SOMERSTON TECHNOLOGY FUND

INVESTMENT LETTER No.12 AS AT 31 DECEMBER 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 +19.3% in the fourth quarter of 2023. Our reference index rose by +16.9%.

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	6.5	-3.3	-6.3	-2.0	16.1	4.8	**76.6**

Total return since 2017: 138.8%

Geographical Allocation

Region	**% Fund**
North America	85.1%
Europe	8.1%
South America	6.8%

Sector Allocation

Sector	**% Fund**
Information Technology	64.7%
Consumer Discretionary	17.3%
Communication Services	13.5%
Financials	2.4%
Industrials	2.0%

Top Ten Holdings

Name	**% Fund**
Microsoft Corp	9.6%
Apple Inc	9.4%
Alphabet Inc	8.6%
Nvidia Corp	8.5%
Amazon.com Inc	7.2%
MercadoLibre Inc	6.6%
ASML Holding NV-NY Reg Shs	5.5%
Advanced Micro Devices	4.6%
Meta Platforms Inc	4.5%
Crowdstrike Holdings Inc	4.2%
Total for Top Ten	**68.6%**

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.

Commentary

Technology normally evolves day by day but every so often, technologies conspire to allow step changes. Just as the dawn of electricity distribution allowed for a transformation in our standards of living, and streaming services were only possible in the advent of 3G, spawning the growth of Netflix, Spotify and the Smart Phone, generative artificial intelligence has only been possible through development of sophisticated semiconductors and networking. The amount of data processed and stored by AI applications is gigantic, and semiconductor architectural improvements have addressed data use in AI-integrated circuits. Improvements in semiconductor design for AI are now as much about improving overall performance as it is about speeding the movement of data in and out of memory with increased power and more efficient memory systems.

Leading chip designer **Nvidia** enjoyed an incredible year. Its share price advanced 239% and earnings per share are estimated to finish the calendar year 269% higher. Nvidia's CEO 'Jensen' is a visionary. Arguably, he understood the AI challenges long ago and acquired Mellanox in 2019 to provide the network technology to facilitate efficient large language models. Combined with their GPU chip designs and CUDA software layer developed in 2017, 2023 was a culmination of many years of planning for Nvidia.

Not to be outdone, **AMD'**s CEO Lisa Su has also enjoyed an incredible year, with AMD share price rising 127.6%. AMD has recently unveiled the MI300X, a rival to Nvidia's new flagship semiconductor, the H100. The MI300X is specifically designed for generative AI workloads, able to power large language models like the Falcon-40 on a single chip. Nvidia has long been the undisputed leader of AI GPUs, but AMD is poised to grab a piece of the market which appears to be growing rapidly.

While 2023 might be the year of AI infrastructure, the years that follow will be about AI enabled applications. We have already seen large technology companies such as **Alphabet, Microsoft and Adobe** bring applications to market with seemingly immediate appeal and monetization opportunities. These companies are at the very early innings of the roll out and development of these tools, but we expect to see a 'gold rush' from almost all industries ranging from Science, Genetics, Education, Construction etc. It feels like we are just at the beginning of **a new industrial age**.

CrowdStrike has been providing AI solutions for end point security and its shareholders enjoyed 142% appreciation in 2023. CrowdStrike, which together with cloud based, zero trust security provider **Zscaler** (+98%), have been our security picks for some years. An evolving threat environment seems perfectly ripe for AI solutions. CrowdStrike has continued to upsell its services and adjusted EPS has grown 164%, 178% and 130% in 2021, 2022 and 2023 respectively.

Elsewhere in the portfolio, we are pleased with the performance of Salesforce, which is up 75% since we acquired our initial stake in March. Following their announcement to disband their M&A team and concentrate on optimizing their past transactions, 18% revenue growth has translated into 50% net income growth and the company appears set to improve margins further still. Moreover, Salesforce are in a prime position to offer compelling AI solutions to their customers throughout the next 12 months.

Amazon was up 81% in 2023. While we have often debated the long-term economics of their retail business, the most notable development in 2023 was growth of advertising. The proximity between seeing an advert and buying the product on Amazon's platform is unique. It may not be a stretch to imagine Amazon more of an advertising platform where customers transact with the click of a button, than an online retail business.

Mercado Libre continued to execute well, gaining market share in a rapidly growing market. Their retail, payment and lending platforms are forging their brand through Latin America. Operating income grew by 168% in 2023 and free cash flow amounted to $4.3 billion vs its enterprise value of $75 billion.

This leads us to valuation. There are certainly pockets of overvaluation within the Technology sector. Many 'AI' themed stocks appear to have baked in high expectations. However, we are not in a similar valuation environment as we saw post pandemic or dotcom period. For instance, while we have trimmed Nvidia it is valued at 24x next year's earnings. There is a widespread belief that Nvidia must be expensive given the year it has enjoyed, but our research suggests there are several more years of decent growth ahead. The earnings step change in 2023 will not reverse and we consider Nvidia is now a far more resilient company than a few years ago.

2024 will no doubt be another very exciting year in the technology sector. With AI as a platform, we are keen to see the wave of innovations that are undoubtedly around the corner.

Activity

During the quarter we added to ASML and Salesforce and reduced Intuit and Okta. Shortly after year end, we initiated a position in Synopsys – a key player in the Semi-Conductor value chain that is enabling the AI trends.

Nick Wakefield

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