium stage beneficiaries.

The strongest contributors to performance during the quarter were **Microsoft (+18.9%)**, **Nvidia (+53.2%)** and **Amazon (+27.0%)**.

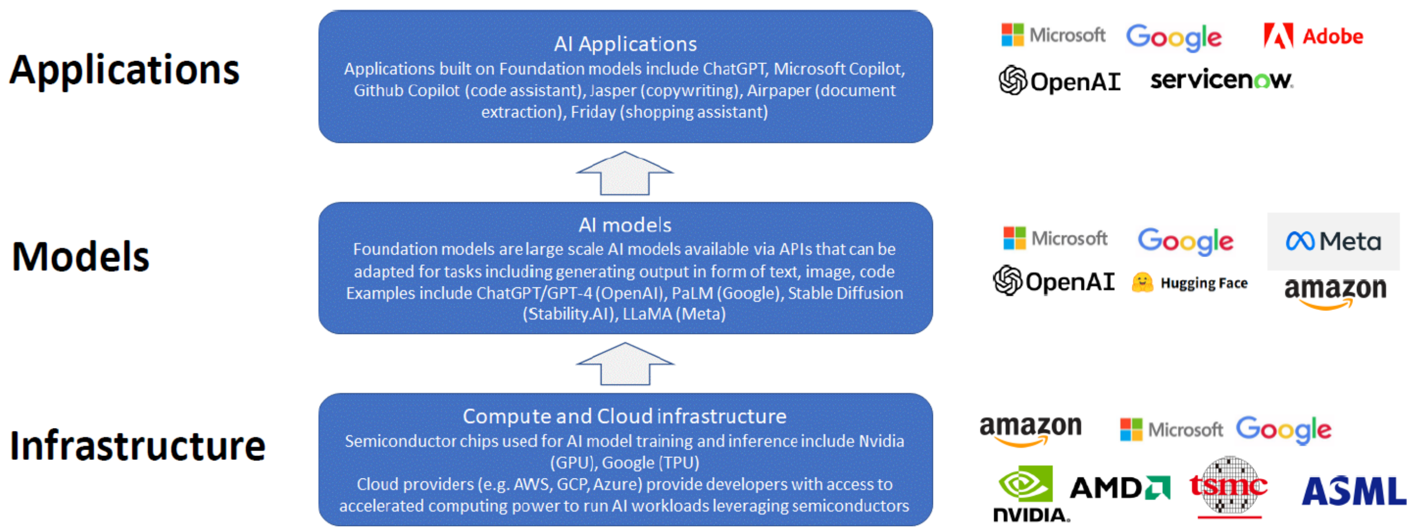
Positions that detracted from returns included Block (-2.4%), Moderna (-22.4%) and Illumina (-18.9%).

Microsoft (+18.9%) delivered a standout March quarter result with revenue growth of +7% (+10% in constant currency (cc)) and EPS +10% (+14% cc) both well ahead of market expectations. Guidance for the June quarter was also ahead of market expectations with management guiding to +8-10% constant currency growth. Microsoft continues to see resilient revenue growth from Office commercial (+17%), Azure (+31%), Dynamics (+21%) and LinkedIn (+10%). Azure revenue growth decelerated in line with management's expectations (+31% vs +38% in 2Q) as customers remain cautious on cloud spending in near term, while management called out strong demand for its next generation AI products. From next quarter management expect AI to contribute 1% to cloud revenue growth, with strong customer momentum: (1) 2,500 Azure OpenAI customers (up 10x qoq); (2) 10,000 organisations signed up to generative AI based coding assistant Github Co-Pilot.

Later in the quarter, Microsoft held its annual developer orientated Build conference and also hosted an investor event focused on AI. At these events, management: (1) announced a series of products that highlighted how it is incorporating Generative AI capabilities across its offerings (including more Co-Pilots on the way); (2) sees the potential for next generation AI to be the fastest growing $10bn business in its history; (3) while expecting increased capex investments, believes ROIC will be high; and (4) highlighted how privacy and regulation are core to its development efforts.

Nvidia (+53.2%) reported a strong first quarter result, despite revenues declining 13% relative to Q1 in the prior year (data centre +14%, gaming -38% and automotive +114%), with both revenues and earnings well ahead of market expectations. However, what surprised the market was the guidance for the 2nd quarter with management guiding to revenues to grow +65% to $11bn, well ahead of market expectations of $7bn. Nvidia expects accelerating growth in the data centre business as a result of strong demand for its Graphic Processing Units (GPUs) driven by Generative AI use cases from cloud providers, consumer internet companies and enterprises. Nvidia also indicated that the demand has extended its order visibility and it has procured significantly more supply (from TSMC) in anticipation of a stronger second half of the year compared to 1H.

FIGURE 1 – THE AI VALUE STACK



Source: Company data, Investment Manager.

Towards the end of the quarter, news emerged that the US Commerce Department could impose further licensing restrictions on chip sales to Chinese customers for Nvidia's A800 and H800 models. Management believes that if the restrictions are adopted, the near-term financial impact will be immaterial given the strength of the demand for its products worldwide. However, over the long term, restrictions that result in a permanent loss of opportunities in China will have a negative impact on its business in the future.

Amazon (+27.0%) reported a solid first quarter result with revenues growing +11%, and operating income of $4.8bn – both ahead of market expectations. The company expects 2Q revenue growth of +5-10% with operating income of $2-$5.5bn, broadly in-line with market expectations. There were several positives in the result including: (1) resilient retail revenue growth (US +11%, International +9%); (2) AWS growth of +16%; (3) strong advertising growth of +23%; and (4) good progress in margin improvement in the Retail business with CEO Andy Jassy indicating he expects margins can exceed pre-COVID margins in the future. While Amazon indicated that AWS revenue growth continued to decelerate in April to +11% as customers continued to optimize cloud spend, underlying trends remain strong with continued cloud migration, strong new customer pipeline and continued product innovation (including a series of Generative AI product announcements). Andy Jassy believes that Generative AI will help drive growth across the entire cloud industry: *"in my opinion, few folks appreciate how much new cloud business will happen over the next several years from the pending deluge of machine learning that's coming"*.

Block (-2.4%) reported March quarter results that beat market expectations due to strong performance of its Cash App and the company also raised its full year EBITDA guidance. The stock underperformed during the quarter due to ongoing concern around the deteriorating macro conditions that could impact Block's business. Block's seller business is somewhat exposed to discretionary spending and its BNPL business could potentially be impacted from rising unemployment. However, the company has diversified products with 14 products generating over $100m in gross profit.

We also highlight that in late March, Block was a target of a short seller report alleging inflated user metrics for peer-to-peer Cash App, lax procedures regarding user verification and facilitation of fraudulent activity on the platform. Block's subsequent response highlighted: (1) that of 51m reported active users on its platform, the majority (44m) had been verified via internal verification measures with 39m identified as unique users by social security number; (2) 97% of Cash App inflows in Dec-22 came from verified accounts; and (3) in regards to fraud and illicit activity, 2.4% of Cash App actives were placed on a denylist (where users are prevented from utilising many capabilities on the platform) in 2022 with additional controls in place to restrict known bad actors from returning to the platform. Furthermore, Block indicated that its investments into compliance had grown 2x the rate of gross profit growth, implying compliance spend has approximately doubled annually in the past 3 years.

During the quarter, we initiated a position in biotechnology company Moderna (-22.4%) – for more detail see below. While the company's March quarter results beat market expectations driven by higher-than-expected COVID vaccine sales, shares underperformed driven by interim results of the company's flu vaccine coming in below expectations. The company subsequently changed the composition of the flu vaccine which would likely delay its launch to 2024/2025. However, the company also announced incremental positive news around its cancer vaccine with interim results showing that the cancer vaccine when combined with Merck's cancer drug Keytruda, reduced the risk of disease recurrence or death in stage III/IV melanoma patients. Moderna also announced positive early trial results for a rare disease called propionic acidemia. Moderna is gearing up to launch the respiratory syncytial virus vaccine in late 2023/early 2024 ($10bn addressable market size) having already announced positive trial results.

Illumina (-18.9%) underperformed during the quarter due to ongoing regulatory scrutiny around its acquisition of GRAIL (liquid biopsy provider). Following some shareholder activism over the GRAIL acquisition (the company had decided to proceed without securing regulatory approval), the Chairman and CEO left the company during the quarter. We believe the management changes will be helpful over the longer term as new management will likely actively work with the regulators to divest GRAIL and focus on the core business. In our view, Illumina is the undisputed leader in gene sequencing and the core gene sequencing business continues to perform well with a large runway for growth.

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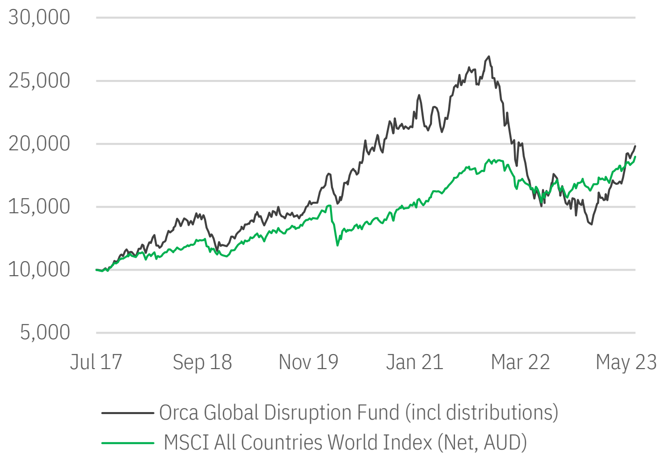

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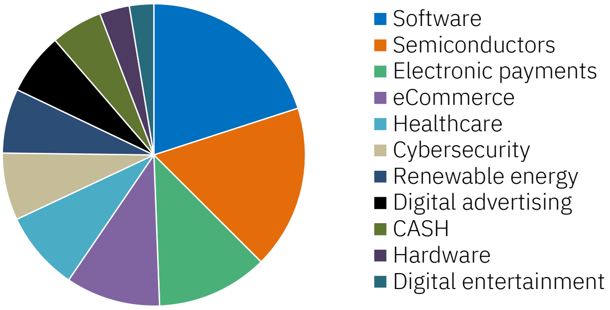
FUND CHANGES

AMD, a leading US based designer of semiconductor chips was added to the Fund. AMD is exposed to structural growth in semiconductors including the shift to cloud and adoption of AI. AMD has gained market share in the core CPU market, benefitting from technological missteps at incumbent leader Intel, while releasing more advanced chips of its own. AMD is also competing with Nvidia in semiconductor chips enabling AI, as cloud service providers (CSPs) look to source chips from multiple vendors. AMD's CEO, Lisa Su believes: *"If you look out five years, you will see AI in every single product at AMD, and it will be the largest growth driver"*.

As previously noted, we also initiated a position in Moderna, a biotechnology company based in Boston. Moderna is a pioneer in developing mRNA technology with the launch of the COVID vaccine signalling transition of the technology from research to clinical application. Moderna is also developing mRNA therapeutics in the fields of RSV, influenza, oncology, rare diseases and other therapeutic areas. In total, Moderna has named 48 different developmental programs, 30 of which have advanced to human clinical trials. In our view, mRNA vaccines and drugs will be disruptive to the traditional vaccine and therapeutics market as they can target complex viruses and diseases with rapid, cell-free manufacturing that can lead to an approved product in record time. While revenues from COVID vaccines will reduce going forward, Moderna's balance sheet has strengthened considerably. At the end of the March quarter, Moderna had over $16bn in cash & investments, which will enable them to continue funding their pipeline.

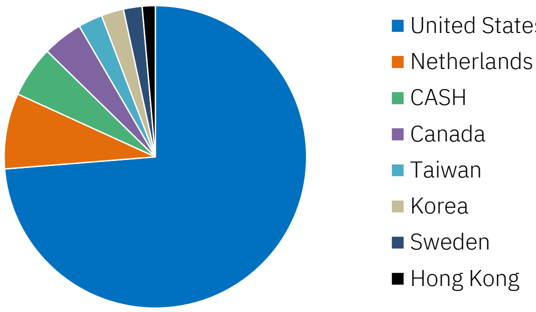
We exited PayPal given relatively less attractive growth prospects compared to new opportunities identified.

THEMATIC EXPOSURE



Source: Investment Manager, Bloomberg

GEOGRAPHIC EXPOSURE



Source: Bloomberg, Country of Domicile

TOP 10 FUND HOLDINGS AS AT 30 JUNE 2023

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

This fund is appropriate for investors with “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 30 JUNE 2023

adyen	**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	**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	**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	**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	**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.
NVIDIA.	**NVIDIA** – is the pioneer of GPU (Graphics Processing Unit) accelerated computing. The company specialises in products and platforms for the large, growing markets of gaming, professional visualization, data centres, and automotive. The company's pioneering work in accelerated computing and AI is reshaping trillion-dollar industries, such as transportation, healthcare and manufacturing, and fuelling the growth of many others. Nvidia was founded in 1993 by Jensen Huang (the current CEO), Chris Malachosky and Curtis Priem.
paloalto NETWORKS	**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	**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.
tsmc	**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.

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Benchmark selection

The Orca Global Disruption Fund is designed in a benchmark unaware manner. The Investment Manager believes the MSCI ACWI index is appropriate for comparison purposes given the Fund invests in companies across a range of industries including technology, renewable energy, consumer, communication services and healthcare. The risk/return profiles of the Fund and benchmark differ due to differences in the constituents of each. The Fund's objective is to provide investors with capital growth over the long-term through exposure to companies that benefit from disruptive innovation – in or from any industry/sector, including emerging market listed investments.