

# Orca Global Disruption Fund October 2023 Monthly



## FUND PERFORMANCE<sup>1</sup>

Fund performance	1 Month	3 Months	6 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception (p.a.)
Orca Global Disruption Fund	-0.1%	-7.5%	9.4%	20.0%	-3.7%	7.7%	10.4%
MSCI AC World Index (Net, AUD)	-1.4%	-4.1%	2.4%	11.5%	10.4%	9.9%	10.5%
Excess Return	1.3%	-3.4%	7.0%	8.5%	-14.1%	-2.1%	-0.1%

Notes: Data as at 31 October 2023 unless stated. Unit price (exit) at 31 October 2023: \$2.3893. Fund size: \$140.9 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.

## FUND UPDATE

The Orca Global Disruption Fund (**Fund**) returned -0.1% in AUD terms in October (-1.7% in USD), compared to the broader MSCI AC World Index return of -1.4% (-3.0% in USD). Since inception the Fund has returned +10.4% p.a. compared to the market return of +10.5% p.a.

US equity markets declined over the month (S&P500 -2.2%, Nasdaq -2.8% in USD terms) with volatility driven by: (1) geopolitical instability in the Middle East; and (2) 10 year US government bond yields reaching 5% for first time in 16 years, before retreating towards month end. The September quarter reporting season got underway with the Fund supported by strong results from some of our largest holdings and positive commentary on the adoption of Generative AI services that while still in the early stages, promises to be a secular tailwind for growth in the coming years.

The Fund's best contributors for the month were **Microsoft (+9.2%)**, **Amazon (+6.7%)** and **ServiceNow (+6.1%)**. Positions that detracted from returns included **Moderna (-25.0%)**, **Tesla (-18.2%)** and **Nvidia (-4.4%)**.

**Microsoft (+9.2%)** delivered an outstanding September quarter result with revenues growing +13% (+12% constant currency (cc)) and EPS +27% (+26% cc) both well ahead of market expectations. The company expects growth to remain strong in the December quarter with management guidance for revenue growth of +15-16% and operating income +21%-27%, also ahead of market expectations. Cloud business Azure reaccelerated with revenues growing +28%, ahead of guidance, including a +3% contribution from AI services which have shown strong early traction. Microsoft disclosed some encouraging metrics on Generative AI adoption including: (1) >18,000 organisations using Azure Open AI services;

(2) >1 million GitHub Copilot users, growing at +40%; and (3) 40% of Fortune 100 companies using Microsoft Copilot as part of an early access program with strong feedback so far.

**Amazon (+6.7%)** reported a strong September quarter result with revenues growing +13% and operating income +343% to \$11.2bn, both ahead of market expectations (+49% at operating income level). The result was highlighted by improving retail margins, AWS growth stabilisation, record profitability and significant FCF expansion. Retail sales remained resilient (US +12%, International +11%) with management executing well on its priority to lower the cost to serve while also improving delivery times – this not only resulted in strongly improving margins but also helped drive demand. AWS revenue growth stabilized at +12% - while some cloud customers continue to optimise workloads, these trends are moderating with an increasing shift towards bringing new workloads to the cloud. Amazon indicated several new deals were signed in September worth more than total reported 3Q deal volume, which will show up in later quarters. On Generative AI, Amazon has seen good early traction for products and services (Bedrock, CodeWhisperer, custom AI chips). Amazon's CEO, Andy Jassy, stated that AWS' Generative AI business is already significant in size and sees it growing to tens of billions (\$'s) in revenue over next several years.

**ServiceNow (+6.1%)** reported a strong September quarter result with subscription revenues growing +27% and operating margins of 30%, both ahead of market expectations. Management raised FY23 guidance for subscription revenues to grow +25.5% (was +24.5% to 25%) and operating margins expectations were raised 50 basis points to 27%, while retaining free cash flow margin guidance of 30%. Federal business was the standout segment with net new

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 (continued)

average contract value (ACV) growth >75%, including the third largest deal signed in company history (US Air Force). ServiceNow is already seeing strong demand signals for its generative AI products: (1) 300 customers in the pipeline at different stages of testing; (2) Gen AI SKU drove the highest number of requests for a pre-release product in its history; (3) four large Gen AI deals signed at the end of the quarter following launch on 29 September.

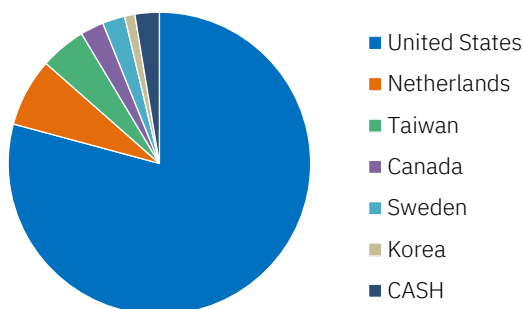
Other companies to report notable results included **Spotify (+8.6%)** and **TSMC (+1.3%)**. Spotify's September quarter result highlighted: (1) accelerating revenue growth (+17%) driven by strong subscriber growth, higher prices and reacceleration in advertising revenues; and (2) continued cost discipline resulting in improving margins and stronger than expected profitability. While TSMC continues to navigate an inventory correction across the PC and smartphone markets, the company's September quarter results were better than market expectations (revenues fell -11% and EPS -25%) as demand started to stabilise. Encouragingly, management expects 2024 to be a year of healthy growth driven by a recovery in the PC and smartphone markets, strong AI chip demand and continued market share wins as a result of TSMC's technological leadership. TSMC reiterated medium term guidance of 15-20% revenue growth per year.

**Moderna (-25.0%)** came under pressure following competitor Pfizer's announcement that revenues from its Covid MRNA vaccine and antiviral treatment were trending below expectations.

**Nvidia (-4.4%)** weakness followed news of the US government's additional restrictions placed on chips available for sale to Chinese and affiliated customers (including A800/H800 and advanced RTX gaming chips). Nvidia expects limited material short term impact, but changes will likely affect the longer-term revenue opportunity from these customers.

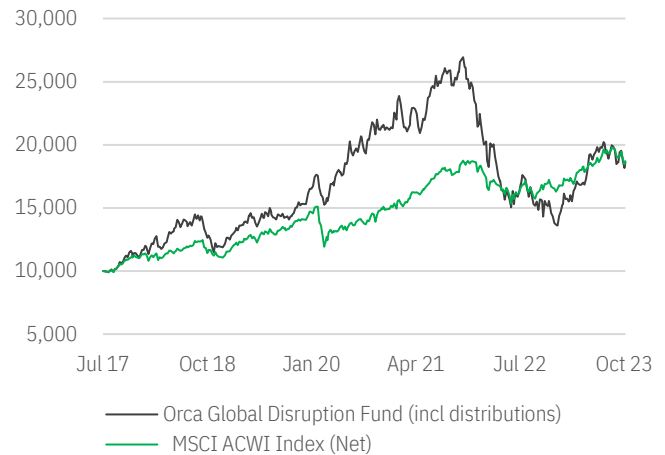
**Tesla (-18.2%)** delivered a softer than anticipated September quarter result with deliveries impacted by weaker demand and factory downtime, and recent price cuts translating to revenue headwinds. Revenues grew +9% (automotive grew +5%, energy storage +40%, services +32%) with operating margins of 7.6% below market expectations. CEO Elon Musk warned the elevated interest rate environment is negatively impacting end market demand given the rising cost of car ownership. Tesla maintained 2023 annual delivery guidance of 1.8m cars (+37% growth) and reiterated longer term volume guidance growth of 50% CAGR. While the current environment is challenging for EV manufacturers (Ford has delayed EV investment, GM slowing launch of EV models to reduce costs), Tesla retains industry leadership and remains well placed in the medium term with new product launches (Cybertruck to launch in late November), rising EV adoption, and an improving macro backdrop.

## GEOGRAPHIC EXPOSURE



Source: Bloomberg, Country of Domicile

## FUND PERFORMANCE<sup>1</sup>



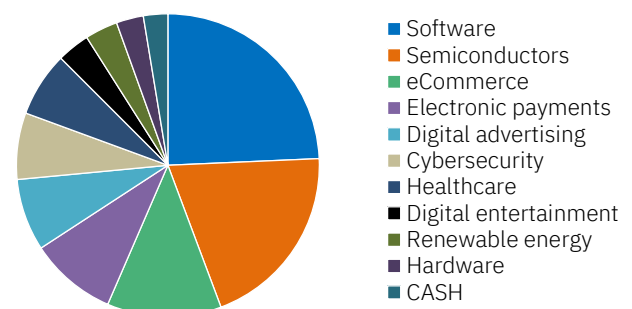
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## TOP 10 FUND HOLDINGS AS AT 31 OCTOBER 2023

NAME	SECTOR
Alphabet Inc	Digital advertising
Amazon.com Inc	eCommerce
ASML Holding	Semiconductors
CrowdStrike	Cybersecurity
Mastercard Inc	Electronic payments
Microsoft Corp	Software
NVIDIA Corp	Semiconductors
ServiceNow	Software
Spotify	Digital entertainment
TSMC	Semiconductors

This fund is appropriate for investors with a "High" risk and return profile. A suitable investor for this fund is prepared to accept high risk in the pursuit of capital growth with a long investment timeframe. Investors should refer to the [TMD](#) for further information.

## THEMATIC EXPOSURE



Source: Investment Manager, Bloomberg

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TOP 10 HOLDINGS AS AT 31 OCTOBER 2023

## 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.

## CROWDSTRIKE

**CrowdStrike** – is a leading cloud based cybersecurity software company. Through collection and AI driven analysis of security data from millions of global endpoints, CrowdStrike aims to detect and prevent potential breaches with its proprietary threat graph technology. CrowdStrike's Falcon platform offers customer 22 separate modules spanning corporate endpoint security, cloud security, managed security services, security and IT operations, threat intelligence, identity protection and log management. CrowdStrike was co-founded by CEO George Kurtz, Gregg Marston and Dmitri Alperovitch in 2011 and is based in Austin, Texas.



**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** – 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.

## 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.



**Spotify** - Spotify's mission is to unlock the potential of human creativity by giving a million creative artists the opportunity to live off their art and billions of fans the opportunity to enjoy and be inspired by it. Spotify's platform revolutionised music listening forever when it launched in 2008. Spotify's move into podcasting brought innovation and a new generation of listeners to the medium, and in 2022 it entered the next audio market with the addition of audiobooks. Today, Spotify has 100 million tracks, 5 million podcasts titles, and 350,000 audiobooks. It is the world's most popular audio streaming subscription service with more than 574 million users, including 226 million subscribers in 184 markets. The company was founded by Daniel Ek and Martin Lorentzon in April 2006 and is headquartered in Luxembourg.



**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.

Signatory of:



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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.