

Somerston Technology Fund (the Fund)

Investment Letter No.4 – December 2021

Portfolio Objectives: To grow capital over the medium term by investing in a concentrated portfolio of high growth companies.

Performance: The Technology Fund fell by -0.6% in the fourth quarter. The Dow Jones Internet Index fell by -4.1%.

Performance (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
2017	6.1	3.9	4.2	4.5	7.7	-1.5	5.8	3.2	-0.1	8.5	3.8	-0.8	55.1
2018	12.3	-1.4	-4.1	1.0	8.0	-0.1	0.0	8.9	-1.8	-12.3	1.3	-7.5	1.7
2019	12.0	2.9	5.6	6.3	-8.0	8.2	4.1	-3.8	-1.8	3.1	6.1	3.8	43.6
2020	6.2	-3.8	-6.6	18.2	9.6	10.0	9.1	8.5	-6.2	-0.7	9.6	5.5	73.4
2021	-0.2	1.6	-6.5	8.8	-3.6	11.6	1.0	5.7	-7.9	6.2	-1.5	-5.0	8.5

Sector Allocation	
Sector	% Portfolio
Information Technology	67.0%
Communication Services	18.5%
Consumer Discretionary	13.9%
Cash/Divs/Fees	0.7%

Geographical Allocation	
Country	% Portfolio
USA	89.3%
Argentina	4.0%
Canada	3.4%
Taiwan	2.6%
Cash/Divs/Fees	0.7%

Top Ten Holdings	
Name	% Portfolio
Nvidia Corp	10.7%
Apple Inc	10.6%
Microsoft Corp	9.6%
Amazon.Com Inc	8.9%
Alphabet Inc-Cl A	7.9%
Meta Platforms Inc-Class A	4.7%
Mercadolibre Inc	4.0%
Shopify Inc - Class A	3.4%
Paypal Holdings Inc	3.4%
Advanced Micro Devices	3.4%
Total	66.6%

This letter shows the performance of Somerson's "Technology Equity Strategy" from 31 December 2014 to 30 November 2020 then the Somerston Technology Fund from its launch on 01 December 2020.

Commentary

The fourth quarter of 2021 was eventful for the Technology sector. On the one hand, as understanding of the opportunity, complexity and size of computing power required to support the metaverse and augmented reality, became mainstream, semiconductor stocks rose substantially, on the other hand, the highest revenue smaller software companies that had been bid up in recent years, saw significant outflows. During the quarter, our holdings in NVIDIA (+42%) and AMD (+40%) benefitted from the semiconductor theme, however many of our smaller holdings suffered from significant outflows.

Understanding valuation for high growth companies is largely dependent on both the level and sustainability of growth prospects. It is very difficult to ascertain the 'fair value' of these stocks without an accurate appreciation of the growth opportunity. As we wrote in a previous letter, with the benefit of hindsight, the significant outperformance of the FANGS in the last 5 years demonstrates, these companies' enormously high valuations understated their fair value at the time.

While we are not particularly concerned with 'Macro' in the Technology Fund, the economic cycle is very stretched, and a period of moderation, with 'quality' outperforming is likely. This should favour our holdings in Apple, Alphabet, Adobe, Microsoft and Meta, however, the longer-term opportunity in many of our midcap high growth holdings remain as valid as ever. Many of these companies have turned cashflow positive, support 30%+ growth rates and have cheapened 25%-50% in recent weeks.

Snap has been a pioneer in virtual reality allowing brands to showcase their products in dynamic, cutting edge fashion. They have 300 million daily active users, they are partnered with some of the most well-known companies and boast the best growth prospects of any social media platform. Yet their valuation has more than halved in recent months.

CrowdStrike whose strapline is "We Stop Breaches", is powered by artificial intelligence and its Falcon platform has gained traction in the cyber security industry owing to its superior detection and blocking capabilities. CrowdStrike is cash generative, its expected revenue growth is 30%+ yet its valuation has nearly halved this year.

The economic cycle has probably peaked and a more prudent attitude amongst investors is likely. The High growth companies got to levels that looked potentially expensive and were accompanied by a lot of speculative retail money and they are now being sold in a rapid fashion. We maintain investment in both moderate growth, high quality companies, and smaller high growth companies.

Contributors:

During the quarter, the largest contributors were NVidia, Apple and Microsoft. The largest detractors were Paypal, Block and Docusign.

Activity:

During the quarter, we acquired Palantir. We disposed of Zillow Group, Teladoc, Tradedesk and Everbridge.

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