Please note that the commentary is for the US dollar retail class of the Fund. The feeder Fund is 100% invested in the underlying US dollar Fund. However, given small valuation, trading and translation differences for the two Funds, investors should expect differences in returns in the short term. Over the long term, we aim to achieve the same outcome in US dollar terms for both Funds.

In what was a torrid year for almost all asset classes, the fourth quarter (Q4-22) provided some respite. Specifically for equities, the MSCI ACWI index advanced 9.8%. Despite this recovery, however, the year still ended firmly in negative territory, down -18.4%. The Fund had a strong quarter in absolute terms, and a reasonable one compared to the market, advancing 11.7%.

In our Q2-22 commentary, we discussed Coupa Software and highlighted that some "high growth" stocks are no longer expensive. Coupa is a cloud-based software platform that offers an extensive suite of expense management solutions, including strategic sourcing, benchmarking, automating mundane procurement activities, streamlining processes and policies, and real-time supply chain visibility. Coupa is the software market's undisputed business spend management leader and has a long runway for growth as companies continue to digitise their back-office processes. Over the last year, the business experienced elongated sales cycles in a tough macro environment, however our conviction in its product superiority and customer proposition through its high return on investment remained intact. On 12 December 2022, Coupa's Board entered into an agreement with a private equity firm, Thoma Bravo, to be taken private in the next six months. The enterprise value was determined to be $8bn, an 8.7 times multiple of next year's revenue, equating to a 77% premium to the pre-acquisition undisturbed share price. While the $81 takeout price is marginally below our fair value, we are satisfied with the offer, considering the swift return generated for our portfolios and the large opportunity set of high conviction ideas we currently have.

In the same commentary we also discussed "value" stock Capri, the owner of three iconic founder-led brands in Michael Kors, Jimmy Choo, and Versace. "In our view, the resilience of Kors and the significant growth potential of Versace and Choo is being totally overlooked by the market, with Capri Holdings being valued on 6-7 times earnings. Management clearly agrees, with a new $1bn share repurchase programme and the company buying back $300m of stock (5% of the market capitalisation) in the last quarter alone. We believe Capri offers tremendous value for long-term investors." Capri was the top contributor to returns in Q4-22, advancing 49%.

Netflix was a positive contributor in Q4-22. This follows a strong period of outperformance, with the share almost doubling since its May 2022 lows. As a reminder, Netflix shares tumbled in the first half of 2022, driven by worse-than-expected results and subscriber declines after years of strong growth. We subsequently scrutinised the investment case intensely, which resulted in a lowering of our growth assumptions and fair value. Importantly, we did, however, conclude that our core investment thesis was largely unchanged and that the market had overly penalised Netflix based on two quarters of weak growth. Netflix remains the clear market leader in streaming, an industry, with high barriers to entry, ample pricing power, and strong structural growth tailwinds. We stuck to our view, with our long-term focus being key in a skittish and volatile market.

Finally, we had discussed how not owning certain mega caps hurt returns relative to the market in 2021. It was notable that much of this reversed in 2022 and not owning Tesla (-65% for the year), Nvidia (-50%), and Apple (-26%) all contributed to the Fund's relative returns.

There were a number of detractors for the year. For Amazon specifically, 2022 was a year to forget, with many headwinds culminating in its first share price decline since 2014.

Amazon has two key businesses: the namesake retail business (Amazon.com) and a very profitable, market-leading cloud service provider (Amazon Web Services).

During 2022 the retail business suffered from both uncontrollable and controllable headwinds, which have resulted in the retail business contribution margin falling almost 6% over the last two years. On the less controllable side, strong wage inflation, high fuel costs and a strong US dollar have increased fulfilment costs. On the controllable side, in hindsight, Amazon mis-forecast demand and overbuilt capacity, investing in as much fulfilment centre capacity in the past three years as its whole prior existence. It also chose to follow competitor pricing which had been reduced to clear excess inventory.

Looking forward, many of these headwinds are likely to reverse, which is likely to result in strong earnings growth. Wage inflation, while high, has moderated slightly. Fuel prices are down 20% from Q1-22 to today and the US dollar has begun weakening. Amazon has pulled back on fulfilment centre expansion and as these warehouses are better utilised, we should see a reversal of the almost 3.5% of margin pressure from shipping and fulfilment. Finally, with retail inventories in better shape, about 2.5% of gross profit pressure should also reverse.

Amazon trades on approximately 20 times our estimate of normalised earnings power in 2023. This embeds an arguably conservative 4% margin for the ecommerce business (mostly driven by high margin advertising revenue, where Amazon has grown to be the third largest digital advertiser in the US). When a share price has halved, it is sometimes easy to forget the strengths of that business. And Amazon has many, including two of the most competitively entrenched businesses in the world; a corporate culture that is almost impossible to replicate; an obsessive focus on the customer and the long term; and many years of above market growth potential.

As always, we have no insight into the direction of the market in the near term. We aim to focus on what we control, which is researching investment ideas, and responding to opportunities as and when they arise. We think certain stocks are heavily discounted and offer attractive returns for investors with a long-term time horizon.

Portfolio managers
Neil Padoa and Humaira Survé
as at 31 December 2022