SWS Growth Equity

Strategy Update as of July 21, 2021

SWS PARTNERS

Firm Overview

SWS Partners is a registered investment advisor that focuses on using technology to deliver contemporary asset management solutions to endowments, foundations, pensions, family offices, and high net worth individuals. We believe that by emphasizing the application of modern technologies, we can create broad efficiencies and deliver better outcomes to clients.

Key Information

Inception	May 1, 2018
Benchmark	Russell 1000 Growth Index
Portfolio Managers	Michael Parker, CFA Kurt Grove, CFA

Strategy Objective

SWS Growth Equity seeks to create long-term capital appreciation by investing in companies across multiple industries that have the ability to maintain or take profitable market share.

Scan the QR Code to read more Growth Equity strategy-related insights and research.

In this latest installment of our quarterly accountability check-in, we assess an important milestone that gets to the core justification for launching *SWS Growth Equity.* Having honed an investment process inside a $100 billion dollar pension, we identified the opportunity to combine stock-picking acumen with risk-minded portfolio construction, then unveiling this to a much wider audience. This past May marked three years since we planted our flag with investment capital, including our own alongside external investors. We dive into the output of our efforts below, but our focus will always be on a universal goal of every public equity investor. Despite various ways it's articulated, consistent risk-adjusted returns are at the core of every investor's pursuit.

Since branching out from the pension, we've gained an increased appreciation for the spectrum of investor aspirations within public equities. Two investors could end up owning the exact same portfolio, but the objective of their respective allocations could be dramatically different. The pension investor hopes to achieve a return in excess of their lability stream's discount rate; the university endowment has a spending rate plus an inflation premium target to surpass with their portfolio returns; the individual investor may look to maximize compounding returns for a retirement nest egg. However, the pursuit of risk-adjusted returns, specifically those in excess of the benchmark, satisfies each objective. We also hold the achievement of this as a core tenet to *SWS Growth Equity.*

Quick side note on excess returns, aka alpha: it's rarely delivered linearly in long-only equity. Last year is a prime example. Given the dramatic impact the pandemic has had across the entire global economy, many trends poised to unfold over the next 5-10 years were crammed into a very short window. Corporate management teams saw the opportunity to greenlight what would have taken years of investment and board cajoling to pivot their businesses towards digitally-enabled fulfillment, factory modernization, and cloud-native architectures. It also has had dramatic impacts across our entire labor force and will continue to do so.

These accelerations also were not confined to companies in the technology sector nor to stocks trading under technology tickers. Take UnitedHealth Group [UNH] for example, a $390 billion healthcare services provider serving 50 million lives across commercial, Medicare, Medicaid, and advantage/supplement extensions. One of its top initiatives that's responsible for the next era of growth for its entire enterprise: maximizing the utility of technology. As patient care visits went virtual during the pandemic, the shackles of institutional bureaucracy and HIPAA push-backs were released. On its Q2 call last week, UNH credited increased primary care visits enabled by telehealth for reducing hospitalized days by 1/3rd for its senior population.

Our key takeaway on the UNH example, and myriad more like it that proliferate our portfolio, is the imperative to understand the pervasiveness of technology. The next battlegrounds of who utilizes tech to its fullest potential will occur outside the boundaries of the tech sector. It's already occurring as automotive OEMs pivot towards electrification and eventual autonomy, as ride-hailing and on-demand delivery change the economics of transportation, and as genome sequencing enables functional cures for diseases. As an investor, this means it's even more critical to go deeper under the hood of every public issuer to see how their existential fight is being defined by their deployment of technology. The outcomes occurring in share prices are increasingly dependent upon it.

On-demand experiences as a consumer are just too compelling not to demand them from every commerce interaction outside of Amazon. Zillow Group (a portfolio detractor for us in Q2) is another example of a company deploying these learnings into its attempt to disrupt the US home sales market. Zillow's management labels this a "BHAG"—big, hairy, audacious goal—to bring an Amazon-like experience to the highly disjointed, paperwork-intensive residential home buying/selling industry. In the US this represents $2.2 trillion of home value across 6.5 million single-family homes as of last year.

Bringing the discussion back to our portfolio, the BHAG of *SWS Growth Equity* will always be to achieve sustainable alpha, an outcome that the vast majority of long-only managers fail miserably at delivering. It's also the key reason behind $1.4 trillion of capital flowing into passive US equity vehicles over the prior decade, while $1.6 trillion has vacated its actively-managed counterpart.

We specifically set our sights on delivering alpha over rolling three-year periods, while targeting excess returns that are net of all fees. Price can—and often does—deviate from value for periods longer than many prefer. It also often disregards the tidy boundaries of calendar or fiscal years. This is where the "rolling three-year" part of our goal comes into play. An inescapable truth of public equity is that evidence on the long-term prospects of any given issuer tends to be unveiled over this time frame. Shorter-term periods are riddled with more noise than signal.

Now that we've rolled past our three-year milestone, we have the ability to assess how we're doing on the delivery of this goal. Along with our May 1, 2018 inception cohort and that of its subsequent quarter, we also can stack up our preliminary efforts of cohorts that will achieve their respective three-year hurdles in future quarters. Despite having to navigate through a challenging global economic backdrop, each fully-seasoned quarterly cohort has achieved its goal of delivering positive alpha, and each preliminary cohort is on solid footing as of June 30, 2021:

Chart 1: Cumulative Total Returns (as of 06/30/2021)

Capital Deployed on	SWS Growth Equity		Russell 1000 Growth Index	S&P 500 Index
	Gross	*Net of Max Fee*		
5/1/2018	142.0%	132.6%	105.3%	71.8%
6/30/2018	126.2%	117.9%	96.0%	67.1%
9/30/2018	105.6%	98.6%	79.5%	55.2%
12/31/2018	147.2%	139.6%	113.4%	79.4%
3/31/2019	107.9%	102.1%	83.8%	57.9%
6/30/2019	98.7%	93.7%	75.7%	51.4%
9/30/2019	98.8%	94.5%	73.1%	48.8%
12/31/2019	82.2%	78.8%	56.5%	36.5%
3/31/2020	107.7%	104.5%	82.2%	69.7%
6/30/2020	55.2%	53.3%	42.5%	40.8%
9/30/2020	35.8%	34.6%	25.9%	29.3%
12/31/2020	15.0%	14.3%	13.0%	15.3%
3/31/2021	12.1%	11.7%	11.9%	8.5%

Source: FactSet, Charles Schwab, SWS Partners. Net results reflect the firm's maximum advisory fee. Please see page 12 for more detailed information on performance calculations.

The decision to deploy capital into public equity will always require a healthy appetite for uncertainty. Every quarterly juncture since our inception faced a unique series of overhangs that challenged risk appetites at the time. The pandemic may have manifested itself towards the back half of our journey-to-date, but we've also encountered onerous import tariffs (throughout which the US firmly remained a net-importer), the end of the longest bull market in history, a classic textbook recession, a yield curve inversion, and a far-from-peaceful change of command within the administrative branch of the US government. Now concerns on inflation and virus variants consume news outlet attention.

Even though we've managed our portfolio through its fair share of uncertainty to date, and the slate of prospective risks remains full, we continue to see a path to steer capital towards superior relative outcomes. Heading into the June quarter release season, the market continues to test our stomach for price volatility. We see our investment process as being battle-hardened for whatever's thrown our way while remaining humble, yet confident, in our ability to deliver on our BHAG.

Raison D'être: Alpha Delivery

The second quarter saw strong returns for domestic equity markets and a reversal of style factors from the previous two quarters. Large-cap equities bested small-cap at +8.5% vs +4.3% via the Russell 1000 and Russell 2000, respectively, and growth outperformed value +11.9% vs +5.2% through the Russell 1000 Growth and Russell 1000 Value. Strength in the quarter was led by mega-cap tech (Google, Amazon, Apple, Microsoft, and Facebook), all appreciating >12% for the quarter. *SWS Growth Equity* returned +12.1% gross of fees for the quarter, relative to the Russell 1000 Growth at +11.9% and the S&P 500 at +8.6%.

Chart 2: SWS Growth Equity Performance as of 6/30/2021

	2Q2021	YTD	3-Year (Annualized)	Since Inception (Annualized)	Since Inception (Cumulative)
SWS Growth Equity (net max fee)	11.75%	14.30%	29.64%	30.58%	132.62%
SWS Growth Equity (gross)	12.10%	15.01%	31.28%	32.23%	142.04%
Russell 1000 Growth	11.93%	12.99%	25.14%	25.52%	105.29%
Russell 1000 Value	5.21%	17.05%	12.42%	12.03%	43.27%
S&P 500 (reference)	8.55%	15.25%	18.67%	18.64%	71.77%

Please see performance disclosures on page 12. SWS Growth Equity *inception 5/1/2018.*

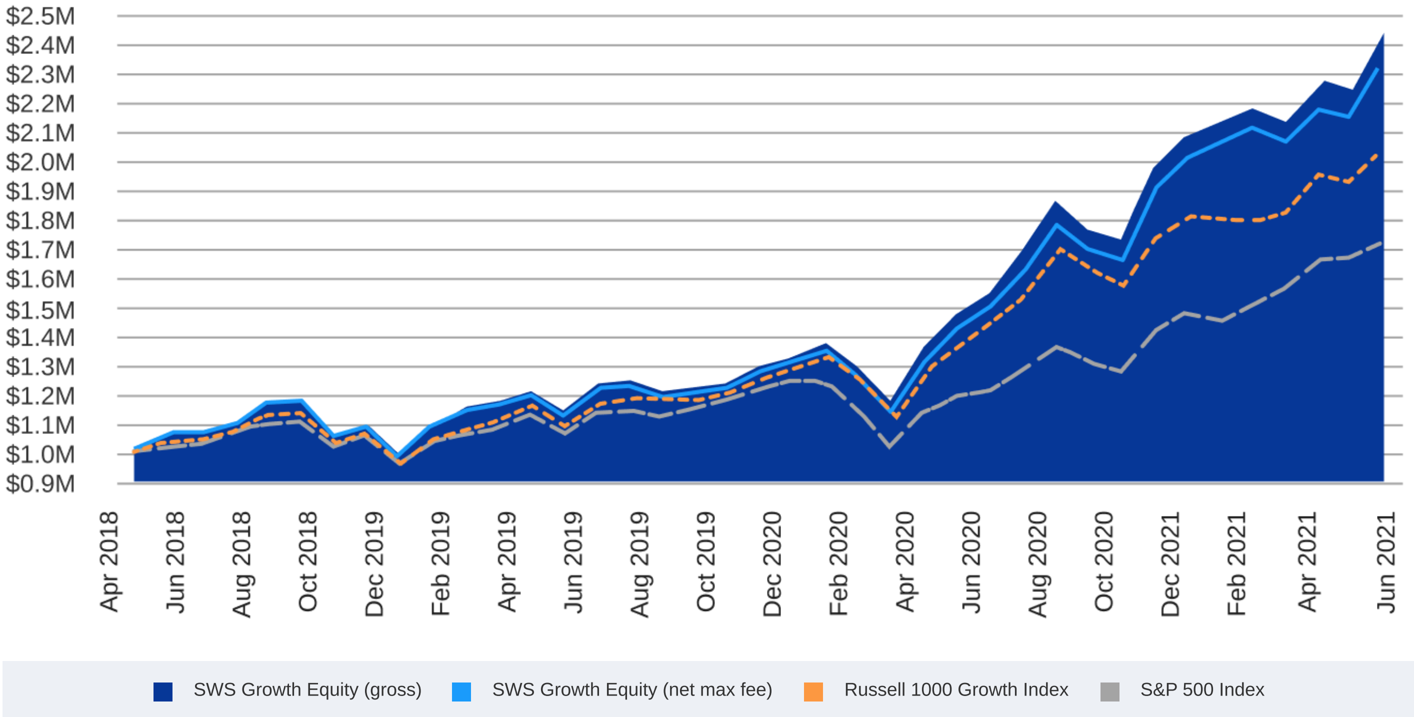
Chart 3: Equity Indices' 2Q2021 Total Returns

Russel 1000 Growth	11.93%
S&P 500	8.55%
Russell 1000 Value	5.21%
Russell Midcap	7.50%
Russell 2000	4.29%
NASDAQ Composite Index	9.68%

Source: FactSet. Data represent total return (dividends reinvested into respective index) for the period 12/31/2020-6/30/2021.

Chart 4: Growth of $1 Million in SWS Growth Equity Since Inception

$2.42M $2.33M $2.05M $1.72M



Above chart displays the value of a hypothetical $1 million investment in SWS Growth Equity *since its May 1, 2018 inception, both on net of maximum advisory fee and gross of advisory fee bases. These results are compared with broad-based indices, which do not include expenses, and are shown on a total return basis with dividends reinvested.*

Contributors & Detractors

The following analyses highlight the fundamental work underlying our investment process. Here we deconstruct the merits of the top contributors and detractors to portfolio performance on the quarter (with total return contributions listed):

Top Contributor

PureCycle Technologies, Inc [PCT]: +38.8% since May 26th initiation

Serving as one of our newest positions and the first position in *SWS Growth Equity* within the basic materials sector, PCT got off to a hot start, appreciating +38.8%, significantly above the basic materials index return of -0.6%. We expound upon PCT in the Portfolio Changes section below, including the fundamental reasons for our investment. As a pre-revenue SPAC, investors should expect elevated volatility in the underlying equity and watch closely for key milestones over the next 12-18 months related to the operational feedstock evaluation unit, contract announcements, factory production updates, feedstock agreements, and future plant locations.

This quarter provided a few updates and increased volatility, allowing for a timely position entry. On May 6th, a research group picked PCT as their next target for an over-hyped SPAC and released a short report, one conveniently timed for PCT's quarterly blackout period for management commentary. When the dust settled, PCT plummeted 39% on the day, ultimately reaching a low price of $10/share after previously trading at $35 back in March. Having already completed significant due diligence on the company, the management team, its recycling process, patents, third-party engineering reports, and touring the Ironton, OH facility, we were able to independently refute the arguments of the short report and place our capital accordingly.

On the subsequent "updates" side of the equation, PureCycle hosted its first investor day, was included in the Russell 2000 Index, and announced a partnership with Emerson.

Top Contributor

Shopify [SHOP]: +32.0%

Shopify makes its first appearance on our contributors/detractors since 2Q2020, appreciating +32.0% and outpacing the financial services index return of +11.8% during the June quarter.

Shopify, a large beneficiary of the government-mandated lockdowns due to online retail spend forced by the pandemic, was a poster child for the "K-shaped" recovery. Representing the pandemic "winners," SHOP appreciated +193% from March 18th, 2020 to July 9th, 2020. Equity market attention then quickly shifted to other pockets of value, causing Shopify to trade effectively flat for the following 10-month period. In this timeframe, it underperformed the S&P 500 by ~28% even as 2022 consensus revenue expectations climbed 36% over the same period. The year 2022 presumably will not have the same pandemic-driven tailwinds to Shopify's business, yet many consumer spending shifts will remain structural rather than prove transient. This oversight by the market allowed us to purchase additional shares on May 7th.

Since our last update on Shopify in 2Q2020, the company has made significant progress in honoring its mantra of "arming the rebels" and being the de facto leader of the "anti-Amazon alliance." Partnerships and integrations with Walmart, Facebook, Google, TikTok, and Alipay all have been announced within the last year, enabling individual sellers to sell across any platform of their choosing. As Shopify has gained mindshare since its founding, the company has expanded from its core offering to small- and medium-sized retail brands, now addressing a wide set of new customers including Heinz, Tinder, Lego, General Mills, and even a department store Lord & Taylor. All of these examples highlight the competitive necessity of companies to build a brand through complete knowledge and understanding of their respective customers. Retail partners are increasingly offloading what they previously saw as competitive advantages--physical store footprints, in-house tech stacks, payment capabilities, and on-site server racks--to Shopify.

We think Shopify is building a true platform company that will serve as retail companies' bridge from the offline to the online world. Bill Gates's platform definition suits Shopify well, generating $12.5B for its partner ecosystem while only taking $2.6B for itself in 2020. This approach will benefit SHOP as it continues to expand upon its 9% share of US ecommerce sales and allow expansion internationally. Increasingly, the focus on developer partners, Shop Pay, and its fulfillment aspirations will enable Shopify to significantly increase its current 2.6% take-rate.

Top Contributor

INTUITIVE ®

Intuitive Surgical [ISRG]: +24.5%

Intuitive Surgical makes its debut on our list of contributors this quarter, posting a +24.5% return for the period, which also fared better than the +11.0% of the overall healthcare sector of our index.

The company was not immune from early COVID-related impacts to its business as surgical procedure volumes plummeted in light of hospitals diverting resources to front-line care. The impact was most pronounced in 1H2020, but procedure growth edged out just 1% growth for the full year, while new systems placed fell 16% for ISRG. For context, 2019 saw 18% growth in procedures with 14% growth in shipped systems, representative of a more typical demand year for the company.

With much of the investor focus in the healthcare space shifting towards global therapeutic/vaccination efforts and the

FDA dedicating its finite resources on emergency use authorizations, we viewed Intuitive's adverse impact as being short-lived. Non-discretionary surgical procedures can fall victim to delay, but many cannot be forgone; it's hard to push off hernia or gallbladder surgery in perpetuity.

We saw an opportunity to add to our ISRG position on March 22 with the stock failing to reflect what we saw as an attractive reopening setup. The company's 1Q2021 results released in April then served as a helpful reminder for investors of this dynamic, as procedures and system placements grew 16% and 26% year-over-year, respectively.

In terms of longer-term prospects for Intuitive, we see a multi-year tailwind for robotic surgery penetration, with current invasive surgery penetration sitting sub-10% of total volumes in the US. Future innovations include the additional rollout of DaVinci Single Port to additional indications, geographic expansion, telepresence capabilities for surgeons, its Iris preoperative visualization platform, and opening the addressability of lung biopsy via its Ion platform. Given outcome disparities among surgeon skill levels—bottom quartile surgeons have 3x more complications than top quartile—the ability to measure skill will have dramatic impacts on this area of healthcare.

The competitive landscape is something to monitor closely given recent acquisitions and product launches by Medtronic and Johnson & Johnson. However, we see Intuititive's commanding market share and tentacles into surgical training programs as key components of its competitive moat. The growth dynamics of robotic surgery continue to be an attractive area to allocate capital to within the medical device and equipment space.

Top Detractor

Uber®

Uber Technologies, Inc [UBER]: -8.1%

Uber populates our list of detractors for the first time this quarter, falling -8.1% versus the industrials index return of +9.4%.

Since our initial position entry in June 2020, we have viewed Uber through the lens of a transportation company primed to disrupt the movement of people from "Point A" to "Point B" with its core Rides product offering. The company currently addresses ~0.5% of the 4.7 trillion miles of trips <30 minutes in duration. Evidence is emerging that Uber rides are coming back faster versus mass transit, strengthening the core thesis that UBER is well poised to address more route miles. We believe this will become more obvious as the pandemic lifts.

It is also becoming increasingly evident that its second business line, food delivery, is not simply a one-time beneficiary of lockdowns. Customer and restaurant behavior is permanently changing to where food is consumed. Uber Eats saw its fastest-growing quarter in 1Q2021, well after reopening had begun in many locations. Uber is well-positioned to be a top player in the ~$3 trillion food-away-from-home category. Just ~5.5% of the category was serviced via delivery in 2019, and Uber holds a 9% share within this. We see both numbers increasing significantly in the following decade as delivery gains acceptance and as the industry consolidates.

With the long-term thesis still holding firm, the first half of 2021 experienced a few hiccups for Uber. The widely reported driver shortage has been pronounced in the US, forcing Uber to spend $250 million to bring additional drivers back onto the platform. Combining this with the fits and starts of lockdowns with the new Delta variant, and political discussions in Boston and NYC related to the gig-worker employment model, it hasn't been a perfectly smooth start to 2021. Looking through these shorter-term issues, investors should stay focused on the long-term model. This includes small milestones already achieved or those that are upcoming: its ads business hitting $100 million in 2021; "Rides" and "Eats" becoming profitable in 2021/2022, respectively; a scaling subscription service; and ancillary delivery services in alcohol, convenience stores, and grocers.

Top Detractor

Vertex Pharmaceuticals, Inc [VRTX]: -6.2%

Vertex finds itself on the detractor list for the third time in four quarters, falling -6.2% and underperforming the health care index return of +11.0%. In Vertex's highly anticipated VX-864 drug trial, a drug intended to target the small molecule correction of alpha-1 antitrypsin deficiency (AATD), ultimately did not meet the necessary 11mmol/L for functional treatment of the disease. While unfortunate that this small molecule corrector did not have its intended effect, we look more closely at this drug treatment and the entirety of the Vertex portfolio to determine whether a position is still warranted.

With VX-864, a functional cure was not proven out, but a proof of mechanism was shown to be effective and safe. This is a key milestone and should allow Vertex to return to the drawing board quickly and to bring multiple molecule correctors forward into phase 1 and 2 trials. Vertex's non-AATD portfolio remains strong with multiple offerings strengthening in recent months. CTX001, through its partnership with CRISPR Therapeutics, is in phase 2 trials showing a functional cure for sickle-cell disease and beta-thalassemia, now updated for 22 patients with zero significant adverse events through May. VRTX's pain efforts have also progressed, with a VX-548 update this week indicating that the company has begun phase 2 trials on an oral treatment for acute pain, potentially alleviating the need for opioids. Lastly, its core products related to the treatment of cystic fibrosis, TRIKAFTA and KALYDECO, continue to receive geographic approvals, most recently in Canada, Italy, and France.

Putting together this mosaic as investors, we view the setup for Vertex positively as expectations are extremely low, representing very little confidence in its pipeline drugs, reflected by its next twelve-month earnings multiple at ~16x, well below its historical range of 30-50x. Any positive developments within its pipeline should bolster investor sentiment, and we expect the opportunity within cystic fibrosis treatment to be larger than current estimates.

Top Detractor

Zillow Group, Inc [Z]: -5.7%

Zillow has been a common participant in our contributor/detractor list, this quarter residing on the latter side with a -5.7% return versus the technology sector posting +15.8% for the quarter.

Major opposing forces are at play in the US housing market where home prices face significant upward pressure, offset by dampened buyer sentiment. The largest generation, millennials, is entering its prime phase of housing addressability, Covid-19 has many reconsidering where they work and live, all while the underlying sentiment is that yearly price increases of 24% are not sustainable. As Zillow makes further progress on its model transition from capital-light provider of realtor advertisements to capital-intensive acquirer of individual homes, it has seen increased volatility in its underlying equity price. Investors appear to be grappling with Zillow's long-term prospects in tandem with the current health and sustainability of the US real estate market.

While Zillow's underlying business will ebb and flow with the health of the housing market, the opportunity in front of Z is massive. In the United States, 5.6% realtor commissions, $409k average used home prices, and 6.5 million single-family home sales in 2020 translate into broker commissions of ~$150 billion. Zillow currently captures <2% of this pool of commission dollars that are now up for grabs. This number seems disproportionately low for a website that is ingrained into the US culture and serves as the de facto starting point for home browsing to the tune of 221 million users. These factors, along with full integrations with the multiple listing service ("MLS"), eliminate a major competitive advantage that was previously captive to licensed brokers.

Now with its move into the buy-side of the transaction, via Zillow Offers, ~$2.7 trillion of US residential home sales becomes addressable to Zillow. Utilizing its Zestimate for actual cash offers only increases the utility of Zillow to consumers, with the ability to target additional layers of the transaction via titling and loan origination. Enjoying the largest user base and owning multiple business lines, we think Zillow has a sizable data advantage to build out its Offers business better than its competition. For customers who don't want to transact directly with the company, Zillow is in the best competitive position to offer an extremely high-value lead for real estate agents, a lead that should not command a traditional 6% fee.

Portfolio Changes

As we have mentioned in 3Q and 4Q, we have been actively decreasing our market cap exposure. We view the relative opportunity to skew down-cap as more attractive in the phased-reopen part of our recovery. Since large-cap is overpopulated by cloud gatekeepers that disproportionately benefited from government lockdowns, valuations among this cohort suggest a lot of "top-heaviness." Similar to last quarter, we have seen significant dispersion and volatility in the market since the start of the pandemic, forcing us to increase our turnover to slightly greater than 50%, equating to a holding period of closer to two years, versus our typical holding period of three years.

New Positions: PCT, ETSY, NET
Position additions: TWLO, NOW, MTCH, VC, ABBV, SHOP, SFIX, UBER, SNOW, NEWR
Position reductions: SQ, TPR, AMZN
Position exits: CRM, ILMN, NKE, W

New Positions

PureCycle Technologies, Inc [PCT] - As mentioned in Contributors & Detractors, PCT is a recent IPO that came public via SPAC, a special purpose acquisition company. This vehicle for becoming publicly traded has gained popularity for its less burdensome reporting requirements and perceived efficiency over the more traditional IPO process. With this ease of access, the "liberties" taken in financial statements and projections have increased dramatically. In some cases, blatant fraud has occurred. With that said, we don't want to outright dismiss investment ideas simply by how they became publicly traded, but suffice to say a higher level of due diligence was required to gain confidence in investing.

PCT is a spinout of intellectual property from Proctor and Gamble, with the key technology created by P&G's chief scientific officer, Dr. John Layman. The patents cover the only way to truly recycle polypropylene back to its virgin form. Polypropylene, the most common type of plastic that constitutes ~28% of all plastic production, is commonly found in chip bags, shampoo lids, automotive applications, and carpets, equating to ~200 billion pounds produced per year globally. Currently, <1% is recycled due to the chemical nature of polypropylene making it extremely difficult to break down via traditional mechanical or chemical solutions. Utilizing a butane solvent and a proprietary recycling facility, PCT was able to build out a functional feedstock evaluation unit ("FEU"). This FEU acted as a showcase for the technology, demonstrating its ability to ingest various plastic feedstocks and in turn produce virgin-like polypropylene, while utilizing just one-quarter of the energy needed to produce virgin polypropylene from hydrocarbons.

The unit economics on recycling polypropylene are extremely attractive, with initial letters of intent ("LOIs") at $1.00/lb and recent LOIs at $1.50-$2.00/lb for the offtake. The premium versus virgin polypropylene is due to consumer preference and future governmental regulations. Compared to feedstock costs at sub-$0.15/lb and plant operating costs at $0.29/lb, all-in EBITDA margins could reach 60% in a bullish scenario.

Long-term, this is a highly speculative investment with a wide range of outcomes. We expect to receive updates with regards to partnerships, future plant locations, and customer commitments over the next six months. We will not have any concrete information until the first plant is operational in the fall of 2022, which will also offer the first real opportunity to verify actual unit economics at the plant level. In the meantime, investors will pay close attention to plant construction progress through independent reports via engineering firm Leidos. Ultimately, we see a pathway to 50+ plants, recycling 130 million pounds each per year, 6.5 billion pounds per year, representing only 3.25% of 2024 worldwide expected polypropylene production.

Etsy, Inc [ETSY] - Etsy, the leading player in the online craft and personalization marketplace, saw its prospects dramatically bolstered by the pandemic. Even among other ecommerce companies, its tailwinds skewed more favorably. Its independent sellers stepped up as leading providers of masks, while also being the go-to provider for personalization capabilities in a new apparel category. Ultimately, Etsy produced $850 million in mask sales in 2020, 20% of its total 2019 sales, and overall sales rose 111% in 2020.

This dynamic put Etsy squarely in the Covid "winners" category, and as we mentioned earlier with Shopify, many Covid winners were thrown out in the first half of the year regardless of future prospects. Etsy was no exception, falling 25% from early March to our entry on June 23rd, even as the company indicated growth was accelerating ex-mask sales.

Investors should focus on the key competitive advantages Etsy enjoys. First, the company has created three distinct two-sided marketplaces across the US, Germany, and the UK. All three surpassed the key 50% intra-country commerce milestone, where the company has stated the flywheel significantly accelerates as the product takes on a localized persona. This impact is evident in ETSY's international gross merchandise sales (GMS), which have accelerated four quarters in a row, outpacing US GMS growth rate at +171% vs +110%, even without the benefit of US stimulus. We expect other countries, France, India, Australia, and Brazil to join this group.

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Second, the relative power Etsy enjoys over its sellers and competitors is large. With 4M+ independent sellers, at an average GMS of $2,560 per year and never actively recruiting sellers, it's clear the sellers are not large enough to stand up a business independent of Etsy. This is due to the 90M+ buyers on the platform that Etsy attracts with high intent purchases for unique products. Etsy highlights that 45% of handmade/craft/vintage sales go to Etsy, 35% to craft stores, 11% to independent sites, and 15% are on other marketplaces. This leads to the third competitive advantage, product discovery. Other competing marketplaces focus on a product catalog for availability, utilizing highly structured data. Etsy has a highly unstructured product offering with 80+ million unique items requiring a vastly different search algorithm.

Cloudflare, Inc [NET] - Cloudflare, in its mission "to help build a better internet" has ~4 million free customers, ~120k paid customers, and 17% of the internet flows over their reverse-web proxy service. The latter represents 80% market share among websites utilizing reverse-web proxies. Focused on offering a network-as-a-service and serving as the "Cisco" of the cloud, NET has seen rapid growth of 50% CAGR for the past three years. Targeting a wide range of cloud networking use-cases from wide area network ("WAN"), content delivery network ("CDN"), distributed denial-of-service ("DDoS") and increasingly moving into security with zero trust offerings related to virtual private network ("VPN"), remote browsing, data loss prevention ("DLP"), etc. Cloudflare competes in a $72 billion TAM industry across all of these, expected to grow to $100 billion by 2024.

In an ode to Clayton Christensen, Cloudflare has built its network from the ground up, disrupting the industry with a large customer base that utilizes its free offering. These 4 million free-offering customers provide two key competitive advantages, cheap marketing and product iteration. Cloudflare highlights several examples where CIOs and CTOs tinkered on their private blogs or projects and utilized Cloudflare to protect their website for free. The experience was so positive, they ended up porting Cloudflare into their respective companies for internal use. The larger advantage of these 4 million free customers relates to product iteration. Cloudflare protects many of the most obscure websites worldwide, where they see the widest range of new security threats. Constant iteration, while fending off these threats, dramatically improves security for paying customers. Cloudflare is also able to get 10-20k volunteers for beta testing of new features for every product release. This provides a wide testing ground for new products and has allowed Cloudflare to release 550+ new products in the prior year. It also was instrumental in building a new key product, Cloudflare Workers.

Portfolio Manager

Michael Parker, CFA, is the CIO of SWS and lead portfolio manager for the SWS Growth Equity strategy. Before joining SWS in 2017, Mike was a portfolio manager of $4 billion of long-only equity portfolios at the Ohio Public Employees Retirement System (OPERS). He leverages over nineteen years of experience on both the buy-side and sell-side to bring an institutional research and portfolio management framework to SWS Partners. Prior to OPERS, Mike was responsible for investment bank equity research at FBR Capital Markets. He received his Bachelor of Science in economics, finance concentration, from the Wharton School at the University of Pennsylvania and is a CFA® charterholder.

Portfolio Manager

Kurt Grove, CFA, is a portfolio manager for the SWS Growth Equity strategy. Before joining SWS in 2020, Kurt was an analyst on the internal active long-only US equity portfolios at Ohio Public Employees Retirement System (OPERS). He leverages over seven years of experience on the buy-side and in risk management to bring an institutional research and portfolio management framework to SWS Partners. Prior to OPERS, Kurt was responsible for Quantitative Risk Management at Key Bank. He received his Bachelor of Science in business administration, finance concentration, from the Fisher College of Business at The Ohio State University and is a CFA® charterholder.

Important Disclosures

Performance results and comparisons are made on a total-return basis, which include all income from dividends and interest, and realized and unrealized gains or losses. SWS Growth Equity returns are shown both gross and net of fees and are calculated by geometrically linking month-end market values of the strategy's inception cohort. Gross return excludes advisory fees paid to the firm. Net returns include the timeweighted deduction of the firm's maximum wrap fee (which includes both SWS's management fee and trading costs) and assume all cash flows occur at month-end.

Quarterly cohort analysis assumes capital inception at market close of each respective cohort's quarter, with geometrically-linked cumulative returns shown through 6/30/2021. Actual SWS Growth Equity investor cohorts may vary

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This investment strategy is subject to management risk such that no assurance may be given that the portfolio's value will be more than the original investment. The investment return and principal value of SWS Partners, LLC portfolios will fluctuate as the stock and bond markets fluctuate such that an investor's shares and/or portfolio value, when redeemed, may be worth more or less than their original cost.

This portfolio of individual equity and pass-through securities and our forward-looking statements or projections are subject to risks including but not limited to portfolio concentration risk, company-specific risk, regulatory risk, financial market risk, global economic risk, credit risk, interest rate risk, foreign market risk that may involve currency, political, and social risk.

Diversified portfolio strategies do not assure or guarantee better performance and do not eliminate the risk of investment losses. It should not be assumed that any security holding shown was or will be p rofitable. The portfolio's holdings and allocation are subject to change

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The Russell 1000 Growth Index is a market cap-weighted index of common stocks incorporated within the US and its territories and may not necessarily be substantially similar to your portfolio. It is not possible to invest directly in an index.

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This commentary has been prepared by SWS Partners, LLC ("SWS"), a registered investment adviser in the state of Ohio. If you would like a copy of SWS's disclosure brochure, please visit www.adviserinfo.sec.gov.

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