SOMERSTON ASSET MANAGEMENT

SOMERSTON TECHNOLOGY FUND

INVESTMENT LETTER No.9 AS AT 31 MARCH 2023

Portfolio Objectives: To grow capital over the medium term by investing in a concentrated portfolio of high growth companies and to outperform our reference index over the economic cycle.

Strategy: We use a fundamental bottom-up approach to identify attractive investment opportunities. We have a 5 year investment horizon. We focus our investments in 30-40 high growth companies.

Performance: The Somerston Technology Fund (USO Class) rose by +31.0% in the first quarter of 2023. Our reference index rose by +20.2%.

Performance (%) (USO Class)

	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	-20.2	-6.1	-11.2	13.8	-6.9	-13.0	2.1	4.9	-10.0	**-50.8**
2023	16.7	0.3	11.9										**31.0**

Geographical Allocation

Country	**% Portfolio**
USA	78.4%
Netherlands	7.7%
Brazil	6.6%
Canada	1.9%
Singapore	2.0%
Cash and Equivalents	3.4%

Sector Allocation

Sector	**% Portfolio**
Information Technology	63.5%
Consumer Discretionary	16.3%
Communication Services	13.7%
Financials	2.7%
Industrials	0.4%
Cash and Equivalents	3.4%

Top Ten Holdings

Name	**% Portfolio**
Nvidia Corp	13.9%
Apple Inc	10.1%
Microsoft Corp	9.8%
Alphabet Inc-Cl A	8.5%
Amazon.Com Inc	7.1%
Mercadolibre Inc	6.6%
Asml Holding Nv-Ny Reg Shs	5.0%
Advanced Micro Devices	4.3%
Adobe Inc	3.3%
Crowdstrike Holdings Inc - A	3.0%
Total	**71.6%**

This factsheet 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.

SHARE CLASS NAVS: USO 73.7878; GBO 111.7681

Commentary

So far in 2023, technology investors' preferences have entirely changed from 'value' and 'quality', and back towards growth. This has benefitted the portfolio. During the First Quarter of 2023 the Fund was 31% higher. We are pleased with the overall performance of our investments. Below we highlight a few developments.

Nvidia (Mkt Cap $660 Billion)

During its earnings call on the 22nd February, Nvidia laid out its vision for 'Artificial Intelligence as a Service'. Moreover, management suggested that Nvidia would be developing its own software to run with its chips. This invites speculation that Nvidia can flourish from a high-end product company to a services company, ironing out some of the wild cyclical fluctuations. This news trumped both a poor quarter and financial year in which its revenue fell by 21% y/y and 0% y/y respectively, and the stock ended the day 14% higher. More recently Nvidia, held their developer day which focussed on artificial intelligence with its partners. The three-day event was very well attended, and the stock ended the week 12% higher. Nvidia's management team has an excellent reputation for evolving their markets. From their days as a graphics card leader, ten years ago they evolved and now have the most cutting-edge Data Centre solutions, a business that represents more than half their revenues. Investor confidence is high that Nvidia can evolve into AI and develop its software solutions. Nvidia was 90% higher in the quarter.

Salesforce (Mkt Cap $184 billion)

We initiated a position in Salesforce. In the most recent quarter (Q4 2023), Salesforce ("CRM"), reported revenue growth of 18% y/y or 22% in constant currency, and 100% adjusted net income growth. Forecasts for 2023 are for 10% revenue growth and 36% earnings growth. Adjusted operating margins came in at 22.5% and are forecast to be 27.0%. Marc Benioff took the sole CEO role three months ago and has made several executive and non-executive changes. There is a definite change in the companies' priorities and a long-awaited focus on operations and organic innovation vs its ubiquitous M&A legacy. The M&A committee has been disbanded. The combination of renewed attention on operating margins, returning cash to shareholders and a valuation close to its 20 year low, makes CRM an attractive opportunity. In short, low double digit revenue growth is likely to translate to 20%+ earnings and cashflow growth. The stock is down 38% from its 2021 high and free cash yield of 3.6% is one of the best we have seen for this company. Clearly, there is some concern that this new philosophy may risk its competitive edge and undershoot its growth ambitions. Time will tell, but, on balance, the company has a commanding position and reasonable valuation that discounts many of these risks.

Airbnb (Mkt Cap $75 billion)

We initiated a position in Airbnb. The company has overcome many problems. While there is still work to do, there is much to like, and the valuation is reasonable. Unlike many 'travel agencies', Airbnb's 'stock' is relatively unique, in other words, many of their rentals are only listed on Airbnb which we think is a significant advantage. Furthermore, Airbnb continue to make good strides on improving owner and tenant experiences by offering insurances for damage and undertaking more sophisticated screening techniques. The 'relationship' between owner and tenant for short term rentals is highly unique, involving trust and cooperation. Airbnb 'facilitate' the relationship rather than trying to disintermediate it. Airbnb's model is capital light and highly cash generative. Its immediate growth is a function of encouraging other people to list their rooms and houses, but longer term, there are several adjacencies that harness and potentially monetise their unique asset. In the most basic form, we like companies that have managed to introduce a verb in the vocabulary, like 'I will google it' or 'I will Airbnb it'.

Okta (Mkt Cap $13.5 billion)

In the most recent quarter (Q4 2023) Okta delivered revenue of $510 million representing 33% y/y growth and 43% y/y for the full year. This beat expectations on all levels. The forecast for the next 12M is 17% growth. 'Adjusted' Earnings swung to a profit, but GAAP remains firmly negative. Share based compensation is 36.5% of revenue - far too high - and management are committed to reducing this figure. Margins are improving, however. Consistent with last quarter's commentary, but unlike many peers, OKTA hasn't experienced a meaningful deterioration in sales cycles or close rates over the past three months. Management also noted that business activity in F4Q and new pipeline generation have become increasingly skewed towards upsells, as new business has become tougher in this environment. Gross retention held firm in the mid-90s, and sales attrition remained low for a second consecutive quarter. OKTA now has 3,930 customers spending>$100K, up 27% Y/Y. A Total of 17,600 customers up 17% y/y. On a related note, OKTA unveiled a restructuring plan intended to improve profitability. Specifically, the company is reducing its workforce by roughly 300 employees, equating to ~5% of total headcount. This also resulted in a ~$15M restructuring charge in F4Q23, with severance/employee benefits to be paid out in F1Q24. OKTA trades at a CY23-24E EV/Sales multiple of 5.5x and 4.5x – a long way down from its valuation two years ago.

Nick Wakefield

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