Somerston Technology Fund (the Fund)

Investment Letter No.5 – March 2022

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

Performance: The Somerston Technology Fund fell by -16.7% in the first quarter. Our reference index fell by -16.9%.

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**
2022	-13.8	-5.5	2.2										**-16.7**

Sector Allocation

Sector	**% Portfolio**
Information Technology	66.7%
Communication Services	16.5%
Consumer Discretionary	16.2%
Cash/Divs/Fees	0.6%

Geographical Allocation

Country	**% Portfolio**
USA	88.9%
Brazil	5.2%
Canada	2.3%
Taiwan	2.9%
Cash/Divs/Fees	0.6%

Top Ten Holdings

Name	**% Portfolio**
Nvidia Corp	11.3%
Microsoft Corp	10.5%
Apple Inc	10.3%
Amazon.Com Inc	10.1%
Alphabet Inc-Cl A	8.9%
Mercadolibre Inc	5.2%
Advanced Micro Devices	3.5%
Crowdstrike Holdings Inc - A	3.5%
Zscaler Inc	3.2%
Twilio Inc - A	3.2%
Total	**69.8%**

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

We wrote of our macro concerns in our January letter. Unfortunately, these have become more entrenched with the invasion of Ukraine and The Federal Reserve seemingly intent to raise interest rates into an economic slowdown. However, we are pleased to see such an improvement in valuations for the technology sectors over the past nine months or so. The compression in multiples removes our major valuation concern, while growth rates have merely normalised (nothing worse). Crucially, the companies we hold continue to have significant growth trajectories.

Table 1 – Sample of revenue growth rates for our key holdings.

	2020	2021	Forecasted for 2022
Nvidia	53%	61%	30%
Microsoft	14%	18%	18%
Amazon	38%	22%	15%
Apple	6%	33%	8%
Adobe	15%	23%	13%
Mercardo Libre	73%	78%	37%
Crowdstrike	82%	66%	48%
Datadog	66%	70%	49%
AMD	45%	68%	54%
Twilio	55%	61%	35%
Shopify	86%	57%	31%
Snap	46%	64%	37%
Sea	100%	70%	36%

The table is colour coded to highlight the peak and trough earnings growth over the past two years and what is forecast in the year ahead. You can clearly see that in most cases the year ahead is forecast to be the slowest growth year of the three. However, most larger companies are expected to deliver high teens revenue growth while the smaller companies are expected to deliver 30%+. Clearly, this remains a very attractive level of growth and significantly improved valuations should increase prospective returns.

During the first quarter, several companies piqued our interest. AMD management is laying a solid foundation by leveraging general-purpose computing success for a workload specific product. AMD refers to this as adaptive computing, where the software defines the hardware's workload rather than the other way around. This means not only is AMD maximizing the large footprint of data centres right now but is looking at where data centres will be in the next 5-10 years.

We continue to believe our bullish thesis for Shopify remains in play and that it will continue to take share in eCommerce, a massive, long-term secular trend. Temporary trends such as tough comparisons and rising costs have introduced near term uncertainty that has momentarily pressured Shopify's valuation however, E-commerce is ripe for disruption. Shopify's concentration on the merchant is paying dividends - Amazon's 26% share of merchant revenue appears susceptible.

Mercardo Libre is another e-commerce play, but in Latin America. Marcos Galperin, the CEO founder, is on a mission to transition Latin America into a digital economy. It has been around for more than two decades and is the dominant e-commerce platform in Latin America. In terms of operating fulfilment centres, owning the goods, selling the goods to people, getting the goods delivered, doing that same fulfilment for other merchants, and providing its own payment platform, Mercado Pago, which now does more payment volume off Mercado Libre ecommerce platform than on it. Latin America has roughly 664 million people, which means that Mercado Libre has a long runway ahead. Yet economic woes in Latin America sent valuations down from 25 x revenue to 8 x revenue in just 15 months.

In conclusion, we are concerned about the macro backdrop, but valuations for high growth companies have vastly improved. If the prerequisite for growth outperformance is lower interest rates, we may have near term headwinds, however, it is difficult to reconcile the prospective rate cycle with the economy, and we may be surprised how soon interest expectations turn south again and growth companies begin to flourish once more.

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