Monthly Newsletter - July

Hi there,

To our investors - thank you for investing alongside us, for the long term.
In this edition you'll find:

- **July** Performance
- Code Red **IPCC** report - The Time to Act on Climate Change is now
- **Strong results** from reporting
- **Doximity** results and reasons for investing

July Performance

Please find performance data by clicking on the links below.
Wholesale Strategy
Retail Strategy

Code Red IPCC report - The Time to Act on Climate Change is now

We've known climate change is bad, and getting worse, for decades. And we've known it's caused by human activity for just as long. Nonetheless, it was still shocking to read the IPCC's latest assessment report, it described the grim reality that the pace of global temperature rise is actually accelerating amid growing levels of GHG emissions.

The report comes as extreme weather events, driven by climate change, batter the world; floods in Germany and China, wild-fires in Canada and the US, and record high temperatures in the arctic circle.

The report tells us that temperatures have increased, on average, by a staggering 1.1ºC since the start of the industrial revolution, and that the threshold of 1.5ºC could be breached as early as 2030. Remember that 1.5ºC is the threshold specified in the Paris Agreement, that all national governments signed-up to, and agreed to work towards avoiding. But so far, we're failing.

It's estimated that we have a 50:50 chance of staying below the 1.5ºC level if we cap future emissions to adding only a further 500 billion tonnes of C02 into the atmosphere. At current rates, that's only 15 more years of polluting. It would require the whole world to be at net-zero well before 2050.

For all the report's grim bluster, it has taken hold of the world's attention. The IPCC's website crashed upon the report's release, and thousands viewed a livestream of the press conference. There is a palpable sense of urgency in the air, but most importantly, the climate-deniers have been quietened.

This latest report goes much further than previous editions to ensure the voracity of its data points. The researchers highlight the ‘multiple lines of evidence’ that came together to form their findings. It’s now unequivocal, climate change is caused by human activity.

Investor Action to Decarbonise

The shift by investors towards sustainability has come in a torrent in the past 12 months. There’s been a flood of interest in ESG, impact investing, divestment as well as commitments to reach net zero emissions by 2050. It’s a positive trend, but it’s not enough. We need to move faster to halt new fossil fuel developments, develop energy alternatives, and draw-down the carbon that is already in the atmosphere.

The Blue Oceans Capital portfolio has always been low carbon. We don’t have to divest, because we only invest in companies that are aligned with the Paris Agreement’s 1.5ºC target. Our portfolio has been analysed by Sustainable Platform, and its emissions exposure is negligible, it’s so small it’s recorded as zero.

FOSSIL FUEL EXPOSURE			
	Blue Oceans [1]	MSCI ACWI [2]	S&P ASX200 [3]
Coal	0.00%	0.31%	2.97%
Oil	0.00%	1.78%	4.05%
Gas	0.00%	0.30%	1.39%
Other	0.00%	0.89%	2.72%
TOTAL	**0.00%**	**3.28%**	**11.14%**

Table 2: Blue Oceans Capital Wholesale Strategy Fossil Fuel Exposure.
Source 1: Sustainable Platform 28/4/2021 / Source 2: MSCI benchmark data / Source 3: S&P benchmark data

In fact, the Blue Oceans portfolio has been constructed to benefit from the economic shift away from a dependence on fossil fuels. This is the situation we modelled, this is the future we’re investing towards. And the fact that the threat of climate change is galloping towards us at an even faster rate simply means we need to double down.

Our company screening and analysis process continues. It’s thresholds avoid heavy emitters, and they target high-growth companies that are contributing to the carbon draw-down.

Strong Results From Reporting

At the time of writing, over half of our portfolio has reported on the July quarter, with each company showing strong results. **Those results have allowed for an overall uplift in the value of the portfolio in the month to date.** Below we highlight three of those that have reported so far.

SolarEdge

SolarEdge, our largest portfolio holding, reported revenues of $480 million pushing 18% higher over the prior quarter, and up 45% over the same quarter last year. Gross margin was maintained at a strong 32.5%. Growth came from shipping 5 million power optimisers and approximately 180,000 inverters with strong demand coming from all geographies[1]. See chart one below.

Particular growth came from Europe led by the Netherlands, Italy and Poland. Note that these geographies are similar to that which another company we hold, Alfen, draws its revenues from (Alfen reports towards the end of this month).

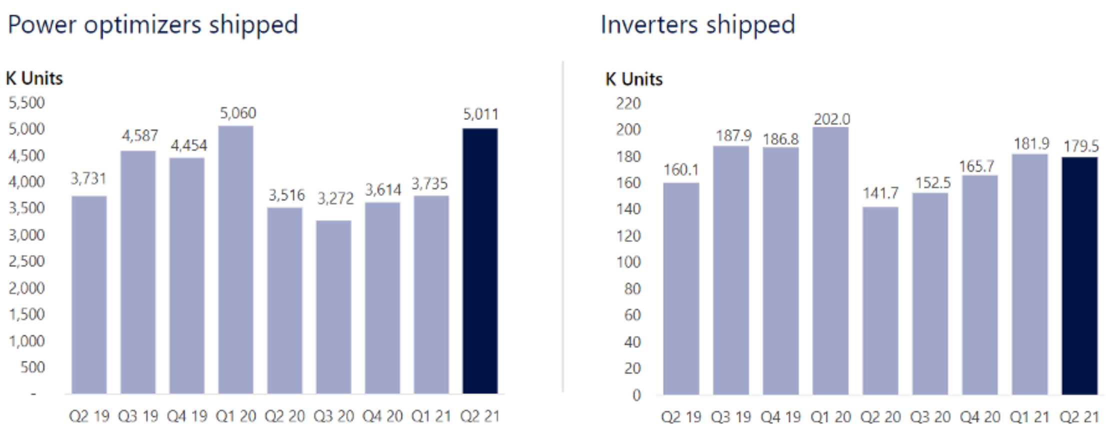

Chart One. Power optimisers and inverters shipped. *Source: SolarEdge.*

This quarter also saw the roll out of the Energy Hub inverter. Energy Hub is designed to connect to, and control, multiple energy elements of the home such as the battery, EV charger and an electric water heater controller. Homeowners can manage each of these through the my SolarEdge app.

Energy Hub inverter. *Source: LG Chem*

During the quarter SolarEdge began shipments of its residential battery system to the United States and Europe. This is a DC-coupled, 10-kilowatt hour battery that currently uses Samsung SDI cells. Production is currently ramping up with plans to ship 25-megawatt hours of batteries in the third quarter.

SolarEdge is currently building its own battery production capability with the construction of the Sella 2 factory in Korea. Production is scheduled to begin in the second half of 2022. Demand is currently well ahead of the plant's production capability.

Paycom

Paycom Software Inc., the online payroll and human resource technology provider company, recorded revenue of $242.15 million in the second quarter, up 33.3% over the same quarter last year. Recurring revenues increased 33.5 % YoY to 237.6 million in this period and constituted 98% of the total revenue. For the three months, and the six months, ended June 30, 2021, the company's gross margins were approximately 85% and 86%, respectively. The growth was primarily driven by new client additions and consistent cross-selling to existing clients.

The pandemic resulted in many clients reducing their workforce, negatively affecting Paycom's revenue. The existing clients' improved headcount levels in the second quarter also had a modest positive impact on revenues. The unemployment rates in the US are projected to decline, signifying further overall increase in hiring. According to Goldman Sachs, the unemployment rate in the US is projected to reach 3.5% by the end of 2022[2]. (See chart one)

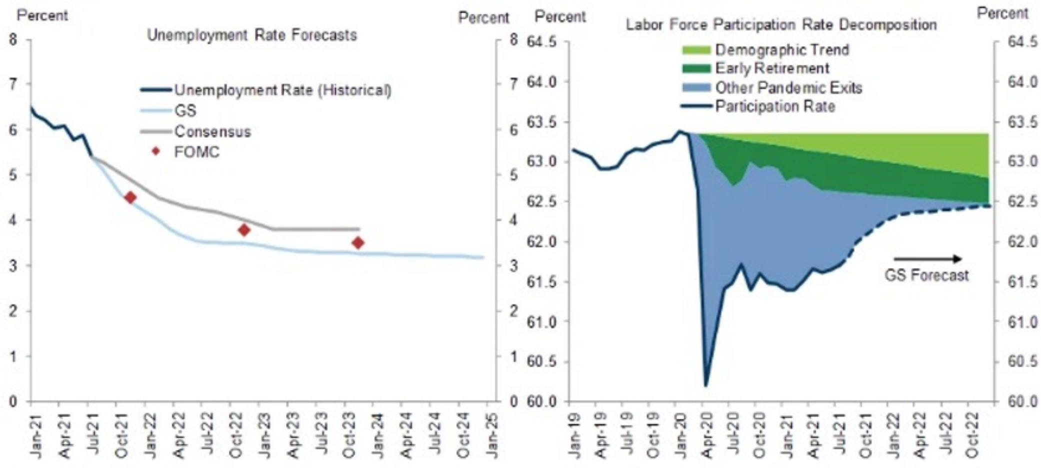

Chart One *Source: Goldman Sachs.*

Increasing hiring by Paycom's clients will continue to be a driver of growth for Paycom in the near future.

In July, the company also rolled out to the market their new innovation - Better Employee Transaction Interface (BETI), hailed by the company as the industry's first self-service payroll tool that allows employees to manage their own payroll, increasing efficiency and accuracy.

BETI is now an integral part of the standard Payroll product the company offers, and is not sold as a separate add on. There is a per life, per employee fee to use BETI. All the existing clients of the company's payroll product will have to adopt BETI eventually, if they continue to use the payroll product, so there are definite opportunities to cross-sell there.

At the same time, the company intends to attract new clients based on BETI's value proposition. BETI has been already sold over to 1,000 new and existing clients as of the end of July.

Doximity

Doximity, our most recent investment, reported quarterly revenue of $72.7 million in its first quarter, up 100% from $36.4 million in the same quarter last year. Gross margin increased from 79% to 89% and free cash flow went up from $7.6 million to $32.4 million in the same quarter. Existing clients contributed 80% of the growth, with net revenue retention rates increasing to 167% over the preceding 12 months.

Doximity's e-signature and fax products witnessed record usage in the first quarter as they added another 24,000 US physicians to their enterprise telehealth platform. They currently have 30% of all US physicians subscribing to their telehealth offering.

While the number of unique telehealth providers on their platform grew, the number of virtual visits per provider declined year-on-year due to a sharp spike in the free usage they witnessed last year at the start of the pandemic. However, likely due to the Delta variant, there has been an uptick in daily visits per provider since July 4, 2021.

Doximity released the 2021-2022 Residency Navigator in July. The Residency Navigator is the most comprehensive online directory of U.S. residency programs used by more than nine out of ten, fourth-year medical students.

Maintaining their physician-first approach, they hosted an AMA in order to listen to the 40% of US physicians who marry other healthcare professionals. The result; they introduced the Couples Match Tool. It allows couples to generate a list of optimal program pairs, sorted by programs within the same institutions or within a certain range of distance, and also offers the ability to filter by cost of living, school quality and other family friendly attributes.

Our Reasoning for Investing in Doximity

The US healthcare system is broken, with unacceptable numbers of medical related mistakes, and one of the highest costs of health expenditure per capita of the developed world[3] .

Medical errors are the third leading cause of death in the United States. A recent study by John Hopkins University found that more than 250,000 people per year die from medically related mistakes[4].

The Institute of Medicine (IOM) found that over-treatment, under-treatment, and medical errors are the basis for much of the problem[5] with a large gap between what is known to work and what care was actually delivered to the patient[6].

Doximity is a platform targeted at narrowing this gap. It provides healthcare professionals up-to-date knowledge of best practice healthcare delivery for their specific specialisation. It enables better connections between users by leveraging its database of clinical training, certifications, research and employment affiliations leading to better advice and better referrals.

Doximity is addressing inefficiencies in the health care system through its digital patient interaction tools and digital fax functionality. These tools are creating significant efficiencies and reducing the burden on overworked health care professionals that need to be focussed on medical problems, not repetitive administrative tasks.
These benefits are largely funded by solving another pressing problem. Closing the knowledge gap by targeting the most relevant healthcare professionals with the awareness of new medicines.

References

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All the best

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