SOMERSTON ASSET MANAGEMENT

SOMERSTON TECHNOLOGY FUND

INVESTMENT LETTER No.10 AS AT 30 JUNE 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 (US0 Class) rose by +17.1% in the second quarter of 2023. Our reference index rose by +10.3%.

Performance (%) (US0 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	-1.1	13.2	4.6							**53.4**

Total return since 2017: 107.4%

Geographical Allocation

Country	**% Portfolio**
USA	81.0%
Netherlands	7.1%
Brazil	5.0%
Canada	2.1%
Singapore	1.2%
Cash and Equivalents	3.6%

Sector Allocation

Sector	**% Portfolio**
Information Technology	62.2%
Communication Services	13.8%
Consumer Discretionary	15.4%
Industrials	2.4%
Financials	2.5%
Cash and Equivalents	3.6%

Top Ten Holdings

Name	**% Portfolio**
Nvidia Corp	13.5%
Apple Inc	10.0%
Microsoft Corp	9.8%
Alphabet Inc-Cl A	8.3%
Amazon.Com Inc	7.6%
Mercadolibre Inc	5.0%
Asml Holding Nv-Ny Reg Shs	4.6%
Advanced Micro Devices	4.4%
Meta Platforms Inc-Class A	4.1%
Adobe Inc	4.0%
Total	**71.2%**

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.

Commentary

Technology investors' preferences for growth has benefitted the portfolio this year. The Fund is 53.4% higher.

During the Quarter we added to our holdings in Adobe, Airbnb, Salesforce, Meta and Paycom and we lightened up on Nvidia as it approached 15% of the fund. Below we highlight a few developments.

Shopify ($81 Billion Market Cap)

E-commerce technology solutions company Shopify reported revenue for the first quarter that beat the average analyst estimate. The company also cut jobs and, unexpectedly, they agreed to sell the majority of their logistics business to Flexport. Revenue in the quarter of $1.51 billion was up +25% y/y.

The divestment of their logistics company just a year after their $2.1 billion strategic acquisition of Deliverr, shows how quickly they realised their mistake and are articulating a far more compelling 'technology' proposition. The stock was up 15% on the day of the announcement.

Shopify was the classic COVID beneficiary, and the company resourced and invested as if that trend was going to continue. Rather painfully, they have needed to 'right size' and regroup. Their valuation reached an incredible 60 x revenues in 2020 and plummeted to 6.5 x late last year. Over the same period, revenues grew by 130%. Impressive growth did not compensate for the valuation compression.

The stock is 30% higher in the quarter.

Nvidia (Mkt Cap $1.0 Trillion)

Nvidia's market cap has joined the 'Trillion Dollar Club'. The stock has been our largest holding for a while, and it has seen one of the largest price appreciations.

Nvidia's A100 GPU was a monumental release for Nvidia as the Ampere architecture unified training and inference onto a single chip. The result is a 20x performance boost. One year later, the Ampere architecture has become the best-selling GPU architecture in the company's history. The release of H100 is Nvidia's iPhone moment. Nvidia will be both a hardware and software company much as Apple has done with the iPhone. What valuation should investors ascribe to a company that is at the forefront of one of the most exciting technologies in recent memory and is about to evolve its business model from a product only company to an annuity revenue model? Its 54 x FY1 earnings seems high, but growth rates are equally impressive.

Adobe (Mkt Cap $224 Billion)

Unlike Nvidia, in early May, Adobe Inc. shares were languishing amid fears its business was at risk from artificial intelligence competition. We took advantage of that weakness to add to our position. Two months and several product announcements later, it's one of the best performers in the Nasdaq 100. Adobe's name was cited as a key partner for Nvidia during their analyst day. Very soon afterwards, Adobe's management unveiled their AI capabilities, and the stock is running.

Adobe's ongoing regulatory undertaking regarding its bid for Figma, is a risk, but its valuation is reasonable.

Paycom (Mkt Cap $18.9 Billion)

Though a much smaller company, Paycom is no less impressive in terms of both its quality and growth. Paycom is a payroll company that has devised a far more efficient platform to make payroll with far greater accuracy, employee flexibility and ultimately higher productivity. In its recent quarter, despite macro headwinds that caused many of its peers to undershoot, Paycom delivered 29.5% revenue growth. Unlike many of the small cap growth companies, Paycom's GAAP earnings match revenue growth and it has a net cash position. Competition is fierce, but Paycom is growing when others are not - their proposition is compelling.

General Comment

The technology sector is vibrant. There are pockets of valuation concern but on the whole, valuations appear reasonable. As we saw with Adobe during the quarter, investors perceptions can change very quickly. There will be winners and losers from the mass emergency of generative AI. Nonetheless, the AI wave has all the ingredients to become a mega bubble. A fundamental truth with a compelling narrative and no way of knowing just 'how big' the future is. There is a long way to go.

Nick Wakefield

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