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# Metaverse strategy

## Step up in hyperscale investment plans for data centres, due to continued AI infrastructure ramp

- Global equity markets had a challenging month in April 2024
- Our exposure to the 'Socialising' theme contributed the most to performance
- We saw some M&A Activity in the 3D digital twin space

**Pauline Llandric, Brad Reynolds**  
**Portfolio Managers, Metaverse Strategy**

### What's happening?

April has been a challenging month for global equity markets, with the MSCI ACWI Index declining 3.3%<sup>1</sup>. Investors adopted a more cautious stance due to growing uncertainty about the Federal Reserve's future actions. The postponement of anticipated rate cuts contributed to a shift in market sentiment, leading to a pause in the recent rally.

### Portfolio positioning and performance

The strategy posted negative performance over the month and underperformed the broader equity index, the MSCI All Country World (all in USD).

From a market perspective, earnings season for the first quarter has started and has been largely encouraging. Approximately half of the companies held in the strategy have reported earnings results so far and of those that have reported, over 90%<sup>2</sup> of the holdings in the portfolio have beaten earnings expectations compared to 57% for the broader market as measured by the MSCI ACWI Index.

Drilling down to the themes breakdown of the portfolio, our exposure to 'Socialising' contributed the most to performance over the month. The digital advertising sector saw a significant improvement over the first quarter of the year, as illustrated by strong results from social network company Snap, but also Alphabet (the parent company of Google and YouTube). We also saw excellent results from music streaming app company Spotify, crossing the milestone of 600 million monthly active users. The company is now profitable, driven by the growth of paying subscribers and the free offer supported by advertising. This strong performance was offset by Social Network Meta Platforms who gave back some of its Year-To-Date gains after a period of strong returns. Meta, as well as the hyperscale companies (which include Amazon, Microsoft and Alphabet) have all announced another step up in investment plans for data centres and servers due to continued AI infrastructure ramp over

<sup>1</sup> Source: Bloomberg in USD as of 30/04/2024

<sup>2</sup> Source: Bloomberg as of 30/04/2024

the course of 2024. If we take the example of Digital Advertising, we can already see clear cases of Artificial Intelligence being used successfully to enhance ad performance and relevance, with the goal of making ads feel more integrated and personalized across services.

Within 'Working', we saw some M&A activity. CoStar, a leading real estate information company, announced the acquisition of Matterport, a pioneer in the creation of immersive 3D digital twins for the real estate industry, for \$1.6 billion, a 216%<sup>3</sup> premium to its previous day's closing price. Matterport had been in the Metaverse portfolio since launch and went through a challenging period due to the slowdown in the American real estate market. Despite the challenges, the company was able to maintain resilient results and good financial discipline by moving closer to profitability. This acquisition by a major player in the real estate sector demonstrates the strategic attractiveness of Matterport and its 3D digital twin technology for the future of the real estate market. This strong performance was offset by weaker returns from Cadence, a US Software company focused on software for semiconductor design. The company reported good results and raised guidance for the year, but guidance for the second quarter came below expectations.

The 'Enabling' subtheme had the lowest contribution to performance this month. We saw strong returns from TSMC, the world's largest semiconductor foundry, who has beaten expectations and expressed strong conviction in the acceleration of demand for Artificial Intelligence. This was offset by weakness from Japanese company Advantest, who provides test equipment for the semiconductor industry. The company reported results which were below expectations with the testing market expected to recover later than expected. We still believe that Advantest is well positioned to benefit from the increasing complexity and demand for advanced semiconductor technologies leading to a growing need for more sophisticated testing solutions.

There was relatively little activity during the month, however, we have taken advantage of some stock specific news to reallocate our investments where appropriate.

## Outlook

The start of earnings season for the first quarter of 2024 has been so far encouraging, but we are mindful that Central Bank actions, especially from the Fed, will remain a central point of focus as investors continue to look for signs that the long-awaited pivot for rate cuts is getting nearer. While the economic landscape seems to be gradually stabilising, we are mindful that uncertainty around inflation, global trade and corporate earnings could bring back volatility in the months ahead.

We believe that the long term opportunities driven by the Metaverse remain intact and we are likely to see an increasing number of companies presenting Metaverse related products or services. Recently we have seen significant progress being made on the Artificial Intelligence (AI) topic. We expect Generative AI to be a key accelerator enabling the metaverse. More broadly for the Metaverse strategy, quite a number of companies in the metaverse are already using AI in their products/services. What is exciting is the future direction which could provide more processing power, more powerful AI, and interesting application to enhance experiences in the metaverse.

In October 2023<sup>4</sup>, the US Federal Communication Commission agreed to open a segment of the 6 GHz band spectrum for wearables such as augmented and virtual reality headsets, which could allow devices to connect directly to each other without needing a Wi-Fi network. We view this as a significant change which could help enable new applications for wearables. This is also a good illustration of proactive collaboration between regulators and the industry to shape the future.

In January 2024, Apple launched its Spatial Computing device, the Vision Pro, marking a significant step in wearable technology with advanced features expected to redefine how users interact with digital content. We note the significant enthusiasm after

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<sup>3</sup> Source: Bloomberg in USD as of 30/04/2024

<sup>4</sup> Source: Federal Communications Commission, October 2023

the launch in the US and are paying close attention to the developments of the usage, as we believe new use cases will play a pivotal role in shaping the future of immersive technology.

A recent study published by Bain show that there are compelling reasons for continued optimism about the future of the Metaverse, which is already here and in use across various industries, such as gaming, healthcare and manufacturing. The report is projecting that the Metaverse market size could reach \$700 to \$900 billion by 2030<sup>5</sup>, with key opportunities across virtual experiences, content-creation tools, App stores and operating systems, devices, computing and infrastructure.

Our investment philosophy within the strategy is to have the vast majority of the portfolio exposed to profitable companies that generate healthy amounts of cash and present strong balance sheets whilst staying well positioned to benefit from the trends associated with the Metaverse theme around the four subthemes of Gaming, Socialising, Working and Enabling. In January 2022, technological consulting firm Gartner published a research article forecasting that by 2026 a quarter of the population will spend at least one hour per day in the Metaverse. We believe we are the early stages of a long term trend which spans opportunities in almost every aspects of our lives and expect innovation to continue at a rapid pace.

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No assurance can be given that the Metaverse strategy will be successful. Investors can lose some or all of their capital invested. The Metaverse is subject to risks including Equity; Emerging Markets; Global Investments; Investments in small and/or micro capitalisation universe; Investments in specific sectors or asset classes; ESG; Investment through the Stock Connect program.

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<sup>5</sup> Source : Source: Bain & Company, August 2023

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