

# Orca Global Disruption Fund December 2023 Quarterly



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

Fund performance	3 Months	6 Months	1 Year	3 Years (p.a.)	5 Years (p.a.)	Since Inception(p.a.)
Orca Global Disruption Fund	13.9%	7.1%	55.0%	0.1%	12.3%	12.4%
MSCI ACWI Index (Net, AUD)	4.6%	4.6%	21.9%	10.0%	12.4%	11.2%
Excess Return	9.3%	2.4%	33.1%	-10.0%	-0.1%	1.2%

Notes: Data as at 31 December 2023 unless stated. Unit price (exit) at 31 December 2023: \$2.7245. Fund size: \$154.1 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 performed strongly in the December quarter (note, all figures are in AUD unless otherwise stated) with the market rising +11.0% (in USD terms, +4.6% AUD) offset by a weakening US dollar which fell -5.5% against the Australian dollar. For the year, Global equities (MSCI AC World Accumulation Index) returned +21.9%.

US equity markets gained significantly in the last two months of the year, recovering from weakness in October when the US 10-year treasury yield crossed 5% for the first time in 16 years and rising geopolitical instability in the Middle East drove volatility. Moderating inflation data in November, combined with signs of economic resilience, added support to a potential soft landing. In addition, key US Federal Reserve voting members expressed views that rates may not need to remain at restrictive levels if inflation continued to decline consistently. December's FOMC meeting delivered a more dovish outlook as participants increased their expectations for rate cuts in FY24 to three 25 basis point (bp) reductions (previously two). Falling yields provided a favourable backdrop for technology stocks, with higher growth companies up strongly.

Asia (ex-Japan) markets underperformed up +0.3% over the quarter despite stronger returns in November with risk sentiment improving, based on hopes US interest rates had peaked. Taiwan (+10.6%) and South Korea (+8.6%) performed strongly, with India also rising +5.4%. Chinese markets remained weak (Shanghai Composite -7.6%) as concerns grew over economic growth, whether government stimulus would be sufficient and ongoing real estate sector instability, which is continuing to impact sentiment. Hong Kong markets also underperformed, returning -9.6%, with the Hang Seng Internet & Information Technology Index declining 15.7%.

European equity markets rose +4.9% with strength from IT, Utilities and Materials. Shares gained as inflation came in below expectations in November +2.4% (vs +2.9% in October), driving market hopes easing prices could lead to rate reductions, with money markets pricing in almost 150 bps of cuts in 2024.

Growth equities (MSCI World Growth Index +6.7%) outperformed Value (MSCI World Value Index +2.5%) with US 10 year treasury yield falling below 4% for the first time since August 2023, supporting long duration assets. From a sector perspective IT (+10.7%) was the standout, while Financials (+6.7%), Materials (+6.2%), and Consumer Discretionary (+4.8%) also outperformed. Communication Services (+4.4%), Utilities (+4.2%), Health Care (-0.2%), Consumer Staples (-0.8%) and Energy (-9.6%) underperformed the broader global index.

## FUND UPDATE

For the December quarter, the Orca Global Disruption Fund (Fund) returned +13.9%, compared with the MSCI All Countries World Index (Index) which returned +4.6%. For the calendar year, the Fund returned +55.0% vs the Index +21.9%. Since inception, the Fund is up 12.4% p.a. vs the Index +11.2% p.a.

Despite an uncertain economic outlook, we are optimistic on the outlook for 2024 given: (1) the easing interest rate outlook; (2) the continued emergence of exciting themes such as generative AI which is driving significant investment, growth, and opportunities across a number of industries; and (3) the strong fundamentals and growth outlook for Fund holdings driven by secular tailwinds, strong competitive positions, and improved cost control.

For the quarter, the strongest contributors to performance were **Block (+65.4%)**, **CrowdStrike (+44.3%)**, and **ServiceNow (+19.6%)**.

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

Holdings that underperformed included **Alphabet (+1.0%)**, **Tesla (-6.0%)** and **Moderna (-9.3%)**.

**Block (+65.4%)** delivered a strong September quarter result driven by Cash App growth and improving cost discipline. Revenues grew +24% with strong profitability reflected in adjusted EBITDA growth +46% and EPS +31% all ahead of market expectations. Block provided preliminary FY24 guidance with adjusted EBITDA expected to grow 43-45% to \$2.4bn (+20% ahead of market expectations). Cash App revenues grew +34% with monthly transacting users +11% to 55m and inflows per active user +8%. Square seller gross payment volume (GPV) grew +11%, revenues +12% and gross profit +15%. In his shareholder letter, CEO Jack Dorsey outlined a greater focus on driving efficiency by: (1) managing costs with plans to cap headcount at 12 thousand (vs 13 thousand currently) until growth dynamics improve; and (2) providing a clear target to achieve a rule of 40 (gross profit + adjust operating margin >40%) by 2026 with operating margins to rise into the mid 20% to 30% range (from 3% in 2023).

**CrowdStrike (+44.3%)** reported a strong third quarter result with revenue growth of +35% and record operating margins of 22% (+690 bps) both ahead of market expectations. The company also raised revenue and margin guidance for the full year. Net new annual recurring revenue growth accelerated to +13% on broad-based demand for CrowdStrike's cyber security products. While the macro environment remains challenging for enterprise software spend, management noted win rates against competitors have risen. Customer preference to consolidate with platform vendors also remains supportive for CrowdStrike with large deals (>8 security modules) rising +78%, while product penetration amongst the customer base continues to deepen.

Cybersecurity was a strong thematic for the Fund with Palo Alto Networks (+26%) also performing well given the strong demand outlook: (1) a rising threat environment with ransomware attacks +37% in 2023; and (2) new SEC requirements for companies to disclose material breaches within four days, and outline cybersecurity risk management strategies in place.

**ServiceNow (+19.6%)** delivered 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 bps to 27%, while retaining free cash flow margin guidance of 30%. Federal business was the standout segment with net new 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. ServiceNow outlined its strategy for AI monetisation via premium tiers which will sit at a 60% premium (pre discounts) above existing Pro packages.

**Alphabet (+1.0%)** reported a solid September quarter result with strong performance from the advertising business (Search revenues +11%, YouTube revenues +12% - both recording double-digit growth, the first time since early 2022) which exceeded market expectations. Shares sold off initially as Cloud revenues (+22%, vs +28% in 2Q) decelerated vs hyperscale peers due to further customer optimisation activity. However, management were optimistic about the outlook with significant customer interest noted in AI with strong growth in developer usage, strong engagement from Workspace GenAI test users, and Cybersecurity applications incorporating GenAI assistance. Operating margins came in modestly below expectations. Management reiterated continued expense discipline while noting AI investment remained a high priority,

maintaining expectations for capex to grow in FY24 focused on supporting infrastructure.

**Tesla (-6.0%)** 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.

**Moderna (-9.3%)** delivered a weak September quarterly result and lowered revenue expectations for FY23 COVID vaccine sales to US\$6bn (previously US\$6.8bn). FY24 guidance for \$4bn of COVID vaccine sales was also below market estimates. COVID vaccination rates in the US have fallen, with similar trends reported by competitor Pfizer, as post pandemic vaccination fatigue sets in. The company continues to develop a promising pipeline with expectations of 15 mRNA vaccines launched in the next five years including vaccines for RSV, flu, cancer and other rare diseases.

## FUND CHANGES

**Moderna** was removed from the Fund following revised guidance expectations (as outlined above) and potential implications for necessary investment required to support its R&D pipeline. We expect Moderna will remain an mRNA pioneer, with significant optionality across its targeted verticals, but believe more attractive opportunities exist given the current level of execution risk.

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



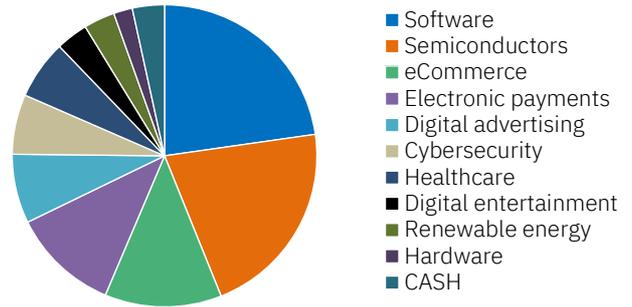
Source: Bloomberg, Investment Manager. Past performance is not a reliable indicator of future performance. Inception 25 July 2017. Benchmark is for comparison purposes only, see Disclaimer for further information.

## TOP 10 FUND HOLDINGS – 31 DECEMBER 2023

NAME	SECTOR
Alphabet Inc	Digital advertising
Amazon.com Inc	eCommerce
ASML Holding	Semiconductors
Block Inc	Electronic payments
Intuitive Surgical	Healthcare
Mastercard Inc	Electronic payments
Microsoft Corp	Software
NVIDIA Corp	Semiconductors
ServiceNow	Software
TSMC	Semiconductors

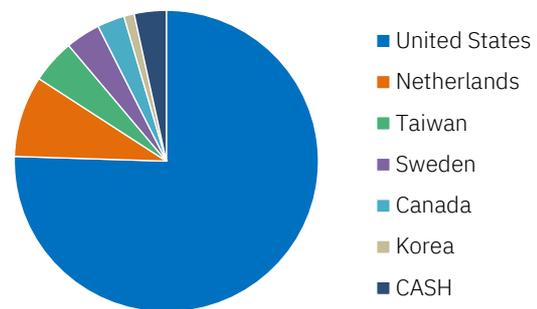
Source: Investment Manager

## THEMATIC EXPOSURE



Source: Investment Manager, Bloomberg

## GEOGRAPHIC EXPOSURE



Source: Bloomberg, Country of Domicile

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 31 DECEMBER 2023

## Alphabet

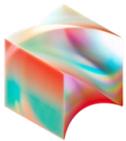
**Alphabet** – key products include Google, Android, Maps, Chrome, YouTube and Google Play which all have over 1 billion active users. The core product is Search where the company is the clear market leader with an estimated desktop search market share of 80% – more than 10x its closest peer. The company 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.



BLOCK

**Block, Inc** – is a global payments business servicing multiple ecosystems spanning sellers and consumers. The Square ecosystem provides sellers with an integrated suite of commerce, business software and banking services to help start, run and grow businesses. The Cash App ecosystem helps individuals manage money by providing access to financial services (e.g. savings, credit, direct deposits), community-based transactions (peer-to-peer) and commerce. Block has also invested in emerging ecosystems Bitcoin and TIDAL to serve new audiences. Jack Dorsey (co-founder/CEO) established Block in 2009 with headquarters in San Francisco, California.

## INTUITIVE

**Intuitive Surgical** – is a pioneer in robotically assisted surgery, creating and commercialising the surgical robot market. Intuitive designs, manufactures, and markets da Vinci Surgical Systems and related instruments and accessories. Intuitive operates in 67 countries, with 7000+ systems currently in place and more than 11 million procedures performed worldwide since inception. Intuitive faces little or no competition in its markets with competitors lagging in development of their products. The da Vinci system is installed in almost every major surgical teaching hospital across the US with junior surgical doctors trained on the da Vinci. This increases the stickiness of Intuitive's product offering which would be difficult to match.



**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

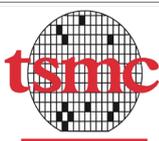
**Microsoft Corporation** – is a multinational technology company that manufactures, licenses, supports and sells computer software, personal computers, consumer electronics and services. The Company's main segments include Intelligent Cloud, More Personal Computing, Productivity and Business Process. 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.



**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.