

# Loftus Peak Global Change Portfolio

## Monthly Investor Letter February 2016

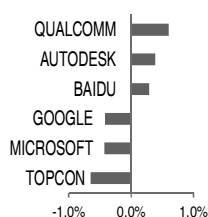
The Loftus Peak Global Change Portfolio posted a manager estimated return\* of 0.0% for February 2016, compared with a return of -1.7% for the Fund's benchmark, the MSCI AC World Net Total Return Index in A\$

### Performance

The portfolio manager estimated return gross\* of fees was 0.0%, which was +1.7% above the benchmark (MSCI AC World Net Total Return Index in Australian dollars). The benchmark returned -1.7% for the month. Since inception the portfolio is up +29.7\* vs 17.8% for the index, outperforming it by 11.9%.

Many of our companies enjoyed a solid bounce this month, which has continued into March. For example, Google (Alphabet) at one stage in February was down more than 10%, but recovered to finish the month down 5.8% (from which point it has further improved).

### Portfolio Contributors/Detractors



Google's numbers were frankly spectacular - revenue in Q4 grew 18% on pcp (24% in constant currency) to US\$21b. Operating profit (including moonshot losses) was up 25% to US\$5.7b. But adding back the moonshot losses, profit was \$6.7b, up 55%. This is huge growth in an already huge company. It also suggests a profit margin on the incremental revenue of over 50% - ie US\$2b of EBITDA on an incremental US\$4b of revenue. Predictably, the stock has bounced,

Baidu (China's version of Google) is also executing extremely well - fourth quarter revenue grew 33%, with forecast revenue growth of 27%-33% for 2016 year.

Adjusting for businesses to be sold, and backing out the forecast RMB 18b loss for the fast growing on-line to off-line commerce (ie delivering revenue and customers to businesses which traditionally don't have an on-line presence, such as restaurants) gives an underlying stock PER of 12x. Baidu holds a solid 5%+ position in our portfolio. Our two other big Chinese positions, Alibaba and Tencent, which also take advantage of the shift to consumer, are also now in the top five holdings.

There is no doubt that China is experiencing some pains as it attempts to shift out of "zombie" companies (as Premier Li Keqiang refers to the unproductive state owned enterprises) and into the new economy. This makes stock selection even more important, and we believe our portfolio is well-placed in these companies.

Company	% of Portfolio
APPLE	10.0%
ALPHABET	6.0%
BAIDU	5.5%
TENCENT	5.5%
BABA	5.3%

The Australian dollar increased +0.9% against the US\$, which hurt our holdings which are denominated in foreign currencies.

### Learn More

For the latest on investment in global change and disruption, including our commentary in the Sydney Morning Herald, Financial Review, BRW, Sky Business, Livewire, and on 2GB, visit us at [www.loftuspeak.com.au](http://www.loftuspeak.com.au) or email [alexpollak@loftuspeak.com.au](mailto: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.