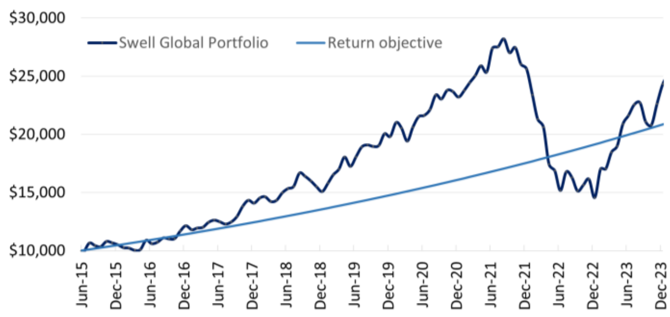
Portfolio performance

Period	Return
6 months	12.50%
1 year	66.92%
2 years (p.a.)	-2.54%
3 years (p.a.)	1.59%
4 years (p.a.)	5.24%
5 years (p.a.)	10.02%
6 years (p.a.)	9.52%
7 years (p.a.)	10.42%
8 years (p.a.)	11.04%
Inception	143.27%



2023 was a year of significant progress with the Portfolio achieving a +66.92% return, and while notable, it is a reminder of the importance of consistent and careful investment discipline. The performance was not generated by a single success story, either from a sector or company. Rather it was a collective result from across the Portfolio, and each company contributed to the achievement, underscoring the strength of our diversified portfolio.

Our focus has consistently been on identifying companies with solid foundations and the potential for sustainable growth, regardless of market fluctuations.

The performance reflects the hard work and vision of the companies we invest in and importantly, the trust and partnership we maintain with our investors. We are excited by the opportunities that lie ahead in 2024.

Market conditions

Global stock markets were generally higher during the half, with the S&P500 almost returning to its all time high recorded in January 2022. Investor concerns around prolonged inflation were proven to be unfounded as inflation returned to 3%. The debate has shifted to interest rates and the market is currently pricing in several cuts in 2024. While predicting the shape of an economic recovery is important, we do not believe it to be knowable, and accordingly we don't use it to instruct our investment decisions.

AI continues to impact growth, particularly in the technology sector, and a number of our Portfolio holdings benefited from the positive sentiment generated by these developments. Large language models are being utilised by companies in every sphere to improve productivity and do more with less, and we expect the momentum to continue.

Portfolio Investments

During the half we sold our holdings in Deere & Co and Netflix. We will sell an investment for one of three reasons:

- Our investment thesis has changed;
- The company's price exceeds our valuation; and, or
- There are more attractive opportunities with commensurate of less risk.

Deere's share price exceeded our estimate of intrinsic value. We will continue to monitor this company and stand ready to invest should its circumstances change. We believe Deere's strategy of applying technology to improve yields with equipment productivity will be successful over time. However, we are concerned about its capacity to maintain current margins.

Netflix was divested to make room for two new companies in which we saw better opportunities with less risk: global brewer Heineken (HEINY.NYS) and medical device maker ResMed (RMD.NYS).

Amsterdam based Heineken was founded in 1864 by Gerard Heineken and his family maintains a majority stake in the company. It operates primarily in the beer industry, brewing beer and developing new products in its four key business segments: Cider Brands, International Brands, Craft & Variety and Global Brands.

With operations in more than 80 countries, its extensive portfolio encompasses over 250 international, regional, local and specialty beers and ciders, catering to a broad range of consumer preferences and markets. Heineken is benefitting from a transition to premium beers, which have grown at double the rate of mainstream beers in the last 20 years.

Europe accounts for 34% of revenue, followed by the Americas with 31%, Africa, the Middle East and Eastern Europe contributing 18% and Asia Pacific with 17%. As investments in developed and emerging markets mature we expect improved scale to drive higher profitability and returns on invested capital for shareholders.

ResMed develops, manufactures, distributes and markets medical devices and cloud based software for healthcare providers. It operates in two segments, Sleep and Respiratory Care and Software as a Service (SaaS).

The Sleep and Respiratory Care segment provides products and solutions for a range of respiratory disorders. The SaaS segment incorporates a number of out of hospital software solutions providing care management, electronic health records, billing and coding services and analytics.

The company's emphasis on delivering care in a patient's home aligns with evolving trends in healthcare and its improved market share in the masks segment, driven by the quality and comfort of its products, has contributed to growth. ResMed's strategic focus on innovation and patient engagement, combined with strong financial performance and its commitment to long term growth, has been instrumental in driving its success in the market.

It is estimated the number of people suffering from obstructive sleep apnoea is close to 1 billion globally, and the majority are undiagnosed. As the harmful effects of the condition become more widely understood we believe ResMed’s superior products and services will grow its share of that substantial market.

Our top three investments in the half were Amazon, Meta and Zillow. We discuss each company below.

Amazon

Amazon revenue rose 11% to $134.4 billion in the second quarter. North America retail sales increased 11% to $82.5 billion and international sales reached $29.7 billion, up 10% year on year. AWS revenue was 12% higher at $22.1 billion and earnings per share turned around from a loss of $0.20 in 2Q22 to $0.65 in Q2.

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

Amazon extended its cost per click “Sponsored Products” advertisements to a range of social platforms including Pinterest, BuzzFeed and Mashable. The AI enhanced feature generates ads from product listings and targets platform users automatically using a range of parameters from key words to product attributes. When users click on an ad, they return to the merchant’s Amazon product page for easy purchase and checkout.

Extending its association with Shopify, Amazon’s Buy with Prime app has been integrated into the Shopify checkout so merchants can manage their Buy with Prime transactions seamlessly in the Shopify app.

Supply Chain by Amazon is an automated end to end supply chain service to streamline every step of product movement from manufacturer to customer introduced in September 2023. While Amazon previously offered services focused on specific aspects of the supply chain, like Fulfilment by Amazon, the new offering is a comprehensive solution covering global logistics, transportation and inventory management. It allows sellers to distribute products to diverse sales channels, both online and offline, and with machine learning optimisations, it provides automatic inventory replenishment for faster delivery times.

A significant investment of up to $4 billion in AI startup Anthropic will strengthen Amazon’s AI credentials. Anthropic will use AWS as its primary cloud provider and will train and deploy future foundation models on AWS Trainium and Inferentia chips. AWS customers can access Anthropic’s foundation models via Amazon Bedrock and receive early access to unique features for model customisation and fine tuning capabilities.

At the "Delivering the Future" event Amazon revealed 750,000 robots have joined it's 1.5 million employees over the last ten years, leading to improved stock handling and fulfilment and reducing the load on warehouse employees. Each robotic device 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 posted stronger than expected second quarter results and provided guidance ahead of market expectations. Revenue was up 11% year on year to $32 billion while earnings increased 21% to $2.98 per share. The strong outperformance reflected improved stability in advertising demand, the attractiveness of Meta's platforms for users and advertisers and signs of the "year of efficiency" yielding results.

Reels drove engagement and monetisation generating more than 200 billion daily views on Facebook and Instagram at an annual revenue run rate of $10 billion, up from just $3 billion a year prior.

Q3 revenue was $34 billion, a 23% increase year over year, and operating income was $13.7 billion, 143% higher. Both daily and monthly active users increased 7% across the family of apps (Facebook, Instagram, WhatsApp, Messenger), with the heightened engagement leading to ad impression growth of 31%. Nearly 4 billion people use one of Meta's apps each month, almost 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.

The launch of Threads in early July was historic. Five million people had joined the new site within four hours, and it reached 100 million subscribers within five days. Retaining users on the platform will be a key measure of its success for Meta, driving future monetisation options.

Releasing Meta's large language model, Llama 2 in June Mark Zuckerburg said "Giving businesses, startups, entrepreneurs and researchers access to tools developed at a scale that would be challenging to build themselves, backed by computing power they might not otherwise access, will open up a world of opportunities for them to experiment, innovate in exciting ways, and ultimately benefit from economically and socially."

Code Llama, a coding specialised AI model based on the Llama 2 model, was released in August. Both models are open source and free to individuals or businesses with fewer than 700 million monthly active users. Code Llama supports most popular programming languages and is available in three sizes, the smallest of which will run on a single GPU. Industry analysts suggest open sourcing the models will improve them at no significant cost to Meta.

Meta's annual Connect conference in September delivered notable software and hardware innovations and positive feedback from consumers and analysts. The Quest 3 headset has improved passthrough technology, a higher resolution display and better graphics than the Quest 2 and Xbox Cloud Gaming is integrated into the next generation of Meta Quest software. Emu, a new foundational model for image generation allows users to create unique AI stickers on WhatsApp, Messenger and Facebook Stories.

A technology reviewer wrote the new Ray-Ban Meta smart glasses "may be the most useful gadget I've tested all year". Influencers were excited by the opportunity to livestream from the glasses to their Facebook or Instagram accounts and respond to comments in real time with voice commands. The glasses have a 12 MP camera, bluetooth speakers and an inbuilt AI chat feature.

Meta released a group of AI driven chatbots based on celebrities including Snoop Dogg, Tom Brady, Naomi Osaka and Sam Kerr. Each one uses the celebrity's voice and has its own character: Sam Kerr's is "Sally, a free spirited friend who'll tell you when to take a deep breath". Initiatives such as these solidify Meta's position as a leading player in the AI space. They will increase engagement among the billions of users of Meta's family of apps while also creating opportunities for businesses to connect with their audiences.

Zillow

Zillow reported second quarter results in early August with revenue of $506 million and adjusted operating income of $111 million, both better than expected. Notably it was the first quarter Zillow was able to achieve year over year revenue growth since the first quarter of 2022. The strongest segment was Rentals which grew 28% while the Residential and Mortgages segments declined less than the previous quarter, showing signs of recovery.

Third quarter revenue increased 3% from the previous year to $496 million, 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.

The acquisition of Follow Up Boss was completed in December. The industry leading CRM grew revenue by more than 40% annually over the previous four years and the acquisition adds to Zillow's stable of software tools for agents. At the conclusion of the deal Zillow reconfirmed its commitment to maintain Follow Up Boss as an independent brand available to agents whether or not they subscribe to other Zillow products and services.

A longer term objective is to integrate Zillow data into the Follow Up Boss software to give agents a broader range of tools to serve buyers and sellers. Following the acquisition, it was revealed agents who enabled the integration of their Zillow Premier Agent and Follow Up Boss platforms closed nearly 30% more deals.

Zillow's Market Report released on July 12 found the average US home price rose in the prior month by 1.4% to $350,213, the highest level recorded since Zillow launched the report in 2018. The increase was predominantly due to lack of supply, with the number of new listings falling by 28% in the year to June 2023.

Search by school was launched for home seekers to find homes for sale or rent within school zones or districts. Users can receive notifications of new homes becoming available within a selected school catchment. The proportion of home buyers keen to live in a particular school district has increased annually since 2018 according to Zillow research.

Outlook

As the Federal Reserve appears to be nearing the end of its rate hiking cycle and inflation expectations begin to moderate, global equity markets are showing signs of recovery. Although these macroeconomic factors are significant indicators, our long only global equity fund maintains a steadfast focus on fundamental, bottom up investing. This approach underscores our belief that the individual outlooks and intrinsic strengths of our selected companies will predominantly drive their performance.

In this dynamic environment, our strategy is to identify companies with robust business models and sustainable competitive advantages, ensuring resilience and growth potential irrespective of broader economic fluctuations.

The Portfolio is well positioned to navigate and benefit from several key global trends including the continued expansion of cloud technology, the rising importance of artificial intelligence, the growing healthcare needs of an ageing population and the ongoing digitisation of industries and sectors. While acknowledging the challenges posed by issues such as increased global debt, demographic shifts and labour market changes, the Portfolio's investments signal confidence in its ability to continue delivering strong returns.

We believe our portfolio of high quality companies will deliver sustainable growth of 15-17% per annum over the next three to five years. If we look back over more than eight years of managing the Portfolio we have never seen our model estimates as attractive as we find them now. We develop our models through our disciplined investment process and they give us confidence our estimates of each company's intrinsic value are sound.

We will continue to invest with conviction based on the long term economics of a business rather than speculate on the path of interest rates or other macro economic factors.

Although uncertainty will remain over the short term, we encourage our investors to look through it 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.