

Chanticleer

For crowing there was not his equal in all the land...



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Loftus cashes in on Snowden leaks

Revelations by former spy Edward Snowden about the close links between the United States National Security Agency and US technology companies prompted one of the first investments by Australia's newest technology investment team.

Alex Pollak and Paul Davis, the founding partners of Loftus Peak, reckon Snowden's destruction of community trust in US technology companies opens up enormous investment opportunities.

The idea that business and individual trust in US technology stocks is broken is not new. John Chambers, the chief executive of Cisco Systems, which supplies internet routers, this week warned the internet was "the wild, wild west" and "anything goes" for spy agencies.

Pollak and Davis differ in their response by trying to see who will benefit from the NSA-induced disruption. Their "Snowden response" was to invest in a Finnish data security company called F-Secure. It is trying to capitalise on the shift to cloud-based security while taking a stand for individual privacy and digital freedom.

Pollak says unlike many US security companies, F-Secure won't be providing a back door entry to its servers for NSA officials demanding data. That will be a very strong selling point for a company that can sell its services globally.

This example sums up the investment philosophy behind the Loftus Peak Global Change Model Portfolio is aimed at "sophisticated" investors, ie anyone with net assets of \$2.5 million.

Pollak is drawing on 20 years of experience as an analyst and executive director at Macquarie Group where he was the lead analyst for two highly disruptive stocks, SEEK and Carsales.com.

Davis is a technology specialist who secured his disruptive credentials by founding online broker ETrade then selling it to ANZ Banking Group for \$400 million.

Along with Ashley Young, Davis managed the ASX listed Technology Investment Fund from 1999 to 2010. It delivered an excess return over its benchmark of 11 per cent per annum.

There are some unique aspects to the Loftus Peak business model not the least of which is the willingness of the fund



Alex Pollak outside his offices in Sydney on Friday. PHOTO: CHRIS PEARCE

Loftus Peak is trying to capitalise on the shift to cloud-based security while taking a stand for individual privacy and digital freedom.

managers to share all of their ruminations and technology thought bubbles about global technology trends.

Investors in the Loftus Peak investment portfolio, and anyone else for that matter, can follow the conversation through a Google drive community.

The online conversation between Pollak, Davis, Young and portfolio manager Anshu Sharma combines a mix of insightful and eclectic observations about events that may provide clues to the next wave of technology disruption.

The team combines the wisdom of experience with sound financial analysis although Davis has managed to convince Pollak that the traditional broking analyst's approach to financial analysis is flawed.

Instead of feeding numbers into a model to arrive at a conclusion that was desired right from the start, the Loftus Peak team takes the numbers of today and feeds them into a global thematic about disruptive change.

The Loftus approach recognises that the vanilla earnings forecast is fundamentally flawed. It fails to take account of the digital forces that are changing entire industries.

A unique feature of the investment

portfolio structure used by Loftus Peak is that each customer has an individually managed account. The shares picked and purchased by the fund manager are actually held in the name of each investor.

Each managed account is administered by Mason Stevens, a boutique Australian company chaired by former Westpac chief financial officer Pat Handley. The custodian is HSBC.

The initial stock portfolio is split about 80 per cent in big name global technology companies and about 20 per cent in the smaller disruptive tech stocks such as F-Secure.

It will typically hold about 10 to 30 investments and may move to 50 per cent cash from time to time.

Early investors in the fund include Apple, Google and Amazon.

Pollak says it is amazing that Apple is trading at only six times earnings before interest, tax, depreciation and amortisation. Compare that to the forward earnings multiple for the Australian market of about 15.

Pollak says Amazon is becoming the world powerhouse of retail and is challenging the supremacy of US retailer Walmart.

He says Amazon's sales in 2013 were \$US74 billion (\$80 billion) which looks smaller than Walmart's at first glance, since Walmart is about \$US450 billion.

However, independent analysis shows the inclusion of third party sales in the Amazon revenue numbers virtually doubles the quarterly sales to \$US47 billion, which annualised is almost \$US200 billion. While that is still less than half of Walmart, it is growing much faster.

Google is attractive to Loftus Peak because of its power and its reach, characteristics highlighted in a recent letter to Google executive chairman Eric Schmidt by the chief executive of Axel Springer, Mathias Döpfner.

That letter is worth reading for its warnings about the power of a company that is now one of the top 10 in the world by value but did not exist 10 years ago.

Pollak says Loftus Peak wants to find the companies that will prosper from disruption in communications, health sciences, robotics and big data.

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Companies index

| | |
|-----------------------------|----------------|
| AMP..... | 41 |
| Air NZ..... | 37 |
| Ansell..... | 28 |
| Asciano..... | 41 |
| Atlas Iron..... | 28, 36 |
| BC Iron..... | 28 |
| BHP Billiton..... | 27, 28, 36, 40 |
| Bradken..... | 28 |
| Carsales.com..... | 56 |
| CBA..... | 28 |
| Downer EDI..... | 41 |
| Echo Entertainment..... | 41 |
| Fortescue..... | 28, 36 |
| Foster's Group..... | 19 |
| Harvey Norman..... | 28 |
| Henderson Group..... | 41 |
| liNet..... | 27 |
| Leighton Holdings..... | 41 |
| Moly Mines..... | 3 |
| Monadelphous Group..... | 41 |
| Origin Energy..... | 35, 41 |
| Premier Investments..... | 28 |
| Qantas..... | 6, 36, 37, 41 |
| Rio Tinto..... | 28 |
| SEEK..... | 22, 28, 56 |
| Santos..... | 5 |
| Spotless Group..... | 35 |
| Sundance Resources..... | 3 |
| Super Retail..... | 28 |
| TPG Telecom..... | 28 |
| Telstra..... | 13, 37 |
| Treasury Wine..... | 36, 41 |
| Virgin Australia..... | 6, 37 |
| Visy Industries..... | 8 |
| Wesfarmers..... | 8, 27 |
| Westfield Group..... | 39 |
| Westfield Retail Trust..... | 39 |
| Woolworths..... | 28 |

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THE BOTTOM LINE

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Join host and CPA Australia Chief Executive Alex Malley for an insightful conversation with advisor to President Obama, Andrew Liveris.




SATURDAYS 4.00 PM