

Swell Global Portfolio

Monthly Update



May 31 2024

About

The Swell Global Portfolio is an absolute return, benchmark unaware global equities strategy with flexibility to invest in companies listed in developed markets globally. It targets a return of 9% per annum after fees over three-year periods.

Top 5 holdings (alphabetical)

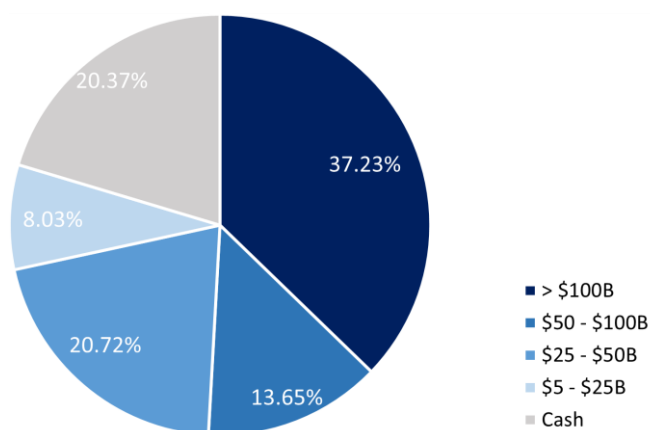
Alphabet Inc	Interactive Media and Services
Amazon.com Inc	Broadline Retail
Intercontinental Exchange Inc	Financial Exchanges and Data
Microsoft Corp	Systems Software
Zillow Group Inc	Real Estate Services

Portfolio performance

Period	Portfolio %
1 month	-0.38%
3 months	-4.72%
1 year	23.57%
2 years (pa)	23.67%
3 years (pa)	0.58%
4 years (pa)	4.65%
5 years (pa)	8.38%
6 years (pa)	9.49%
7 years (pa)	10.74%
8 years (pa)	11.37%
Inception	158.08%
Inception (pa)	11.22%

Past performance is not indicative of future performance

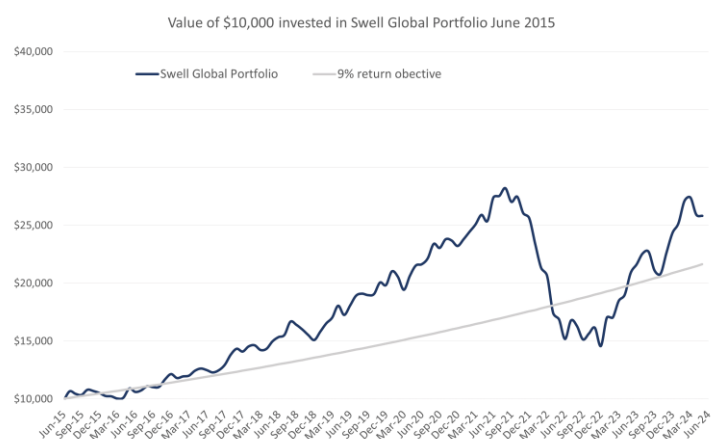
Market capitalisation (US\$)



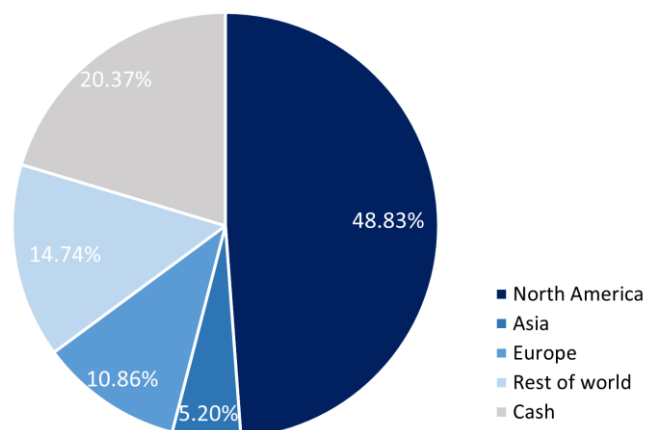
Key details

Structure	SMA
Inception date	18-Jun-15
Strategy FUM	\$65.51 million
Number of companies held	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 this month *

Microsoft

Microsoft announced this month it will release the next edition of Call of Duty: Black Ops 6 to Game Pass members at the same time as its retail launch in early June. It is the first new version of the best selling game to be released since Microsoft's 2023 acquisition of Activision, which released its latest games only as retail purchases in the first instance. Global Game Pass subscriber numbers are reported to have passed 34 million earlier this year, and the availability of Black Ops 6 should drive further growth.

AI was a major focus of Microsoft's three day Build 2024 developers conference in May and Copilot is the interface for its integration into every aspect of Microsoft's user experience. Copilot+ PCs with AI optimised components will support new AI applications in the Windows 11 operating system and integrated apps created for the range. Small language models including Phi Silica, custom built for the System on Chip neural processing units (NPUs) used in the range, will provide AI models directly on the devices, augmented by advanced AI within the Windows 11 operating system.

Reflecting the dense compute load of Microsoft's AI focus and its leading market position, its 2024 Environmental Sustainability Report revealed a 29% increase in carbon emissions above the 2020 baseline, after three years of declining figures. The increase was driven by the rapid expansion of its data centres and the power requirements of AI optimised semiconductors as well as the carbon embodied in the building materials and construction activity. Microsoft has developed more than 80 measures to reduce emissions including requiring high-volume suppliers to move to 100% carbon-free electricity for Microsoft delivered goods and services by 2030.

Alphabet Inc

At Google I/O 2024 CEO Sundar Pichai told developers its Gemini multimodal AI model had been integrated into all its 2 billion user products as well as being available to mobile users on Android and iOS. He announced the latest version of Gemini 1.5 Pro with 2 million tokens was ready for developers to use in private preview. Additionally, Google's team demonstrated a range of AI integrated functions including video generated search and AI supported search responses to complex, multi-step queries.

Following the release of AI overviews for Google Search users in the US and some widely shared erroneous output Google fine tuned the model. Major improvements included better detection mechanisms to identify and ignore nonsensical queries, limiting satire and humour content and improving guardrails for topics such as news and health issues.

This month Google added 24 languages to its Translate app derived from its ML model Zero-Shot Machine Translation, which trains only on monolingual text. The languages are predominantly used in Africa, South America and parts of India and while in total they are spoken by more than 320 million people, the resources available to train the model are very limited. The languages include Lingala, used by around 45 million people in central Africa and Quechua, used by 10 million in south America.

Google is partnering with an African communications company and a number of regional governments to build a fibre optic cable traversing southern Africa and running across the Indian Ocean to Australia. Anchored in Kenya, the Umoja fibre cable will pass through Uganda, Rwanda, Democratic Republic of the Congo, Zambia, Zimbabwe and South Africa then to Australia to provide scalable and reliable internet services. Umoja is the Swahili word for unity. Google will also collaborate with Kenya's Ministry of Information Communications and The Digital Economy to improve cybersecurity, data-driven innovation, digital upskilling and responsibly and safely deploying AI.

Meta Platforms

At Meta's first Llama 3 Hackathon this month the 350 participants completed 51 projects using Meta's large language model. The winning team created US\$20 priced smart glasses which provide information about what the wearer is seeing, correctly identifying the individual fruits in a bowl as well as their calorie count.

Tom Alison, Head of Facebook announced this month the platform is adapting to improve its appeal to young adults, while also catering to older users. He revealed 40 million young adults in north America are daily active Facebook users, the highest number in three years, and said the company is focussed on creating new capabilities for them enabled by AI. He said two key strategies were improving recommendation and discovery technologies and simplifying processes for users to become creators and earn income from Facebook.

Meta AI chief scientist Yann LeCun told the Financial Times this month he did not believe large language models (LLMs) would ever achieve human-level intelligence. He said the LLM was not actually able to learn, but "mostly it's exploiting accumulated knowledge from lots of training data". He and his team are working on creating "world modelling" AI which is trained to predict the consequences of an action and learns to understand the world like humans do.

Bottom contributors this month *

Block Inc

Cash App's 57 million monthly active users now have Afterpay integrated into Cash App and Cash App Pay, enabling them to pay in instalments even if a merchant does not offer the service. The move improved BNPL volumes in the first quarter of 2024 and is expected to continue to drive growth in instalment purchases. Block also reported an 11% increase in Gen Z spending with small and medium businesses in the first quarter, and catering to that market, the number of small businesses signing up for Afterpay increased 55% in 2023.

Square will launch Square Kiosk, an integrated software, hardware and payments solution in the US this summer. Designed for self ordering fast food restaurants, it enables guests to customise and place orders and pay using embedded contactless and chip payment technology. It works seamlessly with Square for Restaurants and the broader ecosystem of banking, customer engagement and business tools, tracks sales data and syncs menu updates. Square's 2024 Future of Commerce survey found 78% of customers prefer to place orders through self-serve kiosks or online.

Square added a number of new features for merchants in May. Square Restaurants POS was redesigned to speed up order inputting and menu grid navigations allowing for faster ordering and checkout. With Scan to Pay, scanning a QR code on the receipt, customers can save time and pay restaurant bills on their phones.

Zillow Group

This month Zillow signed an agreement with the affiliate of Christie's International Real Estate for New York, New Jersey and Connecticut that allows Christie's agents to provide Listing Showcase to their home sellers. President and CEO Illija Pavlovic said the partnership allows Christies to "continue distinguishing the unique Christie's experience and enhancing our reputation".

Zillow Homes Loans introduced BuyAbility, which gives buyers a personalised, real-time estimate of a home price and mortgage repayment appropriate for their budget as well as their likelihood of qualifying for a loan based on their income and credit score. Later this year home buyers will be able to search on Zillow using their BuyAbility figure rather than the house price.

Zillow has released the Fair Housing Classifier, an open source large language model to assist agents to comply with the terms of the US Fair Housing Act. It allows agents to mitigate the risk of illegal steering, or influencing a buyer's home search according to their ethnicity, religion or other identifier prohibited by the Act. The model detects questions that could lead to discriminatory responses in real estate searches or chatbots, and if it identifies instances of noncompliance in the input or the output it enables system developers to adapt the model accordingly.

ResMed Inc

ResMed Chief Medical Officer Carlos Nunez spoke to the RBC Capital Markets Global Healthcare Conference in New York this month. Most of the questions he was asked related to the Eli Lilly sponsored SURMOUNT-OSA phase three clinical study which was conducted on 600 obese patients with obstructive sleep apnoea (OSA) between 2022 and 2024. The randomised study was testing the efficacy of Lilly's weight loss drug tirzepatide for treating moderate to severe OSA. Preliminary results were released earlier this year, and the full study will be a focus of the annual conference of the American Diabetes Association late in June.

Dr Nunez suggested the results appear to be very positive for ResMed. He said although participants on the active drug for 12 months were also receiving regular diet and lifestyle intervention, their weight loss was not sufficient to relieve their OSA symptoms. He also noted patients taking the weight loss drugs were "more adherent, they're better patients because they're activated and engaged with their health."

At the American Thoracic Society International Conference 26 ResMed supported research papers were presented on issues including OSA, the expected effects of GLP-1 drugs and PAP therapy. One study using patient data calibrated across subgroups of age, sex and body-mass index estimated the proportion of people in the US with OSA will increase to 26% by 2050. Another which reviewed nearly 50,000 adults with chronic obstructive pulmonary disease who were using CPAP devices found they were strongly associated with a reduced risk of death.

* Contribution is relative to other companies in the Portfolio

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