Swell Global Portfolio

Monthly Update

30 November 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 Inc	Digital Advertising
Amazon.com Inc	Internet & Direct Marketing Retail
Meta Platforms Inc	Digital Advertising
Microsoft Corp	Systems Software
Zillow Group Inc	Real Estate Services

Key Details

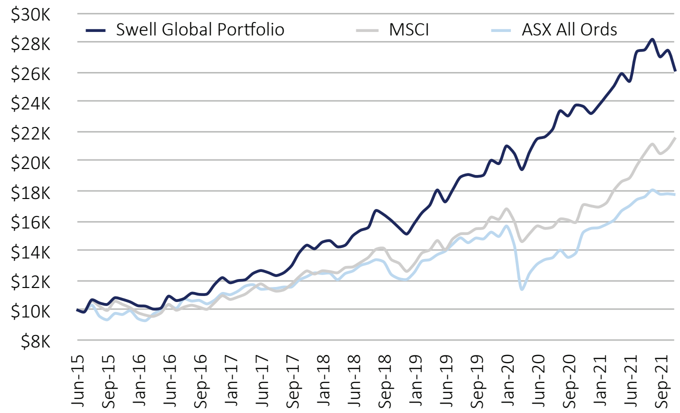
APIR	SWE0174A
Strucuture	SMA
Inception date	18-Jun-15
Strategy FUM	A$98.4m
Number of companies	14
Minimum investment	$500,000
Benchmark	MSCI World net total return (AUD)
Currency	AUD unhedged
Management fee	1.25%
Performance fee	15%

Portfolio performance

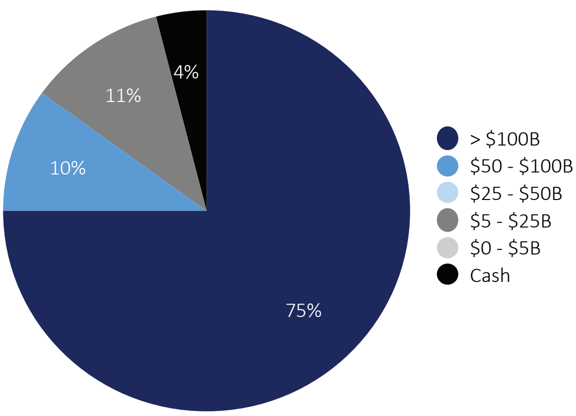
Performance	Portfolio %	Benchmark %	Excess %
1 month	-5.19%	3.61%	-8.80%
3 months	-7.68%	2.10%	-9.79%
6 months	2.63%	14.50%	-11.86%
1 year	9.93%	26.55%	-16.62%
2 years (pa)	13.94%	15.34%	-1.40%
3 years (pa)	18.83%	18.05%	0.78%
4 years (pa)	16.08%	14.39%	1.68%
5 years (pa)	17.34%	15.56%	1.78%
6 years (pa)	15.99%	13.03%	2.96%
Inception	160.35%	115.87%	44.47%

Past performance is not indicative of future performance

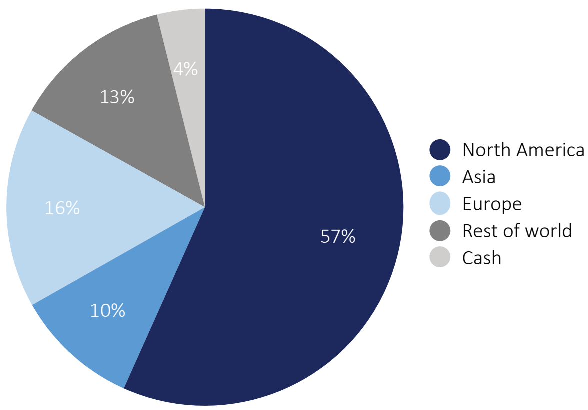
Portfolio Performance vs Benchmark



Market Capitalisation (US$)



Regional Allocation by Revenue



Top contributors this month *

Amazon

Amazon Web Services (AWS) held its 10th annual re:Invent conference in the last week of November. The five-day event, held both in-person in Las Vegas and online, was the first with new CEO Adam Selipsky and his keynote covered a number of interesting strategies and developments. The main takeaway for us was the focus on integrating and optimising the 200+ services provided by AWS to deliver improved services for all customers.

During the month Amazon introduced FamilyFlex, a range of flexible working options to help retain employees with the opportunity to better balance work and family needs. The initiatives include flexible shift selection or swaps, mental health resources and referral services for carers. Anytime pay enables employees to advance future earnings to cover short term financial needs.

AWS is expanding access to its free cloud skills training, part of its mission to train 29 million people by 2025. It launched AWS Skill Builder – a digital learning experience, the AWS Skills Center – a dedicated, in-person cloud learning space, expanded the AWS re/Start global reskilling program and made AWS courses available on Amazon's marketplace. More than 6 million people have already gained cloud skills through the program.

Microsoft

At the annual Ignite event Microsoft CEO, Satya Nadella, declared digitisation will be more rapid and pervasive across industries over the next 10 years than it was over the last 40. This is expected to elevate risks in areas such as data privacy and cyber security, with cyber crime predicted to cost the global economy $10 trillion annually by 2025, up from current estimates of around $6 trillion. Throughout Ignite presenters accentuated Microsoft's advantages across its integrated tech stack, from the infrastructure level through its Azure cloud service and up to its 365 productivity software and developer tools.

Teams surpassed 250 million monthly active users in November and Teams Essentials was launched. Essentials is a standalone product for small businesses and includes unlimited group video calls, group chat, file sharing and calendaring. With pricing at US$4 per user per month Microsoft expects small business productivity gains will be substantial, providing another demonstration of the company's strong value proposition for its customers across businesses of all sizes.

Shopify

Shopify had a record-setting Black Friday/Cyber Monday weekend with global sales of $6.3 billion, up 23% from the same period in 2020 and more than double the same weekend in 2019. 47 million customers purchased from brands powered by Shopify, spending on average $100 per order. Interestingly, 71% of sales were made on mobile devices while sales generated by social integrations nearly tripled year-over-year, demonstrating the increasing penetration of mobile and social-based commerce.

Against these records, Adobe Analytics' Digital Economy Index found overall US consumer spending was down or flat for Black Friday compared to 2020, and Salesforce data showed US consumer spending rose 5% while global spend was up only 2% from the same period in 2020. These data points highlight Shopify's market share gains as it captures a greater portion of commerce by building critical infrastructure to support businesses as they adapt to the new omnichannel retail environment.

Bottom contributors this month *

Zillow

Zillow reported third quarter results with total revenue up 164% year-on-year to $1.74 billion. The company's iBuying revenue from its homes segment was up 531% YoY, while advertising and referral revenue from its internet, media and technology (IMT) segment was up 16% and the mortgage segment revenue rose 30%. Operating income for the IMT business was $130 million during the quarter, while the company reported operating losses of $422 million for homes and $6 million for mortgages. A larger operating loss in the homes segment during the quarter was attributable to writing down the value of its remaining inventory of houses as resale values are expected to be lower than originally forecast.

During the earnings call founder and CEO Rich Barton announced the decision to exit the iBuying business and wind down Zillow Offers. Difficulty in scaling the business and pricing homes accurately were causal, but ultimately management were not confident the company could consistently and accurately price homes 3-6 months into the future. This created unacceptable risks to the balance sheet and excessive earnings variability which would increase as the business scaled.

Additionally, only around 10% of customers were taking up the iBuying option, suggesting the other 90% were disappointed with their offers. Over time management believed this would adversely impact the company's highly valued brand. Instead it will continue to leverage the lucrative IMT segment and better align interests with real estate agents, its core customers.

PayPal

PayPal's third quarter earnings missed market expectations on revenue, and management provided lower than expected guidance for the fourth quarter. Short-term headwinds include an acceleration in eBay payments migrating away from PayPal, continued pandemic impacts, tightening supply chains, more in-person retail and the end of stimulus payments. Nevertheless, management expects growth to accelerate throughout 2022 and to achieve at or above its medium-term targets. Notably, PayPal recorded 26% growth in total payment volumes and ended the quarter with 416 million active accounts. A new partnership with Amazon will enable US customers to pay with Venmo on Amazon.com which will significantly boost both engagement of Venmo's 80 million plus users and user growth.

Venmo customers will be able to set price alerts for cryptocurrencies and track the price of the four cryptocurrencies currently available to buy, hold and sell on Venmo.

In an interview on CNBC, CEO Dan Shulmann said PayPal's Buy Now Pay Later (BNPL) service surged 400% year-over-year on Black Friday, recording 750,000 transactions. In November, BNPL transactions exceeded $1 billion with over 1 million first-time users. This aligns with the outsized growth the BNPL industry has seen over the past two years as more merchants and consumers adopt the checkout option.

Disney

Disney reported fourth quarter and full-year results during the month with consolidated revenue of $18.5 billion, up 26% YoY, while operating income grew 162% YoY to $1.6 billion. The Linear Networks segment, which include Disney's traditional broadcast and cable TV businesses, saw declines in revenue and profitability due to lower viewership and increases in marketing, programming and production costs.

Management believe a move into the sports betting industry could create billions in new revenue while attracting younger viewers for whom betting is central to their sports experience. Leveraging the ESPN brand under a potential licensing model, Disney sees improved engagement from sports viewers, providing a positive effect on the ESPN brand. Customer surveys have found no impact on the Disney brand from the potential business initiative.

Disney's Parks, Experiences and Products segment saw continued recovery during the quarter, with consumers spending 30% more per visit compared with 2019 levels. The strong recovery is expected to continue as international borders reopen, mobility restrictions ease and capacity limits at venues are relaxed or removed. The cruise business has recommenced and most ships are fully booked, with higher demand than pre-pandemic levels. A new cruise vessel, Disney Wish, set to launch mid-year 2022, is already 90% booked.

Subscriber growth slowed across all streaming services except ESPN+, with Disney+ reaching 118.1 million subscribers, Hulu 39.7 million and ESPN+ 17.1 million. Like Netflix last quarter, Disney's management attributed the slowdown in subscriber growth to a production backlog which is expected to clear by mid 2022.

* Contribution is relative to other companies in the Portfolio.

Further Information

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Investment Grade
Lonsec Research

Favourable
SQM RESEARCH

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IMAP
MANAGED ACCOUNT AWARD FINALIST
INTERNATIONAL EQUITIES

2020 IMAP MANAGED ACCOUNT AWARDS

International Equities
Finalist
2020 IMAP MANAGED ACCOUNT AWARDS

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