

Swell Global Portfolio

Monthly Update



October 31 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)

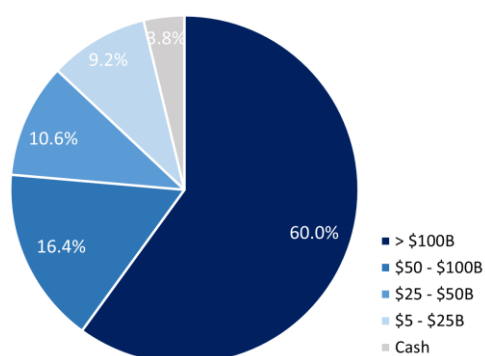
Alphabet Inc	Interactive Media and Services
Amazon.com Inc	Broadline Retail
Intercontinental Exchange Inc	Financial Exchanges and Data
Microsoft Corp	Systems Software
Zillow Group Inc	Real Estate Services

Portfolio performance

Period	Portfolio %
1 month	-1.33%
3 months	-7.76%
1 year	32.98%
2 years (pa)	-12.95%
3 years (pa)	-4.36%
4 years (pa)	2.22%
5 years (pa)	5.39%
6 years (pa)	7.05%
7 years (pa)	9.46%
8 years (pa)	8.54%
Inception	108.10%

Past performance is not indicative of future performance

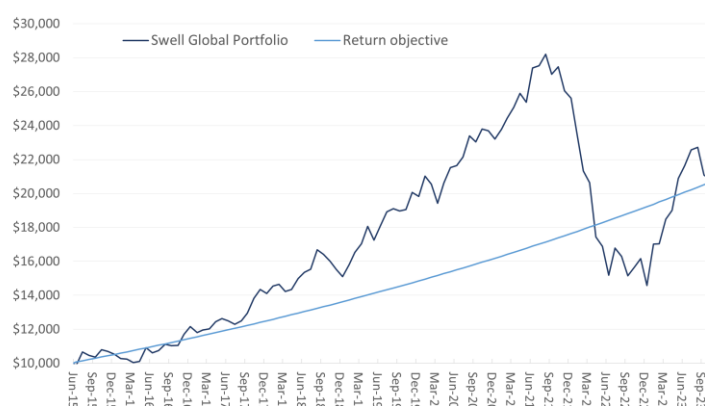
Market capitalisation (US\$)



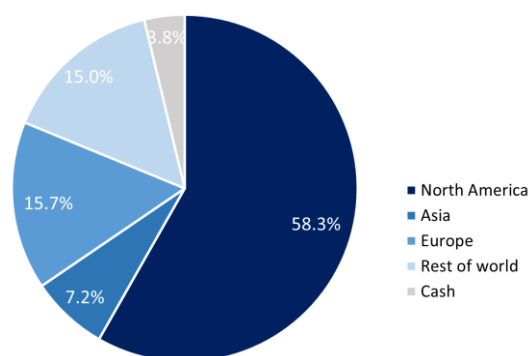
Key details

APIR	SWE0174A
Structure	SMA
Inception date	18-Jun-15
Strategy FUM	\$55.54 million
Number of companies	13
Minimum investment	\$500,000
Currency	AUD unhedged
Management fee	1.25%
Performance fee	15%
Performance fee hurdle	MSCI World net total return (AUD)

Portfolio performance since inception



Regional allocation by revenue



Top contributors in October *

Microsoft

Microsoft reported \$56.5 billion in revenue for the third quarter, up 12.8% year over year, and \$26.9 billion in operating income, up 25%. Performance was broad-based with 14 of 15 reported products and services showing strong positive growth rates. Of these, Azure grew at an impressive 29% year over year despite now being an estimated \$60 billion business. Microsoft's productivity suite shows no signs of slowing with Teams now registering more than 320 million monthly active users and LinkedIn reaching 1 billion.

The US\$75 billion Activision Blizzard acquisition finally closed this month, following approval by the UK Competition and Markets Authority. The deal will boost Microsoft's Game Pass subscription service with iconic games including Call of Duty, World of Warcraft and Candy Crush.

LinkedIn unveiled several AI-driven features to boost engagement among its 1 billion users. The platform has slowly been integrating AI features such as suggestions for posts and job descriptions. Although LinkedIn has been utilising AI for years, it is now benefitting from the technology enhancements flowing from the integration of OpenAI into all Microsoft products.

Coinciding with the release of Copilot to enterprise customers from 1 November 2023, Microsoft is hosting Envision: The Tour around the world to help business decision makers navigate developments in AI and digital transformation. The keynote address at each event is titled "How to lead in the era of AI". Events were held in New York and London in October, with Mumbai, Sydney, Mexico City, Paris and Tokyo following early in 2024. The one day sessions are hosted by senior Microsoft AI specialists and draw on demonstrated expertise from industry partners and customers.

Amazon

Amazon reported \$143 billion in Q3 revenue, up 11% year over year, and \$11.2 billion in operating income, up 343%. A significant contributor to the increase in profitability was the transition from a national to a regional fulfilment network, which has lowered the 'cost to serve' as each parcel travels shorter distances with fewer touches.

Amazon remains on pace to deliver the fastest delivery speeds for Prime customers in its 29 year history, and with the established correlation between faster delivery speed and purchase frequency, this bodes well for the future. Together with a the largest cloud business in the world and an expanding advertising business, Amazon is well-positioned to increase its intrinsic value over time.

Amazon is developing a generative AI initiative to provide a more personalised, conversational and thorough search feature to enhance users' shopping experience. Codenamed Project Nile the new search procedure will emulate an informed salesperson to provide in-depth product comparisons and reviews, as well as recommendations tailored to the user's personal shopping history and inquiry context. It is expected to launch in the US early next year.

At the "Delivering the Future" event this month, Amazon revealed 750,000 robots have joined its 1.5 million employees over the last ten years, leading to improved stock handling and fulfilment and reducing the load on warehouse employees. Each of the robotic devices handles a specific function, moving stock faster and more safely. The Sequoia system operating at the fulfilment centre in Houston, Texas integrates mobile robots, gantry systems, robotic arms and ergonomic employee workstations. It has improved inventory management by 75% and reduced the time taken to process an order through the centre by 25%.

Meta

Meta reported \$34 billion in Q3 revenue, up 23% year over year, and \$13.7 billion in operating income, up 143%. Encouragingly, both daily and monthly active users increased 7% across the family of apps, with the increased engagement leading to ad impression growth of 31%. Today nearly 4 billion people use one of the Meta family of apps each month, nearly half the world's population. Meta guided to a strong final quarter and will continue to invest materially in AI systems to improve products and services.

AI-powered features to enhance innovation and efficiency for advertisers using Ads Manager will be released globally over the next year. Feedback from select advertisers who trialled the tools in Meta's Sandbox was constructive, highlighting benefits in time-saving and productivity, and underscoring their potential to improve campaign performance. Global advertising and marketing consultant, Publicis, an early adopter, believes the technology will be revolutionary.

WhatsApp introduced simultaneous dual account logins during the month, enabling users to access two different accounts on the same device. Previously users with a business and a personal WhatsApp account would have had to log out of one before using the other.

Early reviews of the Ray-Ban Meta smart glasses have been very positive, with one technology reviewer claiming they "may be the most useful gadget I've tested all year". Influencers are excited by the opportunity to livestream from the glasses to their Facebook or Instagram accounts and respond to follower's comments in real time with voice commands. The glasses have a 12 MP camera for high definition stills and video, Bluetooth speakers and an inbuilt AI chat feature.

Bottom contributors in October *

Zillow

Quarterly revenue increased 3% from last year to \$496 million for the quarter, defying the slowdown in the US residential real estate market. Revenue from rental listings rose 34% to \$99 million and Zillow retained its position as the most visited rental platform in the US offsetting weakness in mortgages. During the quarter Zillow entered into an agreement to acquire Follow Up Boss, an industry-leading customer relationship management system with an open API that enables agents to integrate most available business apps into a central hub to organise the business and engage customers. Follow Up Boss has grown revenue by more than 40% annually over the last four years and the acquisition adds to Zillow's growing stable of software tools for agents.

During the month search by school was launched for home seekers to find homes for sale or rent within school zones or districts. Users can also receive notifications of new homes becoming available within a selected school catchment. Zillow's research reveals the proportion of home buyers keen to live in a particular school district has increased annually since 2018.

On October 31 a Missouri court ruled the National Association of Realtors (NAR) and several real estate brokers conspired to maintain higher commission costs and disadvantage home buyers and sellers. The verdict and damages award led to a major sell-off of listed real estate companies, despite the case being focused specifically on commission payments, which are not critical to Zillow's business model.

CEO Rich Barton said whatever the ultimate outcome Zillow "will continue to thrive" by providing free, fair and transparent access to real estate information for everyone.

Shopify

Third quarter revenue reached \$1.7 billion, 25% higher than last year, with \$1.2 billion from merchant solutions and \$486 million from subscriptions. Gross merchandise volume (GMV) increased 22% to \$56.2 billion and growth in European markets was notable, both in new merchant acquisition and existing merchants taking up new services. Shop Pay has surpassed 100 million users, generating \$12 billion in GMV in the quarter. Since its introduction in August, Shopify's Retail Plan for businesses operating primarily from physical stores has seen a 16% growth in POS Pro subscribers. Overall, it was a dominant performance from a company executing at the highest level.

US merchants have been invited to sign up for early access to "Sidekick" an AI chatbot assistant powered by Shopify Magic, a proprietary large language model. The tool will be integrated into the Shopify dashboard to save merchants time and provide data on sales trends and promotional opportunities. It will assist with website enhancements, product descriptions and marketing ideas and answer frequently asked questions using information from Shopify's online knowledge base.

Amazon and Shopify reached agreement to bring the Buy with Prime app to Shopify merchants in August. Merchants in the US can now add the Buy with Prime app to their checkout system and seamlessly manage payments within the Shopify admin dashboard. Early tracking shows merchants adding the app experienced a 25% increase in orders.

Shopify Audiences has expanded from Meta, Google and Pinterest to include Snap, TikTok and Criteo. It provides a granular view of advertising targeting enabling merchants to improve their advertising spend and purchase conversion rate. Shopify estimates the algorithm can reduce customer acquisition costs by up to 50%.

Alphabet

Alphabet reported \$76.4 billion in Q3 revenue, up 11% year over year, and \$21.4 billion in operating income, up 25% year over year. The result was driven by strong growth in Search and YouTube advertising and other Google revenue which includes hardware, Play and YouTube subscriptions. Together these core businesses represent 89% of Alphabet's total revenue. Cloud revenue growth slowed slightly to 22.5%, reflecting continued customer optimisations.

Google continues to invest in long-term opportunities such as AI where it has several competitive advantages including proprietary models, advanced custom silicon chips and reputational advantage among tech startups. Pleasingly these investments are becoming evident in the core advertising business where AI enhancements are driving meaningful improvements in ad creation, targeting and measurement. The benefit to revenue growth should follow.

Google will invest \$2 billion in AI business Anthropic, extending a \$500 million investment made at the company's launch and \$550 million earlier this year. Anthropic is widely expected to be the likely contender to match Open AI's early mover market dominance.

Google Cloud is partnering with a number of South Pacific technology and communications companies to build two transpacific telecommunications cables linking the US and Australia with Fiji and French Polynesia. A branch network will connect the cables to smaller Pacific nations. Subsea cables improve internet affordability and reliability, leading to economic development and productivity gains.

* Contribution is relative to other companies in the Portfolio

Further information

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