

Loftus Peak Global Change Portfolio

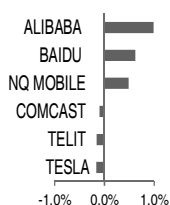
Monthly Investor Letter August 2016

The Loftus Peak Global Change Portfolio posted a manager estimated return* of +4.33% for August 2016, compared with a return of +1.22% for the Fund's benchmark, the MSCI AC World Net Total Return Index in Australian dollars

Performance drivers

The portfolio manager estimated return gross* of fees was +4.33%, which was +3.12% above the benchmark (MSCI AC World Net Total Return Index in Australian dollars). The benchmark returned +1.22% for the month. Since 30 June 2014 inception the portfolio is up +46.02%* vs +27.15% for the index, outperforming it by 18.87%. On an annualised basis, since inception, the portfolio is up +19.1% with outperformance of +7.4%

Portfolio Contributors/Detractors



Earnings season strength continued in August, with the Chinese companies really coming alive on good revenue numbers and expansion into services adjacent to their main businesses.

For example, Baidu rallied from a mid-year slump as investors got some visibility around the earnings impact of regulatory tightening in its online medical advertising space. Toward the end of the month there was news that it has approval to test its autonomous car in California, which brought its AI capabilities into focus. This technology is powering its push into voice search and e-commerce. Baidu has been investing heavily in this area for some time.

Alibaba posted the highest quarterly revenue growth since its float, with mobile monetisation exceeding PC for the first time. The acquisition of Lazada (shopping outside China) and Youku (video aggregator) meant some weakness in gross margin, but overall results for these newer bets was better than expected.

Tencent revenues were US\$5.4b, an increase of 52% year-on-year, an increase of 43% YoY in operating profit, which was powered by advertising and on-line payments growth.

Together the three Chinese companies added 2.1% to the portfolio.

We saw a little weakness in Comcast. The company's five-year revenue CAGR to 2015 was 14.5%, with EPS growth compounding at 19.8%. The market has been betting the company will de-rate on the cord-cutting cable tv story, but the bigger picture is the content/distribution integration, which has shown itself to be a powerful base from which to disrupt. The purchase of Dreamworks (US\$3b) is important, and is underlined by the announced acquisition by John Malone's Liberty of the Formula 1.

Tesla has been selling off because of concerns about self-driving car problems (and Baidu's entry into the US) as well as the decision to buy related company Solar City. We see the problem, but think mass-produced Teslas are an inevitability, with existing car makers increasingly challenged with respect to access to capital to fight it (GM PER multiple is already down to 4x, Ford is 5.6x).

Portfolio Construction

Around 84% of the fund was invested in 20 companies which the manager identified as likely out-performers. The Australian dollar decreased 1.0% against the US\$, which helped our holdings which are denominated in foreign currencies including the greenback.

Learn More

For the latest on investment in global change and disruption, see us in the Australian Financial Review or the Sydney Morning Herald, or on Livewire or visit us at www.loftuspeak.com.au or email alexpollak@loftuspeak.com.au.

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*Returns calculated by the manager based on portfolio valuations provided by Mason Stevens Limited before management and performance fees. The returns quoted in this monthly report may differ from the returns determined by Mason Stevens.