

## Somerston Technology Fund (the Fund)

Investment Letter No.7 – September 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 -7.8% in the second quarter. Our reference index fell by -0.6%.

Performance (%)													
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year
<b>2017</b>	6.1	3.9	4.2	4.5	7.7	-1.5	5.8	3.2	-0.1	8.5	3.8	-0.8	<b>55.1</b>
<b>2018</b>	12.3	-1.4	-4.1	1.0	8.0	-0.1	0.0	8.9	-1.8	-12.3	1.3	-7.5	<b>1.7</b>
<b>2019</b>	12.0	2.9	5.6	6.3	-8.0	8.2	4.1	-3.8	-1.8	3.1	6.1	3.8	<b>43.6</b>
<b>2020</b>	6.2	-3.8	-6.6	18.2	9.6	10.0	9.1	8.5	-6.2	-0.7	9.6	5.5	<b>73.4</b>
<b>2021</b>	-0.2	1.6	-6.5	8.8	-3.6	11.6	1.0	5.7	-7.9	6.2	-1.5	-5.0	<b>8.5</b>
<b>2022</b>	-13.8	-5.5	2.2	-20.2	-6.1	-11.2	13.8	-6.9	-13.0				<b>-49.0</b>

Sector Allocation	
Sector	% Portfolio
Information Technology	66.9%
Consumer Discretionary	16.2%
Communication Services	15.1%
Cash and Equivalents	1.8%

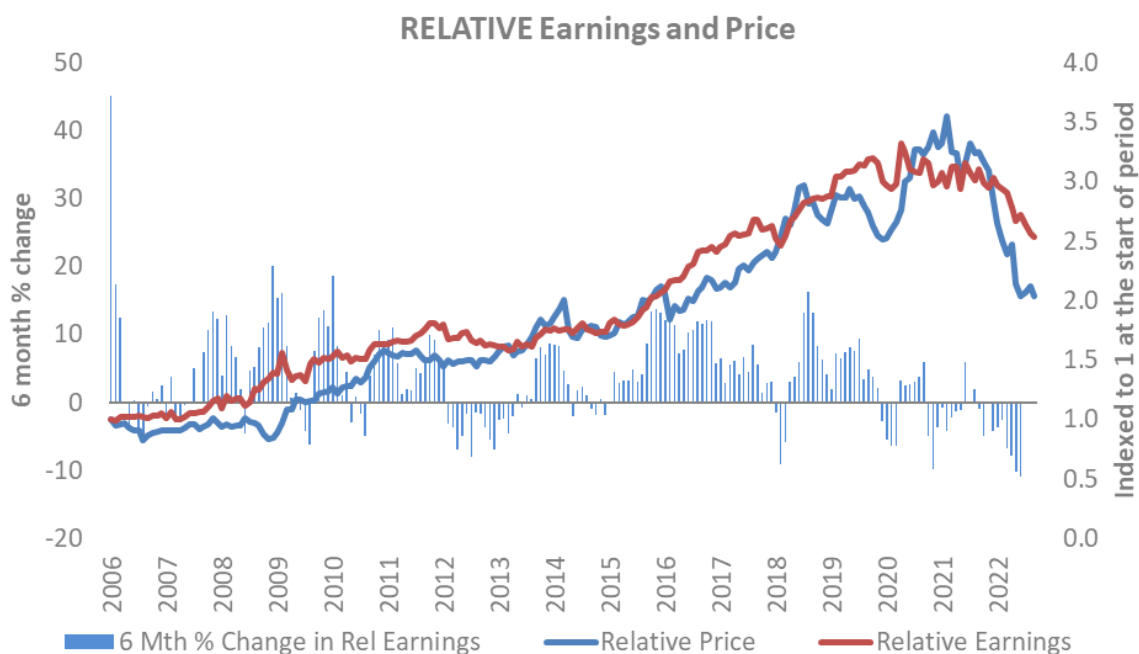
Geographical Allocation	
Country	% Portfolio
USA	83.8%
Netherlands	6.0%
Brazil	5.2%
Singapore	1.8%
Canada	1.4%
Cash and Equivalents	1.8%

Top Ten Holdings	
Name	% Portfolio
Microsoft Corp	12.7%
Apple Inc	12.5%
Amazon.Com Inc	10.6%
Alphabet Inc-Cl A	9.8%
Nvidia Corp	8.3%
Mercadolibre Inc	5.2%
CrowdStrike Holdings Inc - A	4.1%
Asml Holding Nv-Ny Reg Shs	3.8%
Advanced Micro Devices	3.4%
Datadog Inc - Class A	2.9%
<b>Total</b>	<b>73.2%</b>

*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 chart below shows earnings and price for the technology relative to the S&P. The downward sloping red line indicates earnings from the technology sector have been underperforming earnings from the aggregate constituents of the S&P. Moreover, in the last year, the technology sector has seen its valuation compress on a relative basis. Notably, the blue line which represents the relative price performance of the technology sector vs S&P, started the year higher than its relative earnings but has ended considerably below its relative earnings. This shows the valuation de-rating experienced in the sector, which, accompanied by a relative earnings contraction, has led to a painful investment outcome for technology investors during the year.



While we spend our time appraising the long-term fundamental drivers for our investments, in the short term, macro forces can drive very distinct biases. The table below illustrates the stark change of investor preferences within the technology sector.

March 2020 to March 2021	Factor (long top decile short bottom decile)	August 2021 to August 2022
75%	<b>Volatility</b>	-53%
-44%	<b>Value</b>	67%
-38%	<b>Profitability</b>	68%

For the year immediately following the pandemic, technology investors bought the most volatile technology names, often smaller companies, irrespective of their profitability or valuation.

Since August last year, as real bonds yields started moving higher, representing a tightening of financial conditions, technology investor preferences have been turned upside down. Cheap, profitable companies whose shares are more stable, have outperformed.

Our strategy focuses on companies that can sustain high levels of growth. These companies may not yet be profitable, nor are they cheap on traditional metrics. Consequently, our style bias has worked against us, and the last 12 months has seen many of our holdings underperform.

We have high conviction on the long-term prospects of our holdings. During the quarter we introduced Intuit and closed our position in DocuSign whose management changes and general staff churn raised red flags, and Adobe's report showed the organic trajectory of their respective e-signature and document management offerings were performing much better.

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