

Monthly Update

30 April 2023

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)

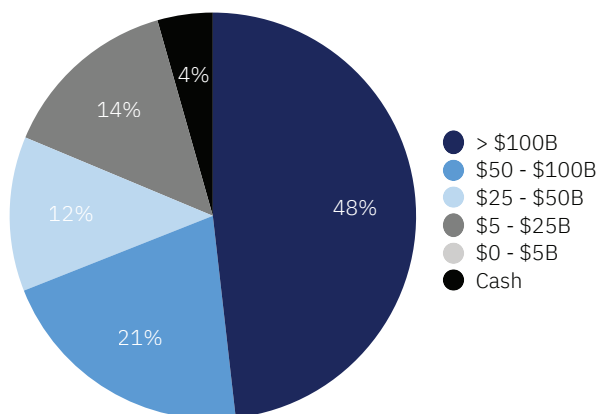
Amazon.com Inc	Broadline Retail
Meta Platforms Inc	Interactive Media & Services
Microsoft Corp	Systems Software
Shopify Inc	Internet Services & Infrastructure
Zillow Group Inc	Real Estate Services

Portfolio performance

Performance	Portfolio %
1 month	2.85%
3 months	11.66%
1 year	8.91%
2 years (pa)	-14.34%
3 years (pa)	-2.69%
4 years (pa)	1.28%
5 years (pa)	5.79%
6 years (pa)	7.31%
7 years (pa)	11.09%
Inception	89.98%

Past performance is not indicative of future performance

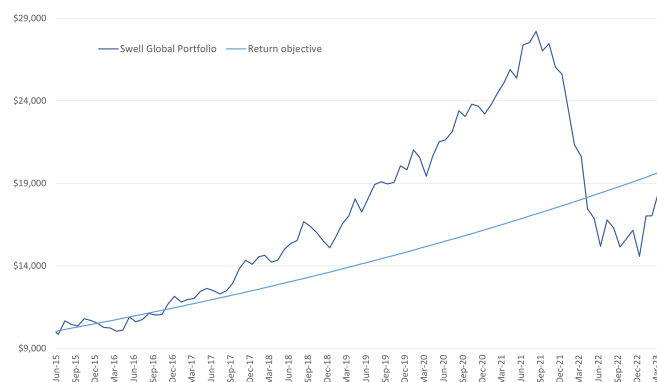
Market Capitalisation (US\$)



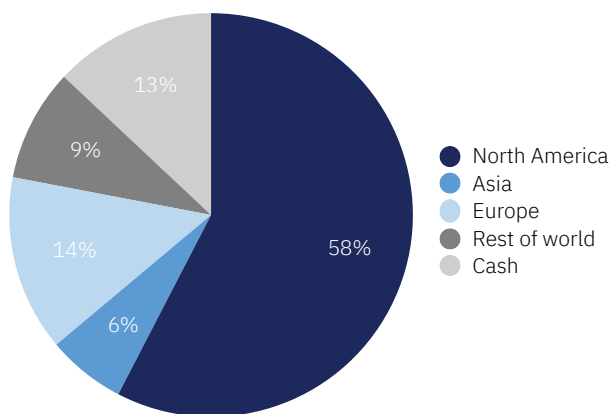
Key Details

APIR	SWE0174A
Structure	SMA
Inception date	18-Jun-15
Strategy FUM	A\$48.67 million
Number of companies	13
Minimum investment	\$500,000
Performance Fee Hurdle	MSCI World net total return (AUD)
Currency	AUD unhedged
Management fee	1.25%
Performance fee	15%

Portfolio performance since inception



Regional Allocation by Revenue



Top contributors this month *

Meta

The market responded positively to Meta's Q1 results. Revenue increased 3% over the same quarter in 2022, to \$28.6 billion, following three quarters of negative year on year growth. Restructuring costs, including significant reductions in staff numbers, added nearly \$1 billion to costs in the quarter, but CEO Mark Zuckerberg told investors the company's "year of efficiency" was yielding positive results. He also noted investments in AI were driving good results across all platforms, and Reels in particular had seen increased engagement.

Meta's costly AI investments are very directly focused on improving ad targeting. CFO Susan Li told analysts after the earnings call "we believe our ongoing improvements to ad targeting and measurement are continuing to drive improved results for advertisers." Daily active users rose by 37 million and advertising revenue was 4% higher than Q122, reaching \$28.1 billion.

A US Court of Appeals upheld an earlier court decision dismissing an antitrust case against Meta which had been launched by a number of US state attorneys general. The 2021 case had sought to force Meta to divest What's App and Instagram on the grounds it had acquired them to suppress competition. The appeals court judges ruled 3-0 that the attorneys general waited too long to bring the case to court, the cost of divestment was too high, and it would have "severe consequences" for the company. Meta purchased Instagram in 2012 and WhatsApp in 2014. A similar case brought by the FTC is still to be heard.

Microsoft

Microsoft third quarter revenue rose 7% to \$52.9 billion, with diluted earnings per share up 10% to \$2.45. Most business divisions outperformed the same quarter last year. Within Intelligent Cloud, revenue rose 16% to \$22.1 billion, representing an increase of 17% in server products and 27% in Azure cloud services. Productivity and business processes grew 11% to \$17.5 billion, while personal computing revenue, which includes Windows, devices, Xbox and search, fell 9% to \$13.3 billion but significantly outperformed expectations.

CEO Satya Nadella restated the three priorities Microsoft is pursuing: helping customers use the breadth and depth of Microsoft Cloud, investing in AI to lead the industry and expand its market, and aligning costs with revenue. More than 2,500 enterprises have adopted the Azure OpenAI Service, a tenfold increase during the quarter. The new AI powered Bing has reached 100 million daily active users, and downloads of the Bing mobile app have increased 4x since its launch.

The Activision Blizzard acquisition was dealt a blow during the month after the UK Competition and Markets Authority (CMA) rejected the deal. The companies immediately announced plans to challenge the decision, although analysts believe they are unlikely to succeed. The CMA considered the deal only in relation to cloud gaming, rather than the overall gaming market which includes console, mobile and cloud sectors, and while Microsoft has a lead in the emerging cloud sector, it is a lesser player in the overall gaming market. The EU regulator is due to rule on the acquisition later in May and the US FTC will consider it in August.

Amazon

Revenue in the first quarter was 9% higher than 2022, reaching \$127.4 billion, but a year on year 16% increase in AWS revenue, the lowest on record, was below market expectations. CEO Andy Jassy was clear the slower growth was a result of prioritising building long term customer relationship by helping customers to reduce costs and enabling them to leverage AI and other technologies to improve cloud efficiency. Investments in AI and machine learning also drove a 21% increase in advertising revenue.

During the month Amazon introduced four innovations to support generative AI applications on AWS. Bedrock enables users to build and scale generative AI applications using foundation and ultra-large machine learning models. CodeWhisperer is a free AI powered coding assistant. And two new Amazon created chips, Inferentia2 and Trainium, provide energy and cost-efficient computing power to run AI workloads.

US customers ordering same-day delivery increased 50% compared to last year, to nearly 26 million, as the online store added premium brands such as Shiseido, Vanessa Hudgens and The Drop collections. The 2022 brand protection report revealed more than 6 million counterfeit products were removed from the platform and destroyed.

Bottom contributors this month *

Block

An integrated spring product release provided Square merchants with dozens of new software features to grow their customer base and streamline their operations. Waitlists automates appointment planning to maximise booking opportunities. Afterpay has been incorporated seamlessly into Square Invoices. Square for Restaurants is now fully integrated with Open Table and Square Loyalty allows merchants to offer personalised loyalty cards users can add to their Apple Wallet.

At the Innovate Finance Global Summit held in April Block and other fintech companies criticised proposed UK legislation regulating the buy-now-pay-later (BNPL) sector. They believe the planned changes to the Consumer Credit Act would add friction to customer transactions and unfairly target fintechs, as it applies only to third party lenders. The UK Treasury is currently considering feedback on the legislation.

Block has partnered with YellowCard, an African crypto-currency exchange to facilitate cross border payments in Africa. The partnership will reduce the cost of transactions and speed up processing time.

Deere and Co

At Deere's first Tech Summit in Austin Texas this month, CTO Jahmy Hindman told participants the company had grown its software development team by 350% over the last five years. Its 4,300 software engineers are focussed on automation and autonomy, with their aim to build the capacity to have the US corn and soybean crops planted, nurtured and harvested autonomously by 2030.

The 8R autonomous tractors introduced in 2022 use computer vision and machine learning to enable them to navigate a field. Deere is gradually incorporating other technologies with the vehicles including autonomous planting and weed control. ExactEmerge profiles the soil to optimise the seedbed and seed placement, and ExactShot follows with a controlled dose of fertiliser directly onto the seed. See and Spray optimises chemical use in weed control as the plant grows. The automation reduces fertiliser and chemical use by more than 60%.

Deere has shortlisted a number of satellite providers to progress its farm automation strategy. 500,000 agricultural and construction machines currently connect to its cloud operations, predominantly through land-based wireless networks in the US. Deere wants to triple this number by the end of 2025, and extend automation beyond the US. Brazil is a key market which currently has limited rural internet coverage.

Zillow

Zillow reported Q1 earnings on May 3, reporting higher than expected revenue of \$469 million. The weaker US housing market reduced Premier Agent revenue by 16% year on year, but this was ahead of the company's guidance for a fall of 23% to 28%. The overall US real estate industry experienced a 27% decline in transactions from the same quarter in 2022 indicating market share gains for Zillow.

CEO Rich Barton said investments in technology were supporting improved customer demand and strengthening the partner network. He confirmed the five growth pillars: touring, financing, seller solutions, enhancing the partner network and integrating services should double Zillow's share of customer transactions to 6% by 2025.

The Zillow app added filtering functionality during April to enable shoppers to search for homes based on the monthly cost of purchase, including mortgage, insurance, levies and taxes, rather than on the home purchase price. Zillow Home Loans continues to gain traction with Premier Agent partners, with one in three partners recommending it to prospective purchasers in enhanced markets, up from one in five in the last quarter.

Further Information

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