

Monthly Update

31 October 2021

About

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

Top 5 Holdings (alphabetical)

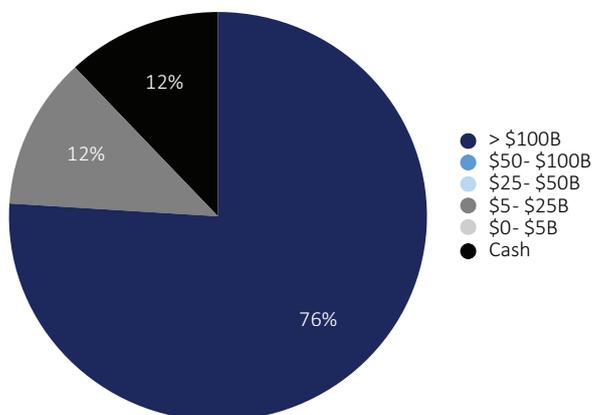
Alphabet	Interactive media and services
Amazon	Internet and direct marketing retail
Facebook	Interactive media and services
Microsoft	Systems software
Zillow	Interactive media and services

Portfolio performance

Performance	Portfolio %	Benchmark %	Excess %
1 month	1.62%	1.62%	0.00%
3 months	-0.14%	1.58%	-1.72%
6 months	6.04%	11.87%	-5.83%
1 year	15.56%	31.29%	-15.73%
2 years (pa)	20.03%	15.94%	4.09%
3 years (pa)	19.72%	15.94%	3.78%
4 years (pa)	18.71%	14.28%	4.43%
5 years (pa)	19.96%	15.75%	4.21%
6 years (pa)	16.83%	11.98%	4.85%
Inception	174.59%	108.35%	66.24%

Past performance is not indicative of future performance

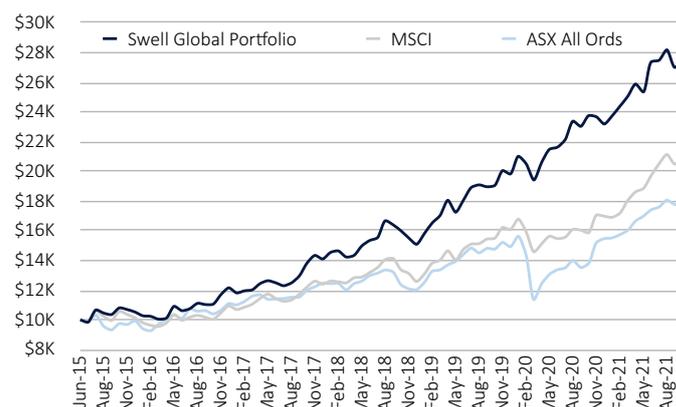
Market Capitalisation (US\$)



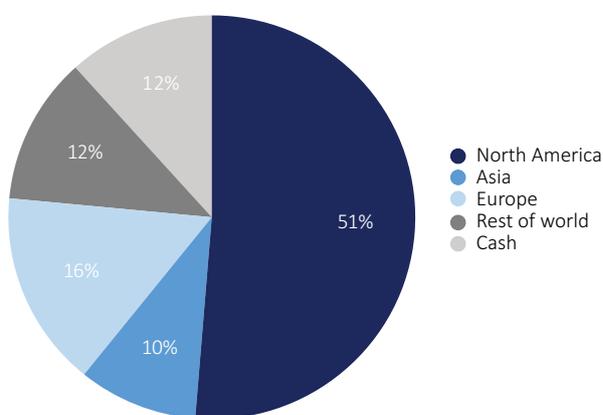
Key Details

APIR	SWE0174A
Structure	SMA
Inception date	18-Jun-15
Strategy FUM	A\$105.1 m
Number of companies	13
Minimum investment	\$500,000
Benchmark	MSCI World net total return (AUD)
Currency	AUD unhedged
Management fee	1.25%
Performance fee	15%

Portfolio Performance vs Benchmark



Regional Allocation by Revenue



Top contributors this month *

Zillow

On October 18 Zillow Group suspended its iBuying activity, the business stream which purchased, renovated then sold homes. The company cited labour and supply constraints slowing its renovation business, which in turn slowed property turnover, creating a backlog of homes that remained on its balance sheet. When reporting third quarter earnings on November 2, Zillow announced a full exit from iBuying, and while supply chain and scaling issues were flagged as contributors, the company acknowledged difficulty in accurately pricing homes across different market cycles made profitability too volatile and the business too risky over the long-term.

Notably, only around 10% of customers were accepting iBuying offers from Zillow. Therefore 90% were not satisfied with either the price offered or the experience, impacting the incredibly strong brand and market position of the core business. The company will refocus on the IMT (internet, media and technology) business which remains highly lucrative and easily commands the number one position for real estate listings in the US. Management also confirmed they will continue the company's 2.0 strategy to improve the real estate value chain by moving into adjacent areas of real estate transactions.

Microsoft

Microsoft reported first quarter 2022 results with both revenue and profit exceeding guidance and superior performance across a most products and services. Cloud was again the biggest driver with revenue surpassing \$20 billion for the first time in a quarter and Azure revenue growing 48% year-on-year. However, the two standout segments were LinkedIn and Gaming.

LinkedIn users climbed towards 800 million, increasing 26 million from the previous quarter. The platform has benefitted from a tight labour market and the so called "Great Reshuffle" as people reconsider where, how, and why they work. LinkedIn revenue increased 39% driven by a 160% increase in confirmed hires and 61% growth in advertising.

Gaming, which was expected to decline based on hardware supply constraints and a strong prior year comparison, grew 14%. The result was driven by hardware sales that increased 162% with continued strong demand and a better-than-expected supply environment.

At its Ignite conference early in November, Microsoft unveiled new products and features such as Microsoft Loop, Mesh for Microsoft Teams and Azure Open AI service. Satya Nadella told participants the next 10 years will see greater digitisation than the last 40 years, forcing all businesses to build their own "tech intensity" to succeed. We believe Microsoft will continue to benefit from this digitisation trend as it provides the tools businesses require to build their own technological capabilities.

Alphabet

Alphabet reported its third quarter results late in October. Total revenue was \$65.1 billion, \$12.8 billion higher than consensus estimates, while diluted EPS was \$4.50 higher than analyst estimates at \$27.99. The results reflected broad-based strength in advertising spend on its platforms, particularly in retail, as well as sustained consumer online activity. Google Cloud maintained its strong momentum and growth rate above the industry average, with revenue up 45% year-on-year, earning \$5 billion in the quarter. The company's productivity software under its Workspace segment also continued its robust growth rate.

Google launched its latest smartphones during the month, the Pixel 6 and 6 Pro. They are the first to use the company's custom designed chips to improve general performance and power the phone's AI and machine learning capabilities, as well as the company's most advanced camera.

Alphabet will invest \$1 billion in Africa over five years to support digital transformation. It launched a new drug-discovery company which uses artificial intelligence from Google's DeepMind unit to commercialise healthcare ventures and research. The new company, Isomorphix Labs, will partner with pharmaceutical companies to accelerate drug discovery. It is the second standalone company to be established this year, following Intrinsic, its robotics focused venture.

Bottom contributors this month *

PayPal

PayPal confirmed it is not pursuing the proposed acquisition of Pinterest after conducting preliminary talks in early October. However, it is a strong signal PayPal plans to integrate shopping tools and social commerce as part of its super app strategy combining payments, ecommerce and financial services. PayPal has many opportunities to explore partnerships and acquisitions to further improve the experience of 400 million and growing consumers and merchants using the PayPal platform.

Honey has launched cash back through PayPal, a new option for US users who have linked their Honey and PayPal accounts, to redeem points for cash through PayPal. Through Honey's desktop browser extension, mobile app and the new iOS Safari mobile extension, consumers can earn points and redeem them as shopping credit when checking out with PayPal or for a gift card at participating stores.

PayPal has partnered with United Airlines to launch touch-free inflight purchases using the PayPal QR Code, even in areas without Wi-Fi. Toby Enqvist, chief customer officer for United said "PayPal is a terrific partner and this technology gives our customers another easy way to make purchases, even when they're not online. We expect to introduce even more new and innovative options for our customers in the future through our collaboration with PayPal."

Intel

Intel's third quarter results saw revenue slightly lower than management guidance and earnings per share higher. The company reported strong demand for data centre and internet-of-things chips but noted its PC business was hampered by a manufacturing shift to high-end computers where it faces increasing competition from AMD. Supply constraints and larger inventories of lower end consumer and education PCs forced manufacturers' preference to produce the more profitable premium devices.

Management gave long term guidance for higher revenue growth, lower gross margins in the medium term and increased CAPEX spend. The implications of this are lower profits in the short term, but significantly higher profits past 3-5 years. We believe the market's short-term focus led the shares lower following the earnings call.

We see significant opportunity with semiconductor demand doubling to \$1 trillion by 2030 and leading-edge chips comprising over 50% of the total. If Intel can execute on its strategic roadmap we believe it can be a significant beneficiary of this industry growth.

Disney

Recent research from Media Partner Asia's research platform, AMPD, suggests Disney+ has moved into second place in Australia. The rankings are based on both subscriber numbers and engagement (hours viewed) of video streaming services. Disney+ displaced Amazon Prime Video with around 15% share of the streaming subscriber base but 16% of overall streaming content consumed. Netflix comfortably holds first place in the Australian market, as it does in most markets, with around a third of the subscriber base and 38% of total streaming consumption.

Disney is rumoured to be in discussions to license its ESPN brand to sports betting companies including Caesars Entertainment and DraftKings, reportedly worth at least \$3 billion dollars over several years. If successful, the deal would allow Disney to gain a foothold in the highly lucrative industry. A number of US state and federal agencies are either approving or discussing the legalisation of sports betting to increase tax revenues to fuel pandemic recovery. The licensing agreement is expected to include game highlights, statistics and commentary as well as player and team specific content. The agreement would allow Disney to further monetise its ESPN assets without directly entering the sports betting industry.

* Contribution is relative to other companies in the Portfolio.

Further Information

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/ Sub-custodian	Mason Stevens Limited/ National Australia Bank Limited

Office

Suite 10.02
Level 10
Corporate Centre One
2 Corporate Court
Bundall Qld 4217
☎ 07 5551 0299
✉ info@swellasset.com.au



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