AORIS INVESTMENT MANAGEMENT

December 2020 Quarterly Report

Aoris Investment Management

Aoris is a *specialist* international equity manager founded in 2017.

We are a *focused* business and manage a single international equity portfolio.

Our investment approach is *conservative*, fundamental and evidence-based.

The Aoris International Fund

Our portfolio is long-only and highly *selective*.

We own a maximum of 15 stocks, each of which has considerable breadth or *internal diversification*.

We aim to generate returns of 8–12% p.a. over a market cycle.

Our Quarterly Reports

We are *business owners*, not economists. As such, our reports focus on the performance of our investee companies.

We report on portfolio performance and changes with candour and transparency.

Each quarter, we include a thought piece or feature article on a topic area with direct relevance to our investment approach.

About the cover image – like many famous tourist sites, Piazza San Marco square in Venice, shown with the Doge's Palace, was devoid of visitors for much of 2020.

January 2021

Dear fellow investor,

In annual reports I read, the best letters from CEOs to their shareholders have three important characteristics. Firstly, they are personal, meaning they have clearly been written by the CEO, not by the PR department. Secondly, they provide a fair and balanced assessment of the year under review, including the things that didn't go well. Thirdly, they tie the performance of the business and decisions that were made during the year directly to the company's purpose, or its raison d'être. This is the spirit in which I write this letter to you.

Our purpose is to be the best custodian of capital available to our clients. To fulfil our purpose, our objective is to generate investment returns of 8–12% p.a. after fees over a market cycle; let's call it seven years. Our approach to accomplishing this objective is threefold:

1) invest in businesses that we believe will become more valuable over time;
2) at prices equal to or less than our appraisal of the company's fair or 'intrinsic' value; and
3) where the risk of disappointment is low.

We expect the bulk of our investment returns will be derived from the increase in value of the companies we own and the dividends paid to us along the way. We expect a smaller but still meaningful contribution will come from the benefit of having purchased these investments for less than their intrinsic worth.

Against the positive wealth-creation impact on investment returns of businesses that meet or exceed our expectations must be balanced the drag on performance from those that don't. From goals scored must be deducted goals conceded. We seek to minimise the frequency and the severity of investment errors.

To maximise the likelihood that the businesses we choose to own do indeed become more valuable over time, and to minimise the risk that they fall materially short of our expectations, we are willing to construct portfolios that look very different from most other investment managers. We are comfortable avoiding large sections of the equity market such as financials, resource companies and businesses in highly regulated industries. We believe we will make our best investment decisions if we make relatively few of them, so we limit our portfolio to 15 holdings. We also believe we will make our best investment decisions if we keep both our investment process and our business as simple as possible. We will eschew the commercial opportunities of creating additional investment products, and instead focus on doing our one thing – and doing it well. In this, we are highly unconventional.

HOW DID WE DO IN 2020?

For our Class A (unhedged) fund, the investment performance after fees for 2020 was 0.4%, which compares to a return of 6.0% for our benchmark (the MSCI AC World Accumulation Index ex-Australia). For our Class C (hedged) Fund, the investment performance after fees for 2020 was 6.6%, which compares to a return of 11.2% for its benchmark the MSCI AC World Accumulation Index ex- Australia (hedged). This was a disappointing result from our perspective in terms of our absolute return and our underperformance relative to our benchmark. In the paragraphs that follow I have provided some attribution to help readers understand the performance shortfall, as well as why I feel very confident going into 2021 with the quality of the businesses we own and our overall portfolio positioning.

	Aoris[1]	Benchmark	Difference
2020	0.4%	6.0%	-5.6%
2019	36.5%	26.9%	9.6%
2018 – nine months to Dec	3.2%	0.1%	3.1%
Since inception - annualised	**13.5%**	**11.4%**	**2.0%**

[1] Class A, inception 28 March 2018

While 2020 is the subject of this letter, our focus is always on the longer-term outcomes, meaning our since-inception returns. The significance of our performance record when measured from the Fund's inception grows with each passing year – in statistical parlance, the signal-to-noise ratio rises with time. The ingredients we believe are key to us achieving our long-term investment objectives are:

- *our success rate*, or the percentage of stocks we have owned that have outperformed the market while we have owned them; and
- our success in avoiding the *worst 20%* of the market.

Our success rate

We owned 18 stocks during 2020, of which 11 were held for the whole calendar year and seven were bought or sold during the year. Of these 18 investments, 10 – or 56% – outperformed our benchmark during the period they were owned in 2020, including 8 of the 11 stocks held for the full year. This is a pleasing outcome, as only 34% of the approximately 5000 international companies that we consider our investible universe outperformed the average in 2020.

Since the inception of our Fund we have owned 27 stocks, 63% of which have outperformed our benchmark over the full period we have owned them, which is a statistically excellent outcome.

Avoiding the bottom 20%

Our single most important objective each year is to minimise our participation in the worst performing quintile of the market. In 2020 Compass Group, which we sold 11 weeks into the year, narrowly made it into the bottom quintile when measured over that brief period of time.

Since the Fund's inception, none of the 27 stocks we have owned were in the bottom 20% over the full period we owned them, which is a very pleasing outcome.

Looking at our 5.6% performance shortfall relative to our benchmark, the benefits of our high success rate of outperformers and from largely avoiding the bottom 20% was more than offset by not owning the IT and e-commerce super-performers. In fact, our lack of participation in this group of winners represented a performance drag in the order of 6-8% versus our benchmark. Looking at the stocks we did own, the positive impact on returns of our major outperformers, such as MSCI Inc., Nike and Graco, was more than offset by the impact of our underperformers, which were Compass Group, ADP, CDW and Costco.

Those are the numbers, the objective truth. Let me now provide some context to those numbers. The year 2020 was the most challenging I have experienced during my three decades in investment markets. The sharpness and severity of share price moves was, at times, disorientating. In parallel to severe stress in financial markets, everyone everywhere was dealing with profound changes in their personal lives and concerned for both their health and their livelihood. Anxiety levels ran high for much of the year.

It felt like a year that rewarded investors for belief and boldness. Let's look at some of the big winners. Tesla, yet to make an annual profit from selling electric vehicles (as distinct from selling emission credits) rose by more than 7x and, as at the end of the year, was valued at over $875 billion, making Elon Musk the world's second-richest individual (as of early-January, Musk has since gone one better). Large US technology and e-commerce companies such as Amazon, Apple, Facebook, Alphabet (Google), Microsoft and Salesforce.com saw gains of 30–60%, as working from home accelerated many changes these businesses were already benefiting from. The Chinese equivalents such as Baidu, NetEase and JD.com posted gains of 40% or more. A group of smaller, fast-growing enterprise software, payments and cloud computing companies contained many outsized winners, such as DocuSign (up 175%), Square (up 220%) and Cloudflare (up 310%). Lastly, work-from-home beneficiaries included Zoom (up 3.5x and now with a market value of more than $120 billion) and Peloton (whose market value rose from about $10 billion to $60 billion). The experience in our domestic equity market was similar, with extraordinary gains from the likes of Afterpay, Kogan and Xero. The year 2020 was all about growth and disruption. You just had to believe.

The sharp share price rises of the large technology stocks, a group often referred to as the FAANGs (Facebook, Amazon, Apple, Netflix and Google – now known as Alphabet), has made the feature article that I wrote in our September 2019 Quarterly Report to clients titled 'FAANGs – The sun has set on their days of dominance' look premature, at best, in its thesis. In 2020 the sun, in fact, still shone brightly on big tech. Perhaps I would have been better off writing 'The triumph of technology' and investing accordingly! Our lack of ownership of disruptive growth stories could be interpreted as having our heads buried in the sand regarding the rising importance of technology in all facets of corporate and consumer life. We are not, in fact, luddites, but we are naturally conservative. There are four primary reasons for our caution insofar as disruption is concerned.

Firstly, developing, fast-growing markets are often naturally unstable, with fluid movements in market share. Electric vehicles and the techy parts of the payments industry are two good examples where revenue growth for the current participants is fabulous, but new competitors are emerging all the time and the long-term winners are yet to be sorted out from the rest. Further, regulation may well play a significant role in these two industries in time, but today is an important unknown. We prefer markets that are more mature, where we can identify the long-term winners with confidence.

Secondly, new and disruptive companies are typically, by their nature, narrow. They have created their business around doing one thing, which makes them inherently fragile. If their one thing gets overtaken by competition or regulation, they have nothing to fall back on. Tesla, Zoom, Beyond Meat, and Square are just a few examples of this. We prefer businesses that are not only dominant in more established markets, but also have a degree of breadth across multiple markets.

Thirdly, breakthrough innovations sometimes simply don't actually break through and become the large, profitable market that had been expected. Five years ago General Motors, Amazon, Softbank, Google and others were spending billions of dollars to acquire or develop autonomous vehicle (AV) businesses, amid promises of a rapid revolution. Tesla said it would have as many as a million autonomous 'robo taxis' on the road by the end of 2020. Self-driving cars remain all promise and no production, and it was interesting to see Uber divest (in reality, pay to have it taken off their hands) their AV operation in December.

Lastly, price matters. A third of our portfolio candidates (our bench) are outstanding IT companies with long-established dominant positions in markets that are very resistant to new entrant competition. The reason they are not in our portfolio is that they are priced at levels significantly above what we believe constitutes fair value. That was true at the start of 2020 and is even more so today.

We owned four IT-related businesses during the year, but their performance was more representative of the overall equity market than of the IT sector. Accenture (IT outsourcing and consulting) rose 15% while Amphenol (IT connectors and sensors) rose 11%. Jack Henry, a leader in core account processing software for small US banks and credit unions, performed satisfactorily, with a return of 2%. CDW, which is the largest reseller of IT hardware and software to small and medium-sized US corporates, was our best performing stock in 2019 but in 2020 its share price declined by 15%. Its revenue last year was negatively impacted by cutbacks in corporate IT budgets as well as the move to work-from-home. Through 2020, CDW continued its long history of gaining market share, and as the US economy recovers we expect its earnings will follow.

Our process is to look for established winners in growing but competitively stable markets where we don't have to make leaps of faith into the future. For instance, we own L'Oréal and have a high degree of confidence that its leadership position will only strengthen over the next five years and beyond. I have found this conservative approach to be enormously beneficial over time in helping avoid the mistakes that we would inevitably make in seeking out the big winners from the next exciting growth market.

Of course, 2020 was not just about tech and disruption, belief and boldness. It was dominated by COVID-19, which early in the year rapidly became a global health and economic crisis, and immediately spilled over into financial markets. Over a four-week period to mid-March, equity markets fell by around 25%. While disappointed that our performance trailed that of our benchmark, I believe that our process and discipline helped us in four important ways in navigating the challenges that 2020 presented.

Firstly, we keep our investing as simple as possible. We manage a single fund and we own a maximum of 15 stocks. In 2020, this allowed us to put a lot of consideration into each business in the portfolio as we assessed their resilience to the changing external conditions.

Secondly, we avoid banks, energy companies and highly indebted businesses, which kept us out of many of the real problem areas brought about by the pandemic.

Thirdly, we entered 2020 with a portfolio of companies well positioned for the challenges that lay ahead (Compass, described below, being the notable exception). This year was not only an *accelerator* for digital transformation, but was also a *separator*, amplifying the differences between the best businesses and the rest. For example, Nike, L'Oréal and Accenture each lead their respective markets and through 2020 they were able to pull away from their peers at a faster-than-normal rate, emerging competitively stronger and more valuable than they started the year. Their conservative balance sheets meant that they could continue to invest in their brand and talent pool while some competitors had to cut back on these essential investments.

Lastly, we don't take portfolio cash levels up or down to express views on the equity market because we simply don't have such views. Staying fully invested served us well as the equity market recovered strongly from April onwards.

WHAT WE DIDN'T GET RIGHT AND WHAT WE LEARNED

Compass Group, which we sold in March, was our primary error of commission in 2020. Compass's business proved to be highly resilient through the 2009 economic crisis, but not so in 2020. As a contract caterer, Compass sells meals at sporting events, university campuses, hospitals, and places of work. As work-from-home directives were issued and sporting events were cancelled in the northern hemisphere during February and March, we were slow to join the dots and to appreciate the duration and severity of the impact this would have on Compass's profitability. Over the period from 1 January to the point we sold it in mid-March, Compass's share price fell sharply and this had a material impact on portfolio performance.

What we learned from this experience is the limited value of history as a guide to how a particular business will be impacted by an external crisis, because each crisis is different. We needed to apply more expansive thinking to appreciate what was different about COVID-19 and be more agile in our response to rapidly changing conditions.

THE 2020 YEAR FOR AORIS AS A BUSINESS

This was a year of growth and progress for Aoris. The value of funds we manage for clients increased from $244 million to $342 million. In June we welcomed two new analysts, taking our investment team to five. Delian Entchev is Bulgarian by birth and spent seven years covering domestic and international equities before joining Aoris. Vic Guha was born in India and brings a background in science (anatomy and histology) as well as business, and joined Aoris as a graduate. Our team will benefit from the diverse backgrounds and perspectives each brings. In November, the Aoris International Fund was upgraded by Zenith to a Recommended rating, an important recognition of its investment merits and a vote of confidence in our business.

We were disappointed not to be able to hold a community service day in 2020 – something that we intend to be an annual event – due to COVID-19 restrictions. Understandably, places where we would like to contribute a day of our time, such as hospitals and homeless centres, declined on-site volunteers through most of the year. As an alternative, we raised money for the Fight Cancer Foundation in support of kids with brain cancer by joining in their favourite footy colours day. We are hopeful that COVID-19 restrictions are lifted in 2021 and we can spend a day in the community helping those in need and building a culture of humility and service at Aoris.

THE YEAR AHEAD

Naturally, you will be reading many forecasts, divinations and prognostications from journalists, market commentators and investment managers as to what 2021 will bring in terms of financial markets, key political events and major policy moves. I gave up soothsaying long ago, because so few of my economic predictions came to pass. I would have told you a decade ago that the post-GFC economic recovery would see inflation above 2%, that US 10-year bonds would return to historic norms of 4–6% (they have been below 3% for most of the last five years), that the Chinese property market was an impending disaster and that the Australian dollar should spend an extended period of time below 70 US cents. What I have also grown to appreciate is how little this matters for most companies. We want to own businesses that we can be confident will grow in value over time, independent of external events and macroeconomic variables that we know we can't predict.

As I look at our portfolio today, the vast majority of businesses we own meaningfully improved their competitive position, earnings power and intrinsic value in 2020. For many of them, the crisis illuminated strengths that were always present but less visible in an 'ordinary year', which was reflected in both high levels of new customer wins and elevated levels of satisfaction from existing customers. They enter this year from a position of strength.

So, we begin 2021 as we begin every year, feeling both cautious and confident. We are cautious as we know that the economic aftershocks of the COVID-19 crisis will be with us for years and that the pace of change presents an ever-greater challenge for most businesses to evolve and stay relevant to their clients. To stand still is to regress. I am confident that through owning a concentrated portfolio of exceptional businesses, which we expect to become progressively more valuable over time and where the risk of disappointment is low, we will achieve after-fee returns of 8–12% p.a. over a market cycle.

I wish you and your loved ones the very best for 2021.

Sincerely,

Stephen

Stephen Arnold
Chief Investment Officer

Aoris International Fund

Performance to 31 December 2020 - Class A	December Quarter	1 Year	Since Inception p.a.*
Portfolio Return (A$) - Net of all fees	**2.4%**	**0.4%**	**13.5%**
MSCI AC World Accum Index ex-Australia (A$)	6.4%	6.0%	11.4%
Excess Return	-4.0%	-5.6%	2.0%

*Inception date: 26 June 2018, annualised. Past performance should not be taken as an indication of future performance.

MARKET AND PORTFOLIO PERFORMANCE

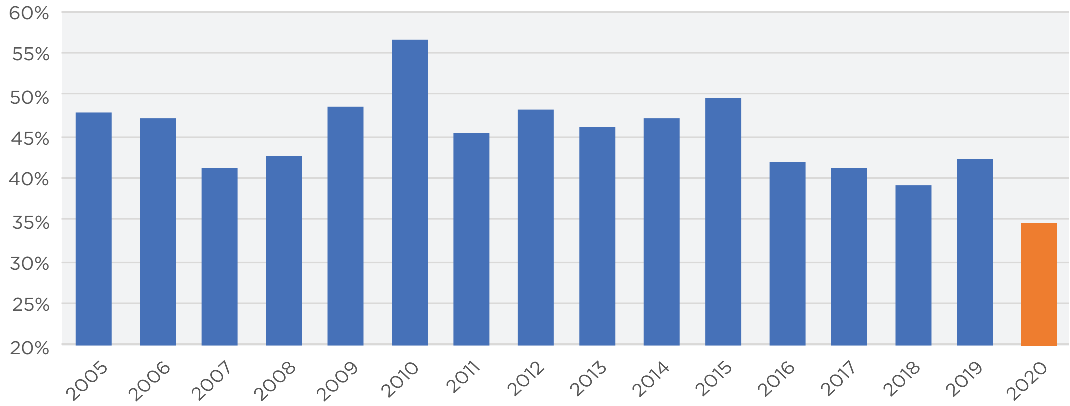
The international equity market, as measured by the MSCI AC World Accumulation Index ex-Australia, appreciated by 6.4% over the December quarter (all returns are in A$ unless stated otherwise). Markets rose by 12.8% in local currency terms, while changes in currency values detracted 6.4% from the A$ return.

Latin America was the strongest region in the quarter with a gain of 25.2%, helped by recovering commodity prices, followed by Emerging Europe, which rose 13.7%. Among the major developed markets, Japan rose by 7.1%, Europe was up 7.4%, the UK was 8.6% higher, while the US lagged with a gain of 5.0%. Australia was among the best performing countries with a rise of 14.1%. Looking at performance by sector, a strong recovery in cyclicals was a feature of the quarter, with Financials and Energy both up over 15%, Materials 9.9% higher and Industrials up by 7.4%. Information Technology slightly outperformed with a return of 7.0%. The laggards were Health Care and Consumer Staples which both declined marginally. The Chinese equity market ended the quarter up 3.3% with strong gains in October tempered by a 30% fall in the share price of Alibaba in the final two months of the year. The Chinese government forced e-commerce giant Alibaba to pull the initial public offering of its digital payments subsidiary Ant Group at the last minute, and there are growing fears of more heavy-handed government oversight of local IT and e-commerce companies.

The international equity market rose by 6.0% for the 2020 calendar year, with a 14.5% gain in local currency offset by an 8.5% appreciation in the A$. That is a remarkable return for a year in which major economies have seen the largest contraction in many decades. In such an unusual year, with economic stress not evenly distributed around the world and COVID benefiting some business sectors but harming many others, it was no surprise to see huge dispersion in performance between the winners and losers. China was the best performing country with a return of 18.0%, helped by large gains among technology stocks, followed by Emerging Asia, which was up 17.0%, and the US, which appreciated by 10.0%, led by its large technology companies. At the other end, Latin America and Emerging Europe both declined by approximately 20% and the UK fell by 18.4%, with Brexit uncertainty weighing heavily on the value of the pound through the year. Europe also underperformed, with a decline of 4.0%. Looking at sectors, Information Technology rose by 32.7%, followed by Consumer Discretionary (which includes Amazon) up 24.5% and Communication Services (of which Alphabet, Facebook and Netflix are major constituents), which rose 12.7%. The worst performing sector was Energy, which declined by 34.9%, followed by Real Estate, which lost 14.7% and Financials, which fell by 12.4%.

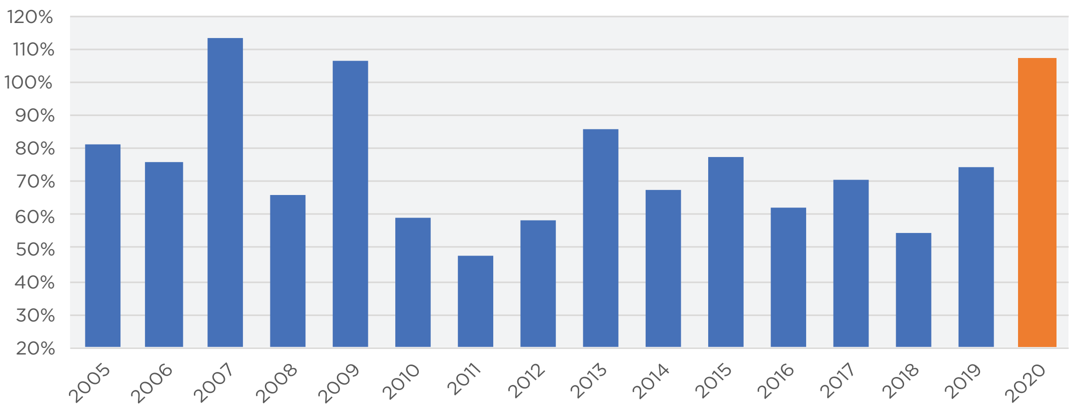
It was an unusual year for the equity market in two interesting respects: the narrowness and the skewness of returns. Narrowness refers to the per cent of companies that outperformed the broader universe (the data that follows is sourced from FactSet and defines the equity market as around 5,000 companies with a market capitalisation above A$2 billion). The chart below shows that in 2020 only 34% of those companies outperformed the average, making this the narrowest market for the 15-year period covered by our study.

Narrowness
Per cent of companies that outperformed the market



Skewness refers to the degree to which the top cohort of stocks – we use the top 10% – outperformed the market. You can see from the chart below that the skewness of returns in 2020 was the highest in 13 years, reflecting the massive gains last year from large IT and e-commerce companies in particular.

Skewness
Outperformance of top 10% versus the market



The Aoris International Fund (Class A) gained 2.4% for the quarter, lagging our benchmark, the MSCI AC World Accumulation Index ex-Australia by 4.0%. The primary reason for our performance shortfall was that we held no emerging market, financials or cyclical stocks. S&P Global detracted about 0.5% from performance during the short period we owned it. The operating performance of all our other holdings was generally pleasing.

Portfolio changes

PURCHASES

Tractor Supply

Tractor Supply is the largest rural lifestyle retailer in the US, serving the unique needs of hobby farmers and rural homeowners. Its stores sell everything customers need to maintain their farms, ranches, homes, livestock and pets, including localised and exclusive brands that are difficult to find elsewhere. The company operates 1,900 Tractor Supply stores, 10x the size of its closest direct peer. It is integral to the rural communities it serves, where it is an employer of choice. Store staff often know not only the customer's name but their pet's name and any projects they're working on. In the ForeSee 2019 retail industry survey, Tractor Supply recorded the second-highest customer satisfaction of all US retail chains (after Costco), and its online shopping experience was ranked first for three years running. The company has performed well during COVID-19, attracting many new customers, particularly younger and female shoppers, and is placing a greater emphasis on garden needs. We believe Tractor Supply can continue its long record of growing revenue at a rate of 7–10% p.a.

SALES

S&P Global

We bought S&P Global in September and sold it in December, a highly unusual short duration of ownership for the Fund.

S&P Global is a provider of information and data that sits at the heart of global capital markets. S&P Ratings is the world's largest provider of credit ratings, playing an essential role in the growth and functioning of debt markets. The company produces the S&P 500 and Dow Jones indices, critical to the world's equity markets. S&P Global Platts provides commodity benchmark prices, which are used for trading 70% of the world's oil. Lastly, S&P Market Intelligence provides multi-asset class data and research to investors worldwide. S&P Global is highly profitable and we believed it had many years of attractive growth ahead as it deepened its role in growing global capital markets.

To our great surprise and disappointment, on 1 December, S&P Global announced the acquisition of IHS Markit for US$40 billion, which would increase S&P Global's size by about 50%. The dreaded word 'transformational' was used in the analyst call to announce the deal. The purchase will be paid for by the issuance of new shares, and current S&P Global shareholders will see their ownership diluted to approximately 67% of the enlarged entity. IHS Markit is a provider of data across disparate markets, from credit, to energy, to automotive, to engineering. In our view, none of its businesses are as good as those of S&P Global. We believe the acquisition of IHS Markit will make S&P Global less focused, less profitable and lower growth, and bring with it substantial distraction and integration risk.

As we discussed in our *September 2020 Quarterly Report* and feature article, large acquisitions are highly correlated with very poor future share price performance. Cost synergies and cross-selling opportunities are easy to put in the presentation announcing the merits of the deal, but they are rarely delivered as promised. Large corporate combinations bring enormous, complex, energy-sapping projects integrating everything from accounting systems, sales forces, client-facing IT systems and office environments; aligning compensation metrics and titles; and redrawing reporting lines. The returns on capital earned by the acquiror from large M&A is most often poor, and there is significant opportunity cost in the form of distraction and reallocation of resources to integration projects away from other productive uses. Our process favours businesses whose growth is primarily internally driven, and where acquisitions are the bolt-on, easily integrated type. The announcement of the proposed deal brought an early end to our investment in S&P Global.

Stock Profiles

L'ORÉAL

L'Oréal is winning in a major way in e-commerce due to its large global brands and its early commitment to the channel.

Founded in Paris in 1909, L'Oréal is the world's largest beauty company. It operates in every beauty channel, including the professional salon market, the mass consumer market (typically sold through pharmacies), the luxury market (sold through department and specialty stores) and the travel beauty market. It owns nine brands that generate annual sales of more than €1 billion, which are L'Oréal Paris, Garnier, Maybelline, L'Oréal Professional, Lancôme, Yves Saint Laurent, Kiehl's and La Roche Posay.

The beauty market has rapidly shifted online in recent years, a trend that naturally accelerated in 2020. The move to e-commerce would on the surface seem to lower the barriers to entry for new brands, as it's relatively easy to create a product, outsource the manufacturing, build an online following and have it distributed via Amazon or T-Mall. While the barriers to entry have indeed come down, the barriers to success have risen. One industry participant informed us that over the period 2016 to 2018, around 2,000 new make-up brands were launched in the UK. Yet, at the end of these two years, only five of them had revenue of more than £500,000.

Rather than being a tailwind to small brands, digital communication and e-commerce have proven to be an amplifier for the big, global consumer brands, provided they are supported with innovation and advertising, at which L'Oréal excels. If a consumer is searching on Google or Amazon for beauty products, they will rarely scroll past page 3. All the action is on pages 1–2, which is where the largest brands are. Further, L'Oréal receives much better placement on Google search per dollar of advertising it spends than independent brands, because Google's ranking factors in the likelihood that someone will click on the ad. L'Oréal's largest brands are powerful assets and in recent years have outgrown the market.

In 2020, L'Oréal benefited enormously from the accelerated shift to e-commerce because it committed early. A decade ago, its CEO declared 2010 the 'Year of Digital'. L'Oréal has a higher share of the beauty market online than offline, and in e-commerce its sales grew at about twice the rate of the market through 2019 and 2020.

We see many years of GDP+ profitable growth ahead for L'Oréal. It leads the beauty market with a global share of 20%, yet has only 13% in North America and around 10% in Asia and Latin America.

We expect these market shares to be considerably higher a decade from now.

COSTCO

Costco's simple but winning model is to offer its 100 million members exceptional value combined with great service.

Costco is a very differentiated and remarkably successful American retailer with revenue in the year to August 2020 of US$163 billion. Costco operates a membership model where over 100 million individuals pay US$60 per year for the right to shop in its 800-or-so warehouses. Once you have become a member, naturally the best way to get more value from your annual fee is to spend more money at Costco.

Costco's warehouse stores are big. Inside an average store you could fit four Woolworths supermarkets or two full-size soccer fields. Costco believes that offering a limited assortment of nationally branded and private-label products in a wide range of categories will produce high sales volumes and rapid inventory turnover. Costco stocks about 3,700 items that it sells in large quantities, which compares to more than 100,000 at a typical Walmart. Costco achieves operating efficiencies through volume purchasing, distribution directly from manufacturers to stores and reduced handling of merchandise in no-frills, self-service warehouse facilities. This enables Costco to operate profitably at significantly lower gross margins than most other retailers.

Costco offers not only great prices, but also great benefits to its customers. You can return an item for a full refund, no questions asked, even years after purchasing it. Costco has ranked #1 across the Department and Discount Store category in the American Customer Satisfaction Index in each of the last four years. Happy employees help create happy members. Costco pays its employees well above minimum wage and provides full health care and retirement benefits to hourly workers. Costco was voted the Best Employer in America across all categories in 2019.

Costco is one of the very few retailers to have taken a successful retail model across borders. It has about 200 international warehouse stores across countries including Canada, Mexico, Japan, Korea and the UK. Here in Australia, Costco has 11 thriving locations. In late 2019 it opened its first store in Shanghai, China, and had to close the doors for half a day due to the overwhelming number of shoppers (search on YouTube to see for yourself). A second Shanghai warehouse will open early in 2021.

We see many years of future profitable growth ahead for Costco, both in the US and internationally. It has a retail model that only becomes more powerful as it grows in scale, which it applies with discipline and consistency.

AORIS INVESTMENT MANAGEMENT

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A COMMONSENSE APPROACH EXECUTED WITH UNCOMMON DISCIPLINE