

## SEPTEMBER 2021 RESULTS

Global stock markets fell in September, the first negative month since January. In Australian dollar (AUD) terms, the market fell approximately 3% across developed and Asian markets. News events were the key drivers of stock markets, including concern about Chinese real estate developers defaulting, US political deadlock over the debt ceiling, and increased likelihood of rising interest rates. September is typically a quiet month for stock markets, as very few companies report quarterly profits. We'll find out more about the financial health of the economy when companies start reporting their July to September financial statements in mid-October.

Evergrande is one of the largest property developers in the world. Their core business model is to take deposits from middle-class families in China for new apartment developments. This was a lucrative business, the CEO was worth some \$30 billion before the crash, and the company owns football teams, a mineral water brand, a solar panel company, pig farms, baby formula producers, and electric vehicle manufacturers. The Chinese government was understandably concerned about real estate debt and housing affordability, and slowed development under the three red line limits. Evergrande owes approximately US\$300 billion and may default on debt payments (it has already missed or only partially paid key domestic and offshore interest/coupon payments). Around half of this debt is to Chinese families who put down a deposit. The size of this potential default isn't comparable to Lehmann's Brothers, which was seen as the tipping point for the GFC. However, more defaults could come from China, and the Chinese housing industry drives demand for many global commodities, accounting for around 20% of global steel and copper demand and 10% of aluminium. That's a big problem for Australia, lucky they still need our coal! We didn't invest in Evergrande in our Orca Asia Fund, and have zero direct real estate holdings. We're generally cautious of the Chinese development and financial industries, due to too much government influence, and not enough profit motive. It's another good example of why it pays to be selective in Asia and look for lower risk international stocks.

Turning from China to Japan. Although we can invest in Japanese stocks in the Orca Global Fund, we tend to avoid that stock market in general. We prefer to invest in global companies with

strong governance and a clear profit motive. In our view, many Japanese companies are domestically focussed and suffer from poor governance, interference from government holdings and conglomerate structures. Further, the Japanese economy is held back by a lack of diversity in terms of gender, immigration, and age, along with issues around debt, tax, and regulation. The Japanese market has underperformed the global market by 25% over the last three years, justifying our stance. Not in September! The unpopular Japanese Prime Minister Suga was replaced by new Prime Minister Kishida, leading to optimism that a new Prime Minister would reform the economy. Stock markets rallied over 10%. Until the new PM announced higher taxes and income redistribution plans, and his polls fell below 50% support. The Japanese market fell 10% through early October to lose all the gains. We continue to prefer other markets to Japan.

In terms of our funds, September was a negative month, with the Orca Global Fund, the Orca Global Disruption Fund and the Orca Asia Fund down 4.2%<sup>1</sup>, 5.3%<sup>1</sup> and 3.0%<sup>1</sup> respectively. For the Global Fund, a key factor in underperformance was not holding oil companies, the strongest performing global sector in September. We can't hold any oil companies under our environmental policy.

As noted above, earnings season for the third quarter starts in mid-October. We expect the focus to be on escalating costs, impacting profits. The stock market is pricing in 2022 profits that in our view are a little optimistic, and we wouldn't be surprised to see some downgrades in some of the more expensive stocks. The consumer is still in pretty good shape though, and we'd expect to hear about economies like Australia re-opening as vaccine rates reach a plateau.

We are optimistic about global stock markets, and see many stocks and themes as undervalued. September's volatility reminds us that it's prudent to be cautious, particularly on the back of such strong gains in our clients' portfolios over the last year, with the Orca Global Fund up 21.3%<sup>1</sup>, the Orca Global Disruption Fund up 20.8%<sup>1</sup>, and the Orca Asia Fund up 9.8%<sup>1</sup> in the 12 months to 30 September 2021. We have positioned our portfolios with an eye to protecting our investors' capital in a market downturn.



**Ted Alexander**  
Head of Investments

Note: 1. Fund performance is quoted net of fees and inclusive of reinvested distributions. Past performance is not a reliable indicator of future performance.



## INVESTMENT OBJECTIVE

To provide investors with attractive risk-adjusted returns over the long-term by investing in high quality companies in the Asia ex Japan region.

## PORTFOLIO UPDATE

The MSCI Asia ex Japan Index (Index) declined 2.9% in Australian dollar (AUD) terms in September. Asian markets were generally down across the board. Indonesia (+4.5%) was the stand out performer, benefiting from rising energy prices, followed by India (+1.9%) and Singapore (+1.1%) while the rest of the markets in the region declined. South Korea (-5.7%) and Thailand (-5.3%) were the worst performing markets, followed by Hong Kong (-4.8%) and China (-3.7%), overshadowed by concerns of the potential default of large Chinese property developer China Evergrande – currently suspended from trading on the Hong Kong Stock Exchange. On a sector basis, Energy (+10.1%) was clearly the best sector amid escalating global energy prices, while defensive sectors Utilities (+1.9%) and Consumer Staples (+0.3%) also outperformed. Consumer Discretionary (-7.6%) and Communication Services (-4.5%) underperformed.

The Orca Asia Fund (Fund) returned -3.0%<sup>1</sup>, performing in line with the Index. **HCL Technologies** (+7.8%) was the top contributor to the Fund's performance, as the stocks valuation discount to other major Indian IT service providers began to close, in line with our investment thesis. **Kweichow Moutai** (+19.4%) was the second-best contributor to the Fund's performance. Moutai rebounded following the appointment of a new chairman, who introduced a more positive outlook on pricing strategy. In addition, the retail price of Moutai liquor through the mid-autumn festive season remained solid. On the opposite side of the ledger, **Techtronic Industries** (-9.0%) detracted from the Fund's performance as the stock saw profit taking following a strong performance (+25%) in the prior month. **ENN Energy** (-15.5%) was another key detractor from the Fund's performance. ENN's share price was volatile during the month due to concerns that higher upstream gas costs will put downward pressure of its operating margin. In addition, there is growing uncertainty over whether the potentially weakening property market will impact ENN's gas connection fee income for new apartments.

## PORTFOLIO MANAGERS



**Ted Alexander**  
Portfolio Manager



**Ying Luo**  
Assistant  
Portfolio Manager

Unit price (Exit)	Fund size	12-month distribution yield (target: 4%) <sup>2</sup>	Performance since inception (14 May 2018) <sup>1</sup>
<b>\$1.4277</b>	<b>\$80.6 million</b>	<b>4.4%</b>	<b>7.6%</b>

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

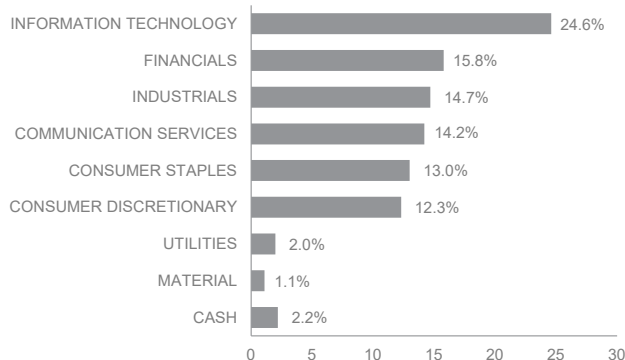
	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)
Orca Asia Fund	-3.0%	-1.9%	-0.5%	9.8%	9.5%	10.1%	7.6%
MSCI Asia ex Japan Index (Net, AUD (%))	-2.9%	-5.8%	-0.8%	13.8%	12.3%	9.3%	6.7%
Excess Return	-0.2%	3.9%	0.3%	-3.9%	-2.8%	0.8%	0.9%

Note: Numbers may not sum due to rounding.

## TOP 10 PORTFOLIO HOLDINGS

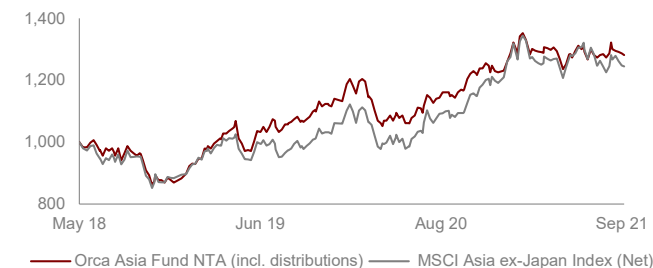
Alibaba Group	Tencent Holdings
HCL Technologies	TSMC
HDFC Bank	Uni-President Enterprises
Samsung Electronics	United Overseas Bank Ltd
Techtronic Industries	Zhejiang Chint Electrics

## SECTOR EXPOSURE

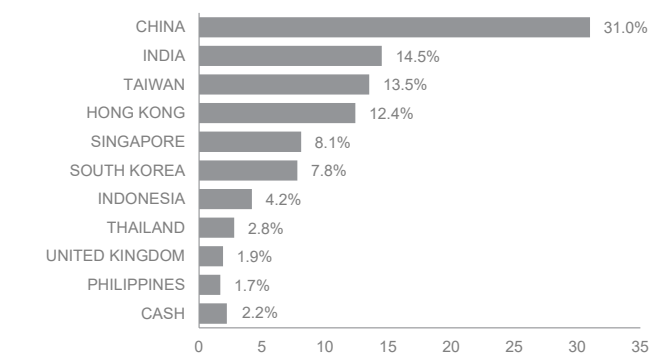


Source: Investment Manager, Bloomberg

## PERFORMANCE CHART<sup>1</sup>



## COUNTRY EXPOSURE



Source: Bloomberg, Country of Domicile

Notes: Data as at 30 September 2021 unless stated. Numbers may not sum due to rounding.

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 14 May 2018.

Chart data range: 14 May 2018 to 30 September 2021. 2. Distribution yield is a historical measure. The Fund has a target distribution yield of 4%. There is no guarantee the Fund will meet its investment objective. The payment of a semi-annual distribution is a goal of the Fund only and neither the Manager or the Responsible Entity provide any representations or warranty in relation to the payment of any semi-annual cash income. The Fund reserves the discretion to amend its distribution policy. Initial index value 1,000. Index Source: Bloomberg.



## INVESTMENT OBJECTIVE

To provide investors with capital growth over the long-term through exposure to companies that will benefit from disruptive innovation.

## PORTFOLIO UPDATE

The Orca Global Disruption Fund (Fund) returned -5.3%<sup>1</sup> in Australian dollar (AUD) terms in September, compared to the broader MSCI AC World Index (-2.8%). Since inception, the Portfolio is up 24.1%<sup>1</sup> per annum (p.a.), compared with the broader market +14.6% p.a.

US markets sold off sharply during September (S&P 500 Index: -3.4%) and market volatility rose in the back half of the month following renewed concerns around inflationary pressure, ongoing supply chain disruptions, and uncertainty around the Chinese property sector. Bond yields rose as stocks with growth characteristics (MSCI World Growth Index -4.0%) came under pressure while value stocks (MSCI World Value Index -1.9%) fared better on a relative basis, supported by strong performance from the Energy (+11.0%) and Financials (0.0%) sectors. Technology focused sectors Communication Services (-4.6%) and Information Technology (IT) (-4.4%) underperformed with Healthcare (-3.9%) also weak.

The Fund's top contributors to returns were Netflix (+8.5%), Tesla (+6.6%), Salesforce (+3.5%). Weaker contributors were Microsoft (-5.5%), PayPal (-8.8%), and Alphabet (-6.5%).

**Net ix** (+8.5%) announced that it had acquired its first video game studio, Californian-based Night School Studio. During the month, Netflix also released Squid Game, which has become the number one show in 82 of 83 countries it is available in, and on track to become Netflix's most popular show ever.

**Salesforce** (+3.5%) held its Investor Day where it upgraded its FY22 guidance for revenue growth to +24%, and initiated FY23 revenue guidance +20-21% and operating margin expansion to 20%, all ahead of market expectations.

**ASML** (-9.5%) also held an investor day and updated the market on its longer-term outlook. Management upgraded FY25 revenue guidance to €24 to €30 billion with gross margins of 54-56%, higher than its original 2018 guidance of €15 to €24 billion (gross margins >50%). Longer term, management expects growth momentum to be strong with ASML revenue guidance of +11% on an annualised basis from 2020 to 2030.

## PORTFOLIO MANAGER



**Raymond Tong**  
Portfolio Manager

Unit price (Exit)	Fund size	12-month distribution yield <sup>2</sup>	Performance since inception (25 July 2017) <sup>1</sup>
<b>\$3.3346</b>	<b>\$293.3 million</b>	<b>6.6%</b>	<b>24.1%</b>

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

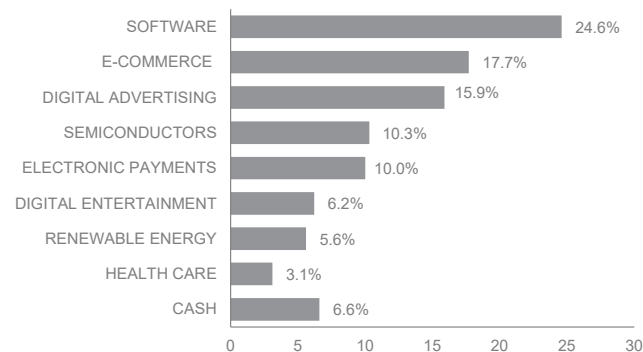
	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)
Orca Global Disruption Fund	-5.3%	1.7%	14.4%	20.8%	31.5%	19.9%	24.1%
MSCI ACWI Index (Net, AUD (%))	-2.8%	2.8%	12.2%	26.7%	14.7%	12.7%	14.6%
Excess Return	-2.4%	-1.2%	2.2%	-5.9%	16.8%	7.3%	9.5%

Note: Numbers may not sum due to rounding.

## TOP 10 PORTFOLIO HOLDINGS

Alphabet Inc	Netflix Inc
Amazon.com Inc	PayPal Holdings Inc
ASML Holding	Salesforce.com Inc
Facebook Inc	ServiceNow
Microsoft Corp	TSMC

## SECTOR EXPOSURE

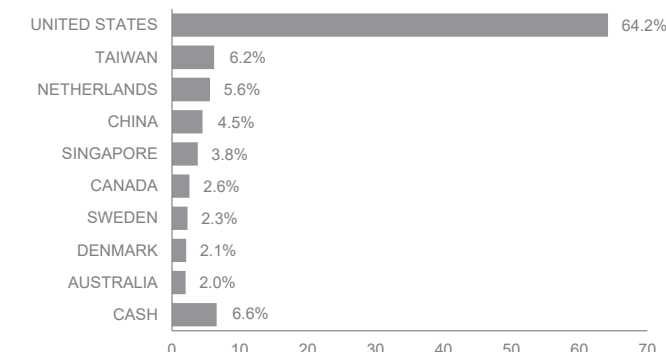


Source: Investment Manager, Bloomberg

## PERFORMANCE CHART<sup>1</sup>



## COUNTRY EXPOSURE



Source: Bloomberg, Country of Domicile

Notes: Data as at 30 September 2021 unless stated. Numbers may not sum due to rounding.

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.

Chart data range: 25 July 2017 to 30 September 2021. 2. Distribution yield is a historical measure. There is no guarantee the Fund will meet its investment objective. The payment of a distribution is a goal of the Fund only and neither the Manager or the Responsible Entity provide any representations or warranty in relation to the payment of any semi-annual cash income. The Fund reserves the discretion to amend its distribution policy. Initial index value 1,000.

Index Source: Bloomberg.





## INVESTMENT OBJECTIVE

To provide investors with capital growth and attractive risk-adjusted returns over the long-term through exposure to a portfolio of global listed equities.

## PORTFOLIO UPDATE

Global markets declined in September with the MSCI World Index (Index) down 2.8% in Australian dollar (AUD) terms. Increasingly, investors are concerned about commodity price inflation, supply chain constraints and the possible bankruptcy of Chinese real estate developer Evergrande weighed on sentiment. Energy prices rose to record highs, due to high demand and a series of UK based energy retailers were forced into bankruptcy. China has had to resort to power cuts due to surging demand for electricity and restricted supply as coal prices hit record high. Companies were also reporting delays in shipping of goods and supply constraints. Evergrande is the largest real estate developer in the world and also one of the most indebted companies. The company appears to be teetering on the brink of bankruptcy after missing bond payments and complaining of cash flow issues. The Chinese government seems reluctant to bail out the company.

The Orca Global Flagship Fund (Fund) underperformed the market by 1.4%, driven mainly by underweight to cyclical sectors like Energy and Materials. The Fund has made a conscious decision to avoid oil and gas investments as part of its ESG policy. Performance was also affected by being overweight to Healthcare, with large pharmaceutical companies underperforming due to an increased threat of drug pricing regulation in the US. AstraZeneca's experimental breast cancer drug had positive results, contributing to Fund performance (+4.4%). **JP Morgan's** stock rose 3.7% as the bank's margins would benefit if the central bank raises interest rates to tame inflation. **AON Plc** (+1.0%) also added positively to performance, consolidating on strong gains made in July/August following termination of its takeover offer for Will Towers Watson and release of strong quarterly results – both increasing focus on AON's organic growth potential.

Detractors from performance included holdings in **Novartis** (-10.0%), which declined due to aforementioned legislative risks around drug pricing in the US and **Alphabet** (-6.4%) which fell in line with some of the larger tech names. **Orsted** (-15.8%) also declined following announcements that its business will be impacted from potentially less than average wind speeds with margins potentially further impeded by rising commodity prices.

## PORTFOLIO MANAGERS



**Ted Alexander**  
Portfolio Manager



**Kunal Valia**  
Portfolio Manager



**Jumana Nahhas**  
Assistant  
Portfolio Manager

Unit price (Exit)	Fund size	12-month distribution yield (target: 4%) <sup>2</sup>	Performance since inception (6 July 2018) <sup>1</sup>
<b>\$1.8349</b>	<b>\$101.0 million</b>	<b>3.4%</b>	<b>13.1%</b>

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

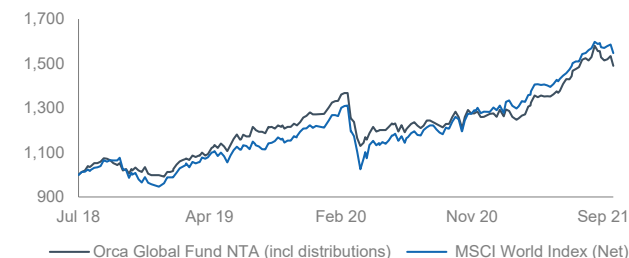
	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)
Orca Global Fund	-4.2%	3.2%	13.6%	21.3%	10.4%	12.6%	13.1%
MSCI World Index (Net, AUD (%))	-2.8%	3.9%	13.8%	28.1%	15.3%	13.3%	14.4%
Excess Return	-1.4%	-0.7%	-0.1%	-6.8%	-4.9%	-0.7%	-1.3%

Note: Numbers may not sum due to rounding.

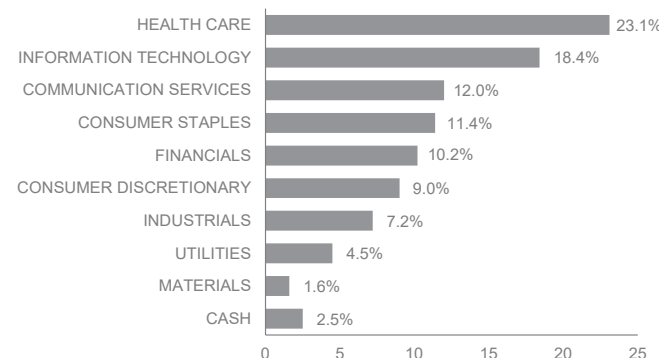
## TOP 10 PORTFOLIO HOLDINGS

Alphabet Inc	Microsoft Corp
Amazon.com Inc	Novartis AG
AstraZeneca PLC	Orsted AS
Dollar General Corp	Royal Bank of Canada
Merck & Co Inc	Unilever PLC

## PERFORMANCE CHART<sup>1</sup>

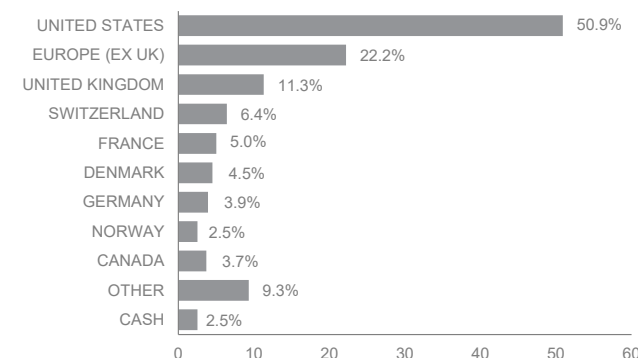


## SECTOR EXPOSURE



Source: Investment Manager, Bloomberg

## COUNTRY EXPOSURE



Source: Bloomberg, Country of Domicile

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# ABOUT ORCA FUNDS MANAGEMENT

Orca Funds Management is the investment manager for the Orca Global Disruption Fund, Orca Asia Fund and the Orca Global Fund. The Orca Funds Management Investment Team has more than two decades of experience in managing global equities and fixed income funds. Orca Funds Management has an investment team of seven investment professionals who, as at 30 September 2021, collectively manage over \$776 million of funds.

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## IMPORTANT INFORMATION

This report has been prepared and issued by Orca Funds Management Pty Limited (**Investment Manager**) (ACN 619 080 045, CAR No. 1255264), as investment manager for the Orca Asia Fund (ARSN 624 216 404), Orca Global Fund (ARSN 158 717 072) and Orca Global Disruption Fund (ARSN 619 350 042) which are together referred to as the '**Funds**'. The Trust Company (RE Services) Limited (ABN 45 003 278 831, AFSL 235150) is the Responsible Entity of the Funds. For further information on the Funds please refer to each Fund's PDS and Target Market Determination which is available at [orcafunds.com.au](http://orcafunds.com.au).

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