GLOBAL EQUITIES

FEBRUARY 2021 RESULTS

Global stock markets rose 1.5% in February, as investors were encouraged by the progress of US President Joe Biden's stimulus package, evidence that COVID-19 vaccines were working, and decent financial results were reported by corporations. Stock markets did however fall late in the month over concerns about inflation, a debate that is currently dominating stock markets.

The relationship between money, inflation, bond yields and stock markets is unclear, and if you could define it, a Nobel prize in economics would be yours. Let's give it a go.

In the US, money supply has risen 25% through the recession, compared to a normal level of 6% a year. More money means more inflation, right? Not really. Historically higher money supply coincides with lower inflation: a weak economy causes low inflation and an accumulation of money. However, sufficiently high money supply generally coincides with higher inflation at a two-year lag. Enough money supply increase will cause inflation, but central banks don't think this is much of a risk currently, and they're probably right.

If inflation does rise then the value of government bonds falls, no dispute there. We talk about government bond yields. The yield is the inverse of the price, so discussion has been about rising bond yields due to rising inflation expectations. More money, higher inflation, higher bond yields. Through February, 10-Year US Government bond yields rose from 1.1% to 1.5%. Bond yields were 13.1% when I was born, a lot of western wealth creation has come from falling interest rates, all the way down below 1%. A 0.4% rise doesn't sound like much, but if yields go back up to 2% then the period of extraordinary cheap money will be over.

Now for the prickly bit. The relationship between inflation and the stock market is not clear. The relationship between bond yields and the stock market is definitely not clear. People that say it is are misleading you. Very broadly, bond yields and stock markets have been consistently positively correlated through almost all of stock market history. But from 1980 to 2000 they were negatively correlated – for 20 years! Since then, we have moved back to a positive relationship. And the current worry is higher inflation and higher bond yields could cause lower stock markets, which is negative correlation. All through 2020 the relationship was positive, but it turned negative on the 25th of February 2021.

You can go down the rabbit hole a bit looking purely at the maths of correlation, so what's the causation? If the economy improves, stock markets go up, and this generally coincides with higher inflation and bond yields. That's the norm. In some circumstances, excessive money causes pure price inflation without an improved economy, and this is bad for the stock market. So it's a specific type of inflation that's concerning markets, a monetary phenomenon. I can see the reasoning, but personally think there are bigger risks out there. We won't get a clear idea until the end of 2021, as employment returns after lockdown.

The global economy is still weak. Jobs are not being created fast enough, and we are not yet on the path to full economic recovery. Hopefully the recovery accelerates through a successful vaccine rollout, which would support current market valuations. The large US stimulus package is definitely positive for stock markets, but also temporary. We doubt it will be particularly effective in combatting the economic problems, but it hopefully will help individual's circumstances in difficult times.

Markets were up, but mainly we saw strong performance from banks and oil companies. We don't invest in oil across any of our funds. The worst performing stocks were lower risk companies. Our Orca Global Fund is a low-risk strategy, designed to operate at a 90% level of market risk. As a result, we underperformed, with our Fund down 1.3%. Technology stocks also underperformed, and our Orca Global Disruption Fund fell 0.4%. Unfortunately, Asian stocks were also weaker than Global stocks, with our Orca Asia fund down 0.3%. The Funds underperformance is disappointing, but already in March we have seen strong outperformance from our Orca Asia Fund, which, at last look appears to be ahead of the Index for the year. We do believe that a lower risk position will benefit investors in the Orca Global Fund through 2021 and continue to strongly support the investment themes of disruptive technology and Asian growth.

Ted Alexander
Head of Investments

ORCA ASIA FUND

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) was up +0.2% in AUD terms in February. Asian markets rose significantly early in the month to be up 7.7%, but softened after the Chinese domestic market reopened following the Lunar New Year break (mid-month) due to profit taking and further corrected towards month-end amid the broader global market sell-off due to rising bond yields. Hong Kong (+3.6%) and India (+3.5%) were the best performing markets in the region with the latter supported by a positive market response to the national budget. Thailand (-2.1%) and China (-2.0%) were the worst performing markets. On a sectors basis, Energy (+8.8%) and Real Estate (+7.1%) significantly outperformed amid a global market rotation from growth to value while defensive sectors Healthcare (-5.2%) and Consumer Staples (-4.3%) underperformed.

The Orca Asia Fund (Fund) returned -0.3%, underperforming the index by 0.5%. JOYY (+26.8%) was the top performance contributor for the month as the company completed the sale of its YY Live business to Baidu, removing any doubt that all conditions would be met. HDFC Bank (+7.7%) also contributed significantly to the Fund's performance as the India budget included policy measures to promote the healthy development of the financial sector. On the other hand, the Fund's overweight position in Alibaba Group (-7.3%) detracted from the performance. The Fund's position in Alibaba was moved to overweight recently, on the basis that the concerns on regulatory pressure were overdone in the market. Zhejiang Chint (-9.0%) also held back performance. The company, which generates approximately 40% of revenues from solar farm operations, declined for the second consecutive month following a strong share price move in December 2020. In late 2020 President Xi announced that China aims to be carbon neutral by 2060, generating broad appeal for renewable energy companies, some of which has dissipated in the new year.

PORTFOLIO MANAGERS

Ted Alexander
Portfolio Manager

Ying Luo
Assistant
Portfolio Manager

Unit price (exit)	Fund size	12-month Distribution yield (target: 4%)	Annualised performance since inception (25 July 2017)[1]
$1.4668	$113.3 million	3.6%	9.4%

Units on issue: 77,122,953

FUND PERFORMANCE[1]

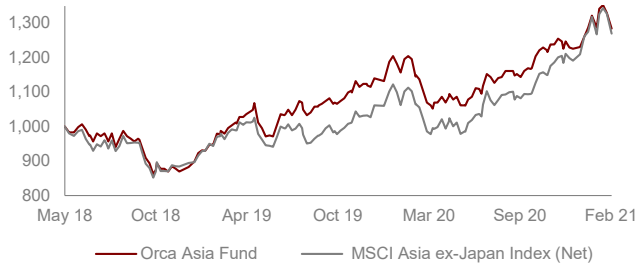
	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)
Orca Asia Fund	-0.3%	4.8%	11.8%	11.8%	14.6%	–	9.4%
MSCI Asia ex Japan Index (Net, AUD)	0.2%	7.2%	17.8%	19.3%	14.3%	–	8.9%
Excess Return	-0.5%	-2.5%	-6.0%	-7.5%	0.3%	–	0.4%

Note: Numbers may not sum due to rounding.

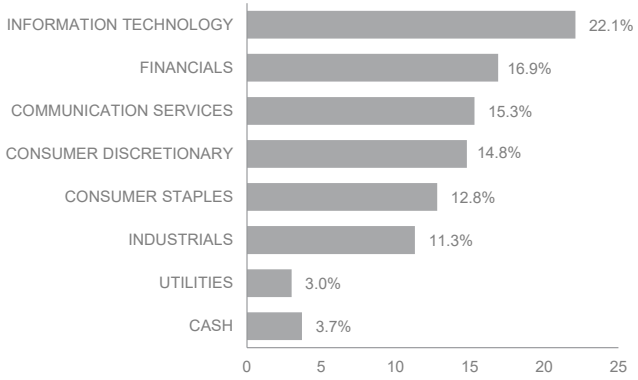
TOP 10 PORTFOLIO HOLDINGS

Alibaba Group	Techtronic Industries
CP ALL PLC	Tencent Holdings
HCL Technologies	TSMC
Ping An Insurance Group	Uni-President Enterprises
Samsung Electronics	United Overseas Bank Ltd

PERFORMANCE CHART[1]

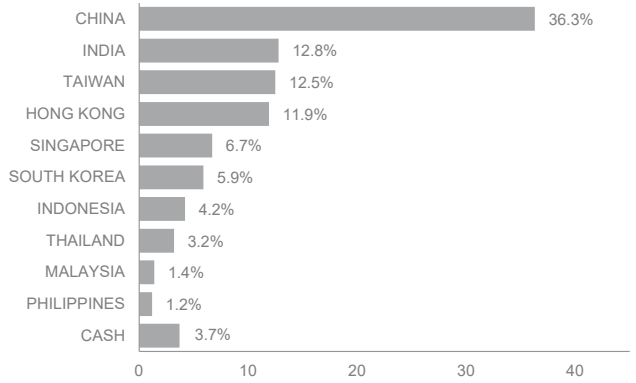


SECTOR EXPOSURE



Source: Investment Manager, Bloomberg

COUNTRY EXPOSURE



Source: Bloomberg, Country of Domicile

Notes: Data at 28 February 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 28 February 2021. Initial index value 1,000. Index Source: Bloomberg.

ORCA GLOBAL DISRUPTION FUND

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 -0.4% in AUD terms (+0.4% in USD), compared to the broader MSCI AC World Index (+1.3%).

During February, portfolio holdings continued to report strong results. However, this was overshadowed late in the month by rising US bond yields which drove a significant rotation away from growth sectors (MSCI World Growth Index -1.0%) towards more cyclical and traditional value sectors (MSCI World Value Index +3.5%) which were sold off during the pandemic.

During the month, best performing holdings were PayPal (+9.7%), Mastercard (+10.0%) and Sea (+7.6%). Weaker contributors included Alibaba (-7.1%), Orsted (-15.6%), and Teladoc (-16.9%).

PayPal reported a strong December quarter result with revenue growth of +23% and earnings +30%. At its investor day Paypal initiated long term guidance - it expects to double users to 750 million by 2025, and grow revenue and EPS by 20% and 22% p.a respectively from 2020-2025. PayPal is investing to evolve its digital wallet adding features including investment products, crypto trading and payments, personalised deals and offers.

Sea rose ahead of reporting its December quarter result in early March. It reported adjusted revenue growth (+121%) and operating earnings ahead of market expectations. Gaming bookings were up 110% driven by Sea's hit game Free Fire, the #1 downloaded mobile game globally. Shopee (Sea's ecommerce platform) was #1 across SE Asia and #3 globally – this drove strong Gross Merchandise value growth of 113%. Sea provided strong guidance for FY21, with gaming bookings expected to grow 38% and ecommerce revenues up 112%.

Teladoc fell despite reporting a strong 4Q result with organic revenue growth of +79%. For FY21 the company expects revenue growth of +78-83% (+40-43% organic) signalling expectations of continued strong growth in telehealth and virtual care services as economies reopen.

Orsted was under pressure following a strong run in 2020 and signs of increasing competition in offshore wind auctions as traditional energy companies pivot to renewables. Longer term, the opportunity remains significant given the shift to renewable energy and Orsted's position as the world's leading offshore wind farm developer.

PORTFOLIO MANAGER

Raymond Tong
Portfolio Manager

Unit price (exit)	Fund size	12-month distribution yield	Annualised performance since inception (25 July 2017)[1]
$3.1528	$298.0 million	4.8%	24.3%

Units on issue: 94,319,355

FUND PERFORMANCE[1]

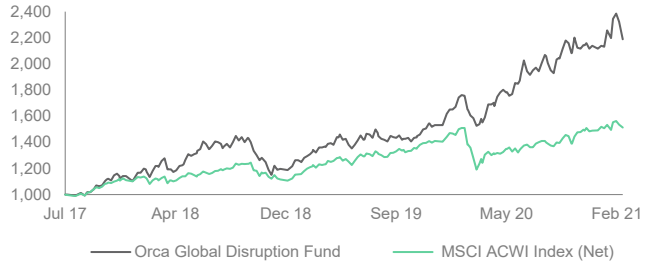
	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)
Orca Global Disruption Fund	-0.4%	2.1%	6.3%	32.8%	28.3%	21.5%	24.3%
MSCI World Index (Net, AUD)	1.3%	1.5%	8.2%	9.5%	11.5%	10.6%	12.2%
Excess Return	-1.7%	0.6%	-1.9%	23.4%	16.8%	10.9%	12.1%

Note: Numbers may not sum due to rounding.

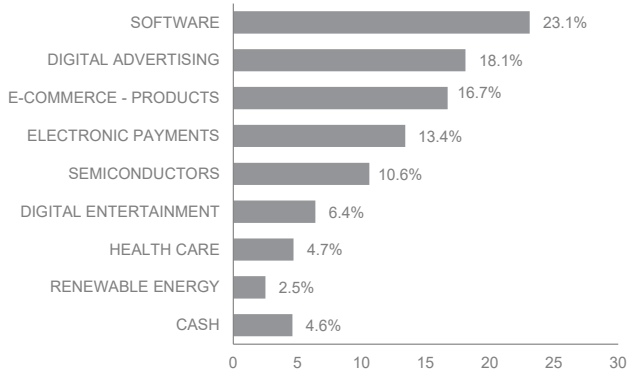
TOP 10 PORTFOLIO HOLDINGS

Alibaba	PayPal Holdings Inc
Alphabet Inc	Salesforce.com Inc
Amazon.com Inc	ServiceNow
Mastercard Inc	Tencent Holdings Ltd
Microsoft Corp	TSMC

PERFORMANCE CHART[1]

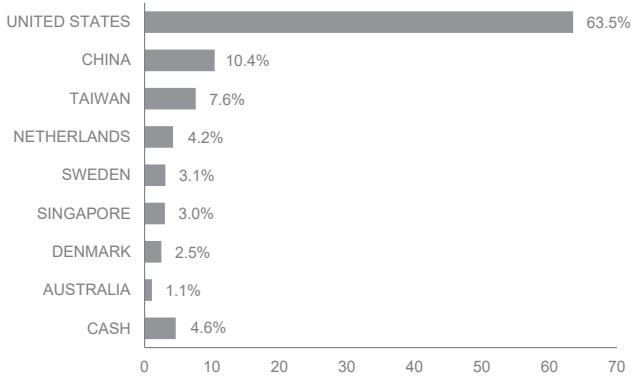


SECTOR EXPOSURE



Source: Investment Manager, Bloomberg

COUNTRY EXPOSURE



Source: Bloomberg, Country of Domicile

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ORCA GLOBAL FUND

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

The MSCI World Index rose by 1.5% in AUD terms in February as the economic outlook continues to improve amid positive vaccine roll-out news and continued progress on passage of a major stimulus package in the US. Major indices hit all time highs in the first half of February but there was strong rotation away from growth sectors, like Technology and into cyclical sectors like Energy, Financials and Industrials in the second half of the month. Markets pulled back on rising inflation concerns, driven by stimulus and improving economic activity, and a steepening yield curve. US 10-year bond yields rose to pre-pandemic levels and in response, the US Federal Reserve (Fed) Chairman Jerome Powell tried to hose down inflation concerns citing excess capacity in the economy and a desire to see sustained inflation before the Fed moves to increase rates.

The Orca Global Fund (Fund) underperformed the market by 2.8% on an exit price basis, due to the Fund's overweight position in defensive sectors like Consumer Staples and Healthcare that underperformed in February. Alphabet (+9.5%), Aon (+11.0%) and Mowi (+8.2%) were the best performing stocks for the month. The improving economic outlook is expected to lift advertising expenditure, which will be positive for Alphabet. Aon announced earnings ahead of expectations and Mowi's results, while mixed, were overlooked due to improved optimism around demand for salmon as lockdowns ease and restaurants reopen.

The main detractors from performance at a stock level included Apple (-8.9%), Unilever (-10.5%) and Orsted (-15.6%). Apple declined in-line with the broader tech stock sell off. Unilever's results missed estimates due to declining operating margins in several segments of the business however, positively, the company reiterated its multi-year sales growth forecast of 3-5%. Orsted continued to come under pressure this month due to concerns of increasing competition, with oil majors outbidding offshore windfarm incumbents at a recent UK auction. Despite this we remain confident in the longer-term strategy of the company and expect it to continue to be a leader in its field.

PORTFOLIO MANAGERS

Ted Alexander
Portfolio Manager

Jumana Nahhas
Assistant Portfolio Manager

Kunal Valia
Assistant Portfolio Manager

Unit price (exit)	Fund size	12-month distribution yield (target: 4%)	Annualised performance since inception (6 July 2018)[1]
$1.5634	$131.8 million	10.0%	8.7%

Units on issue: 84,125,725

FUND PERFORMANCE[1]

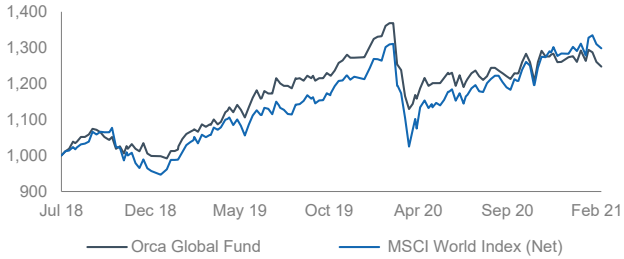
	1 Month	3 Months	6 Months	1 Year	2 Years (p.a.)	3 Years (p.a.)	Since Inception (p.a.)
Orca Global Fund	-1.3%	-2.6%	1.2%	-0.3%	7.9%	–	8.7%
MSCI World Index (Net, AUD)	1.5%	0.8%	6.9%	8.7%	11.5%	–	10.3%
Excess Return	-2.8%	-3.5%	-5.8%	-9.0%	-3.6%	–	-1.7%

Note: Numbers may not sum due to rounding.

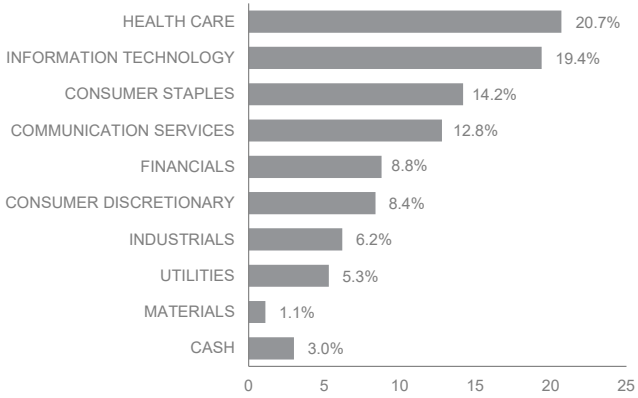
TOP 10 PORTFOLIO HOLDINGS

Alphabet Inc	Microsoft Corp
Aon PLC	Novartis AG
Apple Inc	Orsted AS
Coca-Cola Co/The	RELX PLC
Dollar General Corp	Unilever PLC

PERFORMANCE CHART[1]

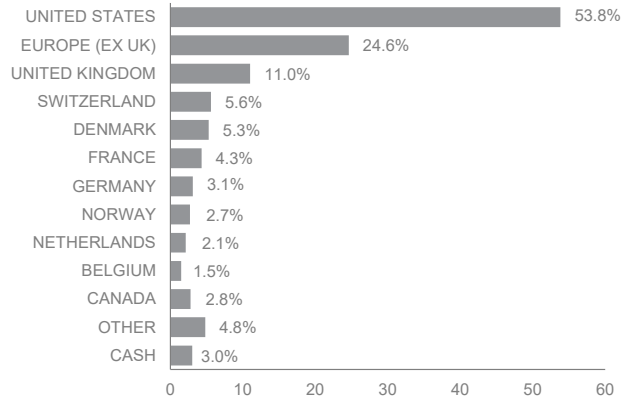


SECTOR EXPOSURE



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 31 December 2020, collectively manage over $790 million of funds.

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IMPORTANT INFORMATION

This report has been prepared 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 which is available at orcafunds.com.au.

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