

Iron Pot Equities Global Technology Fund

Annual Newsletter June 2024



Year in Review

It was a big year for technology with the focus squarely on Artificial Intelligence and NVIDIA. AI is one of the most consequential developments of recent times. In terms of its impact, it can be compared to the rollout of the US railway line in the 1800s. It was, in hindsight, not surprising to see such massive gains in many stocks in the past year, especially those at the forefront of developments.

The mega-cap stocks accounted for a large part of the market's returns, most notably those with market capitalisations over USD1trillion (Apple, Microsoft, NVIDIA, Alphabet, Amazon and Meta). While we hold several of these – Amazon, Alphabet and Microsoft – the absence of a number of the mega tech stocks from the portfolio, including NVIDIA, is a salient point. This is not a mega tech stock portfolio and is highly unlikely to be so. It typically holds around 20 to 25% exposure to the megas and 75 to 80% in lesser-known companies, many of which our investors are unlikely to readily come across given the roughly 1,500 listed tech-related stocks globally with a market capitalisation greater than USD500m.

While there is no question of NVIDIA's significance in the AI world, in reassessing the company throughout the year, we continually found valuations too high to justify. While earnings revisions consistently supported the buy argument, at this point we see valuations, volatility and emerging competition as ongoing justifications for not taking a position, preferring other AI plays such as Taiwan Semiconductor Manufacturing, Advanced Micro Devices, and others who are leading the AI rollout including Alphabet, Amazon, Microsoft and Weebit Nano.

Performance

The Portfolio's gross stock returns totalled over 18%. After substantial currency headwinds plus fund expenses giving a net return of 12.3%, this exceeded the Fund's 10% performance objective.

Period	Net return %
June Quarter 2024	+0.2%
1 Year	+12.3%
Since Inception – Total (July 2023)	+12.3%

Top Contributors & Detractors 2023/24

Contributors	%	Detractors	%
Taiwan Semi Cond.	3.2	Alibaba	-1.3
Spotify	3.0	Weebit Nano	-1.1
Amazon	2.1	Tesla	-0.7
AMD	2.0	Moderna	-0.4
Alphabet	1.8	Blackline	-0.4
Currency			-3.4

Portfolio Movements FY 2023/24

In: ServiceNow, Okta, Netflix, Roblox, Block

Out: Apple, Amplitude, Box, Moderna, Zoom

These changes are consistent with the Fund's investment strategy which focuses on a five-year investment horizon at the time of investing in any one position. As the Fund typically holds its maximum 25 positions, we expect to see four to five stocks replaced annually.

Outlook

The key question is, has the market performance of the last 12 months taken tech stock valuations to excessive levels? On a simple 12-month forward price-to-earnings (P/E) measure, there is little argument that valuations are above long-term averages. The extent of this depends on which period is used for comparison, noting the significant upward re-rating in P/E multiples post-pandemic.

Irrespective of the comparison period, valuations must be balanced against the rates of earnings growth. Consensus has the next two years for both the S&P500 and the NASDAQ growing at double the rate of the past decade. Even so, a pullback is likely in our opinion, with a multitude of triggers ranging from the failure of technology stocks' earnings to meet lofty expectations, rotation into laggard sectors and markets, to political turmoil. Is this a concern? Maybe for traders, but for investors, including this Fund, it's simply an opportunity.

Portfolio Metrics

The Fund currently holds 25 positions, its maximum allowable. While investments are across the market capitalisation spectrum, the average of the Fund's exposure is approximately AUD10bn.

Weighted average earnings and revenue growth prospects are 21% and 15% respectively against a forward P/E of 31x (note Outlook commentary).

The financial strength of the Fund's investments is sound, as a large majority of companies have cash balances exceeding their debt.

Portfolio Breakdown

Quarter End 30 June 2024

Asset Class	% Allocation
Listed Equities	95.0
Cash	5.0
Total	100.0

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Regional Exposure	% Allocation
North America	61.5
China	7.6
Sweden	9.3
Taiwan	5.1
Australia	11.5
Cash	5.0
Total	100.0

Industry Sub-Group	% Allocation
Applications Software	7.5
Cellular Telecoms	4.0
Commercial Serv-Finance	7.1
Data & Systems Security	12.4
E-Commerce/Products	15.6
Internet Application Software	2.7
Internet Media & Services	13.5
Enterprise Software/Services	8.0
Entertainment Software	3.4
Medical Products	3.9
Semiconductor Industry	10.9
Web Portals/Internet Service Providers	6.0
Cash	5.0
Total	100.0

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The **Global Technology Fund** is an unregistered managed investment scheme in the form of an Australian unit trust. The Fund is only available to investors that are wholesale clients as defined in s761G of the Corporations Act 2001 (Cth).

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We strongly suggest that you seek your own professional financial or legal advice prior to any investment decisions.