Investment Strategy

The Swell Global Portfolio is an absolute return, benchmark unaware global equities manager with the flexibility to invest in companies listed in developed markets around the world. We target a return of 9% per annum after all fees over rolling three-year periods.

Manager	Swell Asset Management Pty Limited ABN 16 168 141 204 CAR No. 465285 AFSL 460572
Administrator	Mason Stevens Limited ABN 91 141 447 207 AFSL 351576
Custodian	National Australia Bank Limited ABN 12 004 044 937 AFSL 230686

Strategy Facts

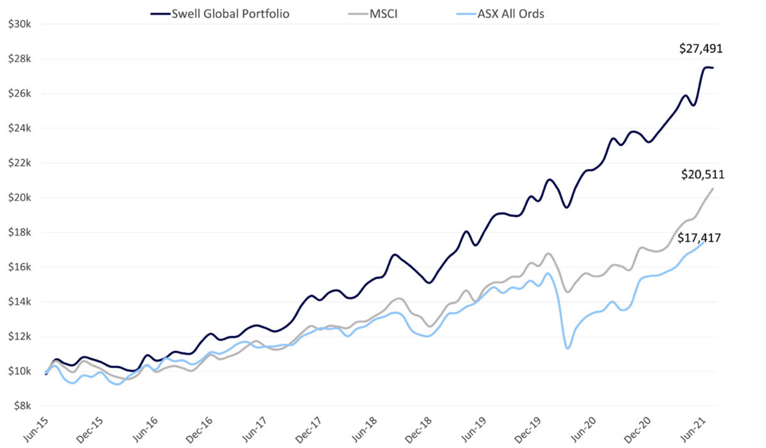
APIR code	SWE0174AU
Inception Date	18 June 2015
FUM	A$103.7 m
Number of companies	15
Minimum investment	$500,000
Benchmark	MSCI World net total return AUD[1]
Currency	AUD [unhedged]
Management Fee	1.25%
Administration Fee	0.225%
Performance Fee	15.0% of excess return above benchmark (subject to high water mark)

Portfolio performance

	Portfolio	Benchmark	Excess
1 month	0.40%	3.97%	-3.57%
3 months	6.18%	10.13%	-3.95%
6 months	15.78%	21.32%	-5.53%
1 year	24.17%	31.78%	-7.62%
2 years (pa)	20.54%	16.54%	4.00%
3 years (pa)	20.96%	14.93%	6.03%
4 years (pa)	22.28%	16.21%	6.07%
5 years (pa)	20.67%	15.05%	5.61%
6 years (pa)	17.10%	11.67%	5.43%
Inception	174.91%	105.11%	69.79%

Past performance is not indicative of future performance

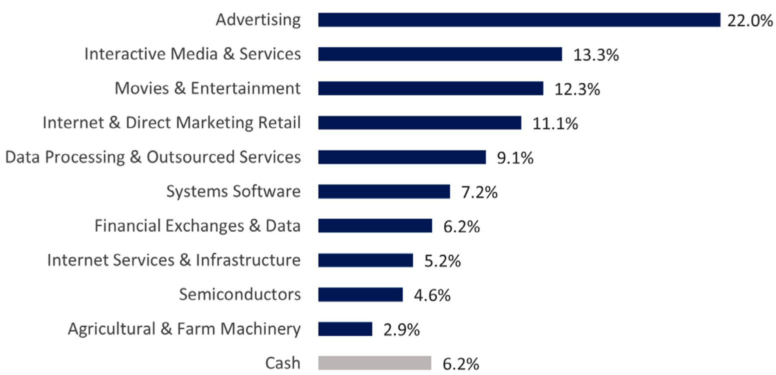
Portfolio Performance vs Benchmark



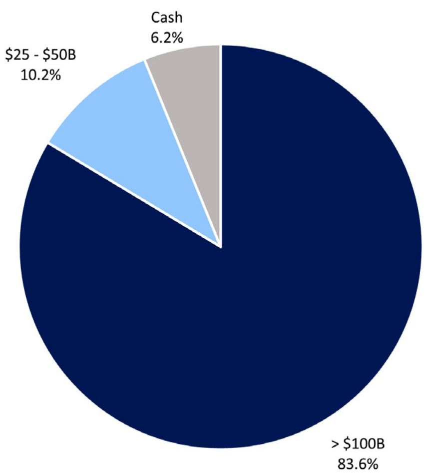
Top 10 Holdings (alphabetically)

Alibaba Group Holding Ltd	Internet & Direct Marketing Retail
Alphabet Inc	Advertising
Amazon.com Inc	Internet & Direct Marketing Retail
Facebook Inc	Advertising
Microsoft Corp	Systems Software
Netflix Inc	Movies & Entertainment
PayPal Holdings Inc	Data Processing & Outsourced Services
S&P Global Inc	Financial Exchanges & Data
Walt Disney Co/The	Movies & Entertainment
Zillow Group Inc	Interactive Media & Services

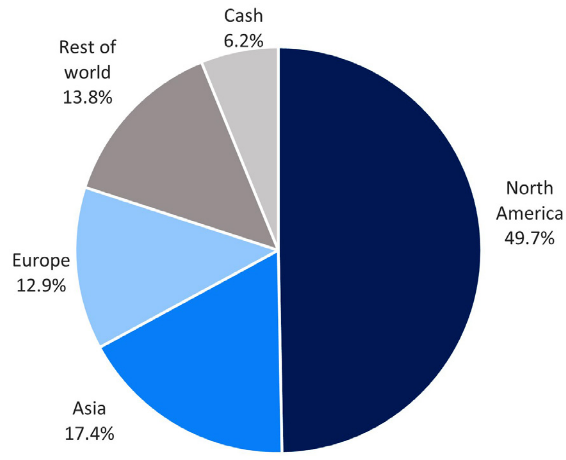
Sector allocation by BICS Industry



Market Capitalisation (US$)



Regional Allocation by Revenue



Top contributors this month *

Alphabet

Alphabet reported second quarter earnings during the month. Total revenue was up 57% year on year to $61.9 billion and earnings per share increased 169% to $27.26. The growth rates were unusually high due to the comparison quarter last year being pandemic affected. The advertising industry continued its broad-based recovery with strength across most categories but retail was particularly solid.

Cloud revenue accelerated during the quarter as Google Cloud Platform grew significantly faster than the overall cloud segment. YouTube also accelerated, growing 83% in the quarter driven by recovery in brand advertising and direct response. Connected TV advertising was a highlight, with more than 120 million people watching YouTube on their TVs each month.

Management expect strong growth rates will continue, albeit at a slower pace given the lapping of a pick-up in ad spending in the second half of last year. Over the long term we remain excited about the many opportunities ahead for Google including the continued shift to digital advertising, cloud growth and ecommerce.

Microsoft

Microsoft finished its fourth quarter of 2021 with better than expected revenue of $46.2 billion and operating income of $19.1 billion. The result was driven by strong growth in two segments: intelligent cloud and productivity and business processes.

Office 365 commercial rose 20% with growth in both number of seats and average revenue per seat. The software is increasingly being used by frontline workers, a largely untapped opportunity comprising more than 2 billion people globally. With continued product releases and updates Microsoft is also driving existing users to upgrade to higher-priced enterprise contracts which increases average revenue per seat. Azure grew 45% from an already large base, and server products rose 26%.

LinkedIn stood out as a strong performer with monthly active users surpassing 774 million, annual revenue exceeding $10 billion and hours spent on the platform increasing by 80%. 60% of Fortune 500 companieis use LinkedIn for staff training and development.

Microsoft Teams continues to benefit from the increase in remote work and learning. It has garnered more than 145 million daily active users and 250 million monthly active users. 124 organisations with more than 100,000 staff and nearly 3,000 organisations with more than 10,000 staff now use Teams as their collaboration platform. Commenting on the company's future CEO Satya Nadella stated "Going forward, every person and every organisation will require more digital technology to be more resilient and to transform. We are innovating across the entire tech stack to ensure our customers succeed in this new era."

Facebook

Facebook's second quarter revenue grew 56% to $29.1 billion while earnings per share grew 101% to $3.61, both beating analyst expectations. Facebook's monthly active user base passed 2.9 billion and average revenue per user reached $10.12 driven by a 47% rise in average price per ad and a 6% increase in the number of ad impressions. The strong growth in price per ad reflects a recovery from the drop in ad prices during the pandemic last year and an accelerated shift to digital advertising as all businesses increase their online presence.

Facebook CEO Mark Zuckerberg highlighted the company's future focus on the metaverse during the earnings call, noting "in coming years, I expect people will transition from seeing us primarily as a social-media company to seeing us as a metaverse company". His vision of the company's revenue stream from the metaverse appears to be through advertising and the sale of digital goods, services and experiences, rather than through selling devices such as the Oculus headset.

The company expects "increased ad targeting headwinds in 2021 from regulatory and platform changes, notably the recent iOS updates" in the third quarter. While the long-term impact of ad targeting restrictions remains uncertain, as noted by social media platforms such as Snapchat and Twitter, Facebook should benefit from its expansive first-party database and strong leads in AI, personalisation and advertising solutions.

Bottom contributors this month *

Alibaba

In his CEO letter to shareholders in Alibaba's annual report for the fiscal year ended March, Daniel Zhang addressed several key topics including pillars of growth and Alibaba's governance structure. He noted the company's globalisation strategy is progressing well, with active users outside China reaching 240 million

Alibaba's Community Marketplace, a new retail format focused on offering value-for-money goods for next-day pick up, was launched in 2020 to expand the consumer base outside major urban areas. Alibaba can leverage its large existing customer base and expertise in online retail and logistics to significantly penetrate traditionally offline product segments and markets.

The company's management practices, governance, performance measurement and resource allocation will be enhanced and strengthened "to better focus on our priorities of customer experience, customer value creation and customer mindshare". Mr Zhang conceded the penalty recently issued by the state market regulator "made us more thoughtful about the responsibilities of a platform company like Alibaba, which aspires to be the infrastructure of the digital economy, and how we engage in constructive relationships with partners and other stakeholders across the community and contribute to society".

Tencent

In July, the State Administration of Market Regulation (SAMR) agency ordered Tencent to end its exclusive music licensing deals with global record labels, and issued a fine of RMB500,000 for unfair practices. Tencent and Tencent Music Entertainment (TME), the company created through the acquisition of China Music Corporation in 2016, will comply with the regulator's requirements, opening up music rights to other local businesses. However TME's market leading position will be hard to displace as it has built a loyal user base of around 622 million monthly active users across its three music platforms. Its position is further strengthened by Tencent's unmatched social networking reach.

Tencent will introduce stricter limits on game play time for minors than those imposed by China's gaming regulators in 2019, demonstrating Tencent's focus to stay ahead of regulatory concerns. In addition, the company has banned in-game purchases for children under 12 and enhanced its account detection system to combat the risk of minors using fake IDs to log into games. Tencent is also proposing industry-wide adoption of game play time limits.

PayPal

PayPal reported robust results for the June quarter, adding new users and merchants and driving higher engagement levels. It ended the quarter with 403 million active accounts and processed $311 billion in transaction volumes, up 40% from a year earlier. While the company expects to face some near-term headwinds associated with eBay's transition away from PayPal to managed payments, this puts PayPal in a better position to attain relatively stable and higher growth rates. PayPal continues to innovate and expand consumer offerings with its Super App rollout and integrated functionalities such as buy now pay later and crypto transactions.

While PayPal's BNPL product was launched only recently, 'Pay in 4' volumes reached $1.5 billion, up 49% from last quarter, driven by increasing adoption within PayPal's existing network base. The product is used by 425,000+ merchants and 4.2 million customers. While the numbers are lower than some BNPL competitors, PayPal is catching up quickly with significantly higher quarterly growth rates. The digital payments market is expected to reach $10 trillion by 2025, and BNPL's current penetration of 2% is expected to grow substantially.

Another highlight from PayPal's earnings was strong results from Venmo as it continues to expand beyond its roots in P2P transactions. The platform processed payment volumes of $58 billion, up 58% year on year. More than 50,000 merchants have established business profiles on Venmo and Pay with Venmo revenues grew by 183% year over year as consumer increasingly use Venmo to pay for goods and services.

* Contribution is relative to other companies in the Portfolio.

Further Information

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