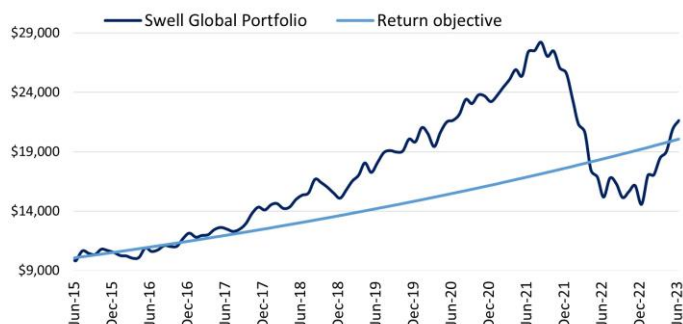


## Portfolio performance

Period	Return
6 months	48.35%
1 year	42.42%
2 years (p.a.)	-11.15%
3 years (p.a.)	-0.02%
4 years (p.a.)	4.59%
5 years (p.a.)	7.10%
6 years (p.a.)	9.57%
7 years (p.a.)	10.70%
8 years (p.a.)	10.34%
Inception	116.21%

Past performance is not indicative of future performance  
Inception date is June 18 2015



On June 18, we celebrated eight years since the inception of the Swell Global Portfolio. And while eight years is a significant amount of time, particularly in funds management, we feel like

we are just getting started. It is also rewarding to note the Portfolio has delivered an annualised return of 10.34% per annum after fees over this period.

## Market conditions

The first half of 2023 has seen a sharp recovery from a very challenging 2022, with the Portfolio increasing 48.35%. This serves as a timely reminder that markets are unpredictable, and investors can become fearful very quickly, which is what happened to technology companies in 2022. The recovery in 2023 is a testament to the strength of the investment process and the benefit of acting with discipline and taking the long term view.

However, there is more work to do. The macro environment will continue to be uncertain, and equity markets will continue to be volatile. With that, we remain focused on our portfolio companies, constantly testing our assumptions on their worth over the long-term to ensure each one meets our strict quality and valuation criteria.

## Portfolio investments

In 2H23 we added three stocks to the Portfolio, reducing our cash weighting from 11% to 4%. The companies added were Intercontinental Exchange, GE Healthcare and Salesforce.

Intercontinental Exchange (NYSE: ICE) holds 12 commodity and equity exchanges and six clearing houses, including the New York Stock Exchange. It has very high recurring revenue making it an attractive investment in uncertain times. Its mortgage technology platform, digitising a largely analogue industry, represents a large and growing source of revenue and profit.

GE Healthcare (NAS: GEHC) is a 130-year-old startup which recently completed its spinoff from parent company General Electric and began trading on the Nasdaq. It operates in a global industry estimated to be worth \$84 billion, growing at an annual rate of 4-6% through 2025. It has four business segments aligned with the industries they serve: imaging, ultrasound, patient care solutions and pharmaceutical diagnostics.

Salesforce (NYSE:CRM) is the world's leading enterprise CRM software provider currently transitioning from an aggressive growth model to a more sustainable, profitable expansion strategy. This shift includes a renewed focus on integrating high-profile acquisitions with existing products, refining its sales organisation, and harnessing AI capabilities. Despite recent volatility, Salesforce's robust financials and room for growth present compelling opportunities. We believe the success of its strategic transformation is largely in the hands of the leadership team, underlining the potential for exciting growth in the future.

Our top three investments in 2H23 were Meta, Amazon and Zillow. We discuss each below.

### Meta

During the Q422 earnings call CEO Mark Zuckerberg told investors the company's management theme for 2023 was the year of efficiency, focussing on "becoming a stronger and more nimble organisation". In an update in March he announced plans to cut another 10,000 jobs globally, affecting recruitment, technology and business teams. He said the

decision to streamline further was made because the company achieved improved workflows after the workforce reductions last year, and he had “underestimated the indirect costs of lower priority projects”.

A top-level product group was formed to fast-track developments in generative artificial intelligence (AI), led by Chief AI Scientist Yann LeCun. Facebook reached 2 billion daily active users at the end of 2022, driven by Meta’s AI discovery engine and Reels. It hopes to become a leader in the emerging field of AI-powered content creation and demonstrated its large language model, LLaMA, with around 65 billion parameters.

The costly AI investments are directly focused on improving ad targeting. CFO Susan Li told analysts after the Q123 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.

Meta previewed the Quest 3 in a video shared by CEO Mark Zuckerberg. The new headset, priced at US\$499, is high-resolution colour mixed reality and is 40% slimmer than the Quest 2. It features at least three cameras for enhanced pass-through experiences, improved depth perception, upgraded graphics for gaming and is powered by a next-generation Qualcomm chipset.

The preview demonstrated high-fidelity colour passthrough, machine learning and spatial perception to allow users to interact with virtual content and the physical world simultaneously. More details on Quest 3 are expected to be revealed during Meta’s Connect conference in September. Quest 3 was unveiled just hours before Apple’s Vision Pro headset, which is due next year, priced at US\$3,499.

Threads, a text-based application similar to Twitter, launched on July 6, and acquired 100 million users within five days. Its future revenue opportunities remain unclear, but it is a testament to Meta’s value that its early growth has been unprecedented.

## Amazon

Highlights from the December quarter results included record breaking sales of \$1 billion over the US Thanksgiving weekend, and 100 million viewers for the first season of Lord of the Rings: The Rings of Power. The \$3.9 billion acquisition of One Medical, a primary care provider, finalised in January will enhance Amazon’s healthcare mission “to make it dramatically easier for anyone to find, choose, and afford what they need to get and stay healthy”.

CEO Andy Jassy defended a slowdown in revenue growth in the March quarter as the result of prioritising building long term

customer relationships by helping them to reduce costs and leverage AI and other technologies to improve cloud efficiency. Investments in AI and machine learning also drove a 21% increase in advertising revenue.

A \$100 million investment in the AWS Generative AI Innovation Centre will help customers develop and deploy Gen AI solutions. The program links customers with AWS’s AI and machine learning experts to create novel generative AI products, services and processes.

At the Cannes Lions International Festival of Creativity Amazon introduced its Generative Artificial Intelligence (Gen AI) and first-party data collaboration tools for advertisers. A highlight was Amazon Bedrock, a fully managed service that accesses foundation models from leading AI startups via APIs which enable the creation of Gen AI applications. It also demonstrated CodeWhisperer, a Gen AI-driven coding companion that dramatically boosts developers’ efficiency.

18,000 jobs will be eliminated from Amazon’s corporate workforce, and it has instituted a hiring freeze, cut certain projects and paused warehouse expansion. A more streamlined cost structure will enable Amazon to develop its strategic long-term investments more effectively in areas such as entertainment, devices and healthcare.

Amazon One, the biometric payment system, was augmented in May with the inclusion of age verification. The secure payment system, which scans users’ palms for payment approval, has operated at Amazon’s Whole Foods and Go Stores for nearly three years. Coors Field baseball stadium in Denver, Colorado introduced Amazon One to its retail food and drink outlets, enabling instant age verification for alcohol purchases at the stadium.

## Zillow

Zillow continues to enhance its features for agents, home sellers, buyers and renters. At a quarterly earnings call recently, 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.

ShowingTime+ launched Listing Showcase, an AI-powered feature which Zillow believes will redefine the real estate experience for agents and sellers. Initially available in five cities, Listing Showcase uses high-resolution images, interactive floor plans and AI-generated insights highlighting a property’s best features. Zillow research has found listings with interactive floor plans are 79% more likely to be saved by users and 10% more likely to receive a buyer offer within 30 days. The subscription feature will gradually be expanded to include additional features and other markets.

Appointment Center was released nationwide providing agents with a virtual assistant service to book appointments and update vendors on current offers for their homes. It also aggregates market data on listings and sales to provide pricing and benchmarking information to assist agents to expedite sales.

A new AI-powered natural-language search engine enables homebuyers to search beyond standard filters such as location and number of bedrooms. In a real estate industry first, buyers using Zillow's platform can search for homes using natural, conversational search queries such as "\$500,000 homes in Boston with a backyard".

Additional filtering enables 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.

Most US renters nominate online as their preferred method to schedule in-person apartment inspections and Zillow now facilitates it. Renters can instantly book inspection times online and avoid the delays inherent in contacting property managers by phone or email. An extension of Zillow's integration with map-based visualisation software provider Engrain also offers interactive maps for home seekers to explore spatial features of properties such as their aspect, building floor level and views.

## 2023-24 Outlook

In its Global Economic Prospects released in June 2023 the World Bank predicts global growth will fall to 2.1% this year and increase slightly to 2.4% in 2024. However it acknowledges growth could be weaker if inflation persists and central banks respond with further tightening of monetary policy. Similarly, the OECD characterises global growth as stable but fragile, offering slightly more optimistic predictions of 2.7% growth in 2023 and 2.9% in 2024.

We see no reason to doubt these economic forecasts, but our favoured time horizon remains three to five years. As the dust begins to settle on a period of exceptional volatility, particularly for technology companies, we maintain our interest in high-quality names with excellent growth prospects.

This does not mean the short term outlook won't continue to be uncertain – it will. However, we encourage our investors to look through this short term uncertainty and instead focus on the long term opportunity. We never know what the market will do on a day by day, quarter by quarter or year by year basis. However, we do know that over time, high quality companies with a sustainable competitive advantage and experienced management will continue to increase their intrinsic value.

We look forward to providing a further update in December.