So we rounded out a solid 2021 with a rather volatile December quarter driven by Omicron and changes in monetary and fiscal policy expectations. Please refer to your fund's investment report for detailed performance information. We continue to strongly believe the quality and upside potential of Montaka's portfolios have never been higher than it is today. This bodes well for Montaka's many patient long-term investors – including those new investors that have recently partnered with us, or are in the process of considering a partnership with Montaka in 2022. Our mission is to achieve superior long-term compounding of our investors' capital, alongside our own. And we remain highly confident that we have the right culture, business structure and investment formula to achieve this goal.

Montaka's portfolios are meaningfully exposed to several large and reliable long-term transformations with favourable economic characteristics. We briefly describe four of these below and highlight which of Montaka's investee companies are undervalued, high-probability long-term winners within these transformations.

In global private financial markets, we are in the midst of an extraordinary US$6 trillion allocation boost to this asset class in just the five-year period to 2025. This is being driven by relatively strong private market returns – particularly in technology, against a backdrop of structurally declining public market opportunities and historically low interest rates. And importantly, the 'spoils' of this massive reallocation to private markets is not uniformly distributed. Instead, the lion's share is being captured by the world's largest asset management platforms, including Montaka's investee companies Blackstone, KKR and The Carlyle Group. And this dynamic continues to be underappreciated by the market, as we detailed recently in our piece on Barbarians in your Portfolio.

We are in the early stages of a dramatic shift towards real-time 3D (RT3D) digital content and experiences – that is, 3D images or scenes that viewers can not only see, but also interact with. Today, only around 2% of digital content is RT3D and this is expected to grow to more than 50% over the next decade. While already ubiquitous in gaming, there is enormous potential to make static digital environments dynamic for the purposes of safety, education, e-commerce, advertising, entertainment, healthcare and just about every industry we can think of. And it turns out the platforms on which RT3D content is created are global duopolies. One is called Unreal, owned by the private company, Epic Games (40% owned by Tencent); and the other is called Unity Software. Montaka has investments in both of these platforms – directly in Unity, and indirectly in Unreal via Tencent. Montaka also has a significant investment in a high-probability winner in the distribution of these new RT3D experiences: Meta Platforms. Formerly known as Facebook, Meta is obviously the world's largest social network. But investors in the stock today also receive an important growth option (for free, on our analysis) in world-leading virtual reality (VR) and augmented reality (AR) technology. In our quarterly letter – as well as this month's Montaka Monocle – we share a detailed case study on Meta Platforms – which we would encourage you to review.

We are also in the very early stages of an explosion in creator marketplaces. The rapid growth in popularity of podcasts and Substack newsletters foreshadows what is likely on the horizon. Creators of all stripes will increasingly be enabled to easily identify, digitally engage and, ultimately, monetise their fans in a wide variety of ways leveraging the power of the world's leading digital platforms. Meta's Instagram and Facebook properties are well down the path of making multibillion dollar investments in the tools needed by creators to spark and grow a new global creator economy. Alphabet's YouTube is doing the same, as is Tencent in China. Even Spotify, another Montaka investee company, has substantial earnings power upside, in our view, from the roll out of new digital engagement and monetisation tools for podcast creators and music artists.

Underpinning all these transformations are distributed computing platforms. These are the computing backbones of the global economy upon which all software applications rely – from public clouds to private clouds, to edge devices, and all of the platform services to go with them: networking, security, developer libraries, and artificial intelligence (AI), to highlight just a few. AI will emerge as being particularly important for investors to understand, in our view.

As software development is being increasingly democratised, we are currently in a four-year period in which 500 million new applications are being developed – equivalent to the total number of applications developed in the last 40 years. And this will only continue as multiple applications are being developed in every industry, for every device. Importantly, these applications increasingly rely on AI models. What is critical to understand about AI models is that they drastically increase the 'compute-intensity' of the application. This points to an impending explosion in demand for compute – or distributed computing, to be more specific. And the long-term winners in distributed computing are known today with high-probability, in our view. They include Amazon's AWS, Microsoft's Azure and Alphabet's Google Cloud Platform. In China, they include Alibaba and Tencent.

At this juncture, it is worth acknowledging that there are many popular 'themes' that do not appear to feature prominently in Montaka's portfolios. Importantly, this is not through lack of evaluation. Our investment team continually works around the clock to evaluate businesses and industries for their potential investment opportunity. But we are highly selective – not all themes are created equal and 'thematic-popularity' tells us little about long-term investment returns. Furthermore, given the quality of Montaka's portfolios today, the hurdle for investment is exceedingly high. A new opportunity must not only be strong on a stand-alone basis, it needs to be stronger than the set of opportunities already held in Montaka's portfolios today.

Another reason for some themes to appear 'missing' from Montaka's portfolios today is that the beneficiaries of these may not be so direct and obvious. Take 'decarbonisation' for example. This theme is highly topical and there are numerous ways to gain 'exposure'. In our current estimation, however, many of the world's decarbonisation challenges will be resolved by AI models. And therefore, the high-probability beneficiaries of decarbonisation must include the leading hyperscalers that do feature prominently in Montaka's portfolios today, as described above.

We are often asked about our top-down views on the macro economy and their implications on markets. Investing in undervalued winners in long-term transformations means that short and medium-term macro cycles are far less important to the wealth accumulation of Montaka's investors. But long-term structural dynamics are important to understand and inform portfolio positioning. We do not make explicit macro forecasts, but we do employ a Bayesian probabilistic framework to estimate the approximate shapes of the distributions of the range of possible future outcomes for important long-term trends.

Consider long-term inflationary forces and resulting interest rates, for example. We believe the weight of probability is skewed towards long-term disinflation and historically low interest rates driven by structural forces including: aging populations, deflationary new technologies and very high collective indebtedness, as we articulated in detail in our 2019 and 2020 whitepapers on the subject. Of course, we understand that inflation and interest rates will move around over the short-term, but it takes a lot to reverse these multidecade structural disinflationary trends. And it follows, therefore, that the weight of probability skews towards a favourable outlook for equities long-term, a view which is growing increasingly non-consensus.

The 'investability' (or otherwise) of Chinese companies is another example of Montaka's application of Bayesian probabilities. Given the extraordinary economic and political downside risks associated with totally abandoning all principles of capitalism and property rights, a Bayesian analysis would suggest that this probably won't happen. On this basis, we retain two select investments in China, Tencent and Alibaba. Absent the geopolitical risk many investors are currently (and perhaps excessively) ascribing to China, these businesses are extraordinarily undervalued.

During the December quarter, there were very few changes to Montaka's portfolios. We exited SAP following its share price recovery. We continue to believe it is a high-quality business with further upside – but its upside potential pales in comparison to the rest of Montaka's portfolio, in our view.

Geographically, little has changed. We remain balanced across developed global markets, dominated by the US, EU, UK and Australia. We continue to participate in emerging market exposure selectively, though to a far lesser extent given the increased inherent risks of investing in these regions.

* * *

2021 was an important year for Montaka's business. Every member of our (growing) team went above and beyond to deliver on a series of special internal projects. These projects spanned every dimension of Montaka's business seeking to collectively achieve our single core objective: to enhance the experience of Montaka's investors. From investors' interactions with our private client or advised client teams, to investors' digital interactions with Montaka's website or monthly Monocle email, or their interactions with Montaka's outsourced service providers. We have been working hard to evolve and improve our offering. And the work is ongoing in 2022. Our vision is that Montaka's investors continually derive greater value out of their long-term partnership with us.

We take this opportunity to thank you again for your ongoing trust and partnership with Montaka. All of us here at Montaka take seriously the extraordinary privilege of preserving and growing your wealth, right alongside our own wealth. We remain committed to executing our processes with discipline to generate the best possible long-term experience for Montaka's investors. And to each of our team members, thank you for an outstanding 2021. We've already hit the ground running in 2022 and we couldn't be more excited for what lies ahead.

Sincerely,

Andrew Macken | Chris Demasi

CASE STUDY: META PLATFORMS

The folks at Facebook, now Meta Platforms, will be happy to turn the page on a torrid 2021. The company suffered through whistle-blower complaints, ongoing regulatory scrutiny, and calls to break up the company. One of the biggest blows was Apple's new App Tracking Transparency (ATT) policies, which requires platforms to ask permission to track users' data. It is the biggest change to digital ad-tech in a decade and is a major source of revenue growth deceleration from north of 30% to less than 20% for at least the first half of 2022. Cynics say founder Mark Zuckerberg changed the company's name to Meta in an attempt to distance it from this increasing tarnishing of the Facebook brand.

It's little wonder that after this annus horribilis that many investors believe that Meta's days as a cool kid of tech and financial markets are in the past.

But investors shouldn't fall for this narrative and 'unfriend' Meta. While the headwinds above are real, they need to be viewed in the context of substantial and compelling sources of investment opportunity. Despite recent dramas, there are several reasons to still like Meta, including a hidden factor that makes its shares even cheaper than they appear.

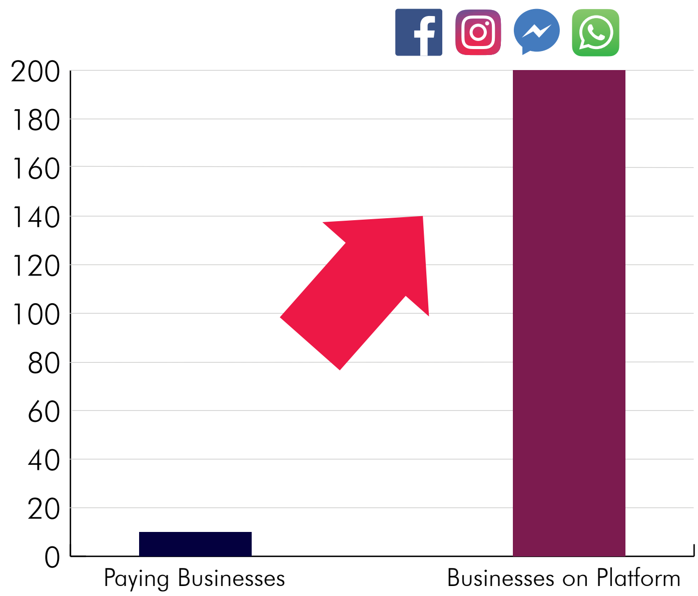
META'S CORE ADVERTISING BUSINESS STILL HAS SIGNIFICANT GROWTH AHEAD

The first reason is that Meta's core digital advertising businesses – particularly Instagram and Facebook – remain powerhouses. With 3.6 billion users each month in total, they deliver ads on a scale unmatched by competing platforms and collect an enormous trove of first-party data. This allows advertisers to continue to generate industry-leading return on investments (ROIs), even as Apple's ATT policies makes it more difficult to track users.

But these 'mature' businesses still have enormous growth potential. Investors do not appreciate just how under-monetised Facebook and Instagram remain today. Of the 200 million businesses with a presence on these platforms, only 10 million spend any money on digital advertising. The numbers spending money will grow as Meta offers businesses easy-to-use self-serve tools so they can take advantage of new, growing ad formats such as Stories, Reels and Messenger. Together, they represent major sources of sustained organic growth in Meta's core advertising business.

Core Biz: Paying Customers vs Potential Customers

Millions



Source: Meta Platforms

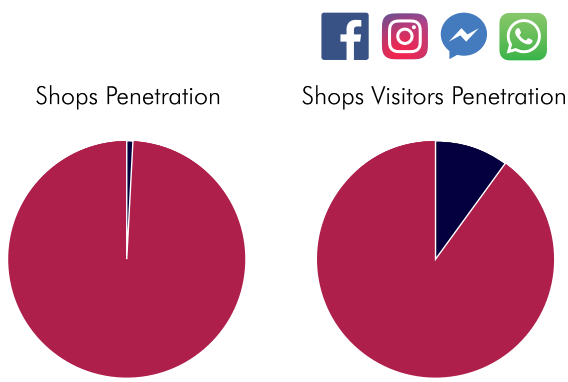
3 ENORMOUS HIGH-PROBABILITY GROWTH OPTIONS

While Meta's advertising business has further growth potential, the company also has three new options with massive upside.

GROWTH OPTION #1: COMMERCE

In 2020, Meta launched Shops, which allows retailers to seamlessly complete ecommerce transactions within the platform. Already, 250 million people are visiting more than one million active Shops each month. We expect businesses to rapidly adopt the new monetisation tools that enable frictionless transactions which will be launched in 2022. WhatsApp's new business API, for example, is already facilitating more than 100 million messages between businesses and customers each day. The numbers might seem big, but they represent a tiny fraction of what is possible over the rest of this decade.

A large ecommerce opportunity - it its early days



Source: Meta Platforms

Importantly, when customers transact on Meta's platform advertisers are really benefitting. While Apple's ATT policy makes it harder for advertisers to now track, Meta offers retailers highly valuable, ad-impression-to-transaction capabilities in real-time, at scale. We have interviewed retailer advertisers and they have told us that their ROI on such closed-loop digital performance advertising tied to Shops transactions is multiples higher than the historical (industry-leading) average ROI. These highly-attractive unit economics – for both customers and Meta – bodes well for future adoption of Shops and the health of Meta's core advertising business.

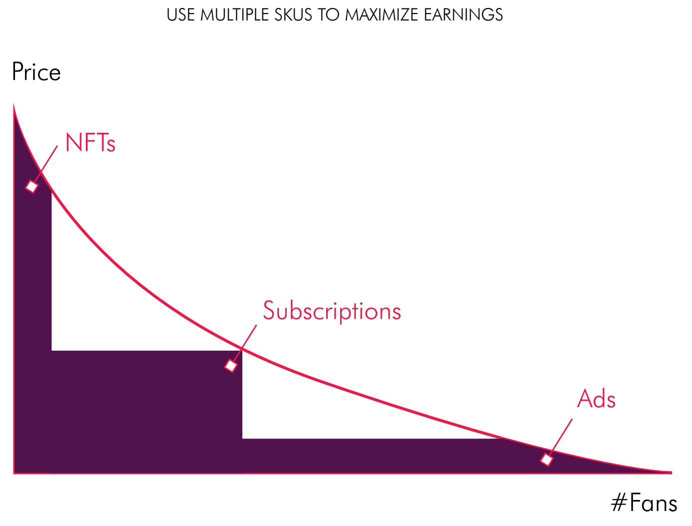
GROWTH OPTION #2: CREATORS

Meta is also building a large 'creator economy' on its platform with big growth potential. The internet has always had the potential to be the ultimate 'match-maker' between creators and fans. Meta is one of the few natural platforms finally unlocking this potential. (Others include YouTube, Spotify, Substack, and Tencent's WeChat).

We believe 2022 will likely mark an explosion of platform tools for creators to build their fan bases, create and deliver compelling digital experiences, and monetise their fans in a wide variety of ways.

There is an important subtlety here: by enabling a variety of ways to monetise, creators can successfully capture a much larger share of the 'consumer surplus' than is typically available. While regular fans might be willing to pay for a basic subscription, for example, creators can offer 'super fans' unique digital experiences, or even non-fungible tokens (NFTs), to take advantage of their relatively higher 'willingness to pay'.

Creator Economy — multi-SKU monetisation



Source: Creator Economy by Peter Yang

There are approximately 200 million creators already on Meta's platform today (in addition to the 200 million businesses, from the chart above). We expect this number to grow based on what we have seen in China where 30% of social media users already self-identify as 'creators'.

This creates an exceptionally large and high-probability opportunity for Meta to build a booming creator economy on its platform.

GROWTH OPTION #3: METAVERSE

The third growth option is the technology that will underpin the 'metaverse', the next generation of internet-enabled experiences. This includes mixed reality experiences – both personal and professional – in virtual worlds, the physical world and a mix of the two.

Meta has been investing in virtual reality (VR) and augmented reality (AR) since its acquisition of virtual reality headset maker Oculus in 2014. It's still very early days in the development and adoption of VR/AR, but Meta is already a clear global leader in consumer VR following its successful launch of the Oculus Quest 2 virtual reality headset in 2020.

But Meta is not stopping here. Zuckerberg is committed to building out the metaverse infrastructure and building on Meta's strong early advantages. In late 2021, Zuckerberg listed many of the new technologies the company was focused on developing, from new hardware components – in VR and AR, to the operating system and development model for new creative tools, to the social platform integrations already being worked on.

At the same time in late 2021, Meta announced a substantial increase in its commitments to 'metaverse' investments (so much so, the company changed its name to Meta Platforms). Both research and development (R&D) and capital expenditure (capex) will surge at least 60% in 2022 to an extraordinary aggregate of approximately A$100 billion. (For context, this is more than twice the annual level of Australia's national defence spending).

As the metaverse evolves, estimates are already in the 'trillions' for annual economic activity that could take place in this digital space. Given Meta's existing leadership in the global social, commerce and VR platforms, machine learning, and incremental investment commitments, we believe there is a very high probability that Meta will play a leading role in the metaverse of the future.

THE FACTOR HIDING META'S EXTRAORDINARY VALUE

Despite Meta's privileged global positioning, data advantages and growth prospects, the company is trading at 18x 2022 operating profit, which seems cheap. Australia's Woolworths, for example, is valued at 21x operating profit, despite being projected to grow at a quarter of the growth rate of Meta.

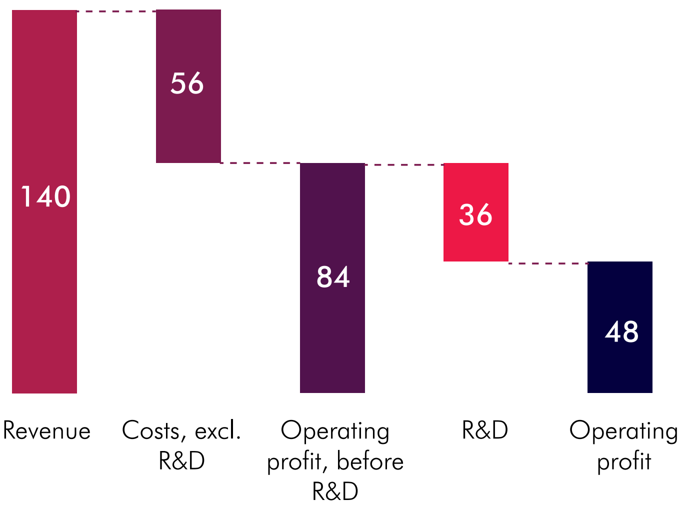
But the market's undervaluation of Meta is far more extreme than conventional valuation suggests. It relates to Meta's huge investment in building out the metaverse. As Zuckerberg pointed out: "I think what you'll see is us putting more of the foundational pieces into place. This [the metaverse] is not an investment that is going to be profitable for us anytime in the near future."

Meta's earnings in 2022 include the significant R&D expense associated with building out the metaverse – but none of the economic benefits. This will likely be the case for 2023 and 2024 earnings as well.

Said another way, thanks to the accounting rules that require R&D to be expensed, Meta's earnings are being artificially depressed by its huge investments in the metaverse.

Meta's 'depressed' earnings

US$ Billions (2022 consensus expectations)



Source: Bloomberg; Montaka estimates

Investors can acquire Meta today at a relatively low valuation multiple of temporarily depressed earnings. The 'true' economic valuation multiple of Meta today is substantially less than 18x. For a business of this quality, with large, tangible, high-probability growth prospects, this is a highly compelling opportunity for any global investor to consider.

So, while Meta might be going through an uncool patch and at risk of being defriended by a raft of investors, for those who can see the true potential in its core advertising business, the upside in its three new growth options, as well as its hidden low valuation, the company is a definite 'like'.