

Loftus Peak Global Change Portfolio

Investing | Future Focused



January 2022

Founded in 2014, Loftus Peak is a global fund manager with a focus on investment in listed disruptive businesses. Our extensive experience means we bring significant discipline to the process. Holdings include large capitalisation names like Apple, Alphabet (Google) and Alibaba, as well as many others that we expect to be household names in the future, such as Roku and Qualcomm. This approach to investment across a wide range of industries globally lowers the concentration risk inherent in the typical Australian portfolio, with its heavy skew toward banks, resources and the Australian dollar.

Review and Performance*

It was a volatile start to the year 2022. The Portfolio's net-of-fees performance of -6.9% for the month and underperformance of -4.9% relative to the benchmark, the MSCI All Countries World Index in Australian dollars (which was down -2.0%). Since the Portfolio's inception in 2014, it has returned +19.8% net-of-fees p.a., outperformance of +6.5% p.a. The volatility was a direct result of the US Federal Reserve moving to squeeze inflation out of the economy, so reducing its bond buying process and flagging higher interest rates. In turn, the market began selling out of names with 'growth' characteristics. For some of these companies this was probably the right decision, but we also believe there are many that have been sold off unfairly, without a proper interrogation of fundamentals or the underlying long-term secular themes powering their growth. We have seen this before: markets often have knee-jerk reactions to new information and take time – along with a couple of rounds of earnings – to properly assess the impact to companies. We believe we are still at the early stages of this process and that there is likely more volatility ahead, but that quality companies riding secular tailwinds are the safest place to be over the medium- to long-term. Some cash was raised towards month end by taking profits in companies whose share prices had responded positively to strong earnings results.

	1m	3m	6m	1y	3y p.a.	5y p.a.	Inception p.a.
Portfolio (gross-of-fees)	-6.75%	+1.25%	-0.94%	+7.63%	+28.11%	+24.84%	+22.75%
Benchmark	-2.02%	+2.65%	+3.66%	+22.55%	+16.55%	+14.22%	+13.25%
Outperformance (gross-of-fees)	-4.74%	-1.40%	-4.60%	-14.92%	+11.56%	+10.62%	+9.51%
Portfolio (net-of-fees)	-6.86%	+0.92%	-1.58%	+6.24%	+24.63%	+21.54%	+19.79%

*Manager estimated returns. The Portfolio Benchmark is the MSCI ACWI (net) (as expressed in AUD from Bloomberg). Portfolio Inception date is 30/06/14. All returns are shown to two decimal places. Returns for periods of more than one year are annualised. Total returns include realised and unrealised gains. Valuations are computed and performance reported in Australian dollars. Gross-of-fees performance returns are presented before management and performance fees but after all trading expenses. Net-of-fees performance returns are presented after management and performance fees. Returns are based on the theoretical performance of a portfolio which implemented the Model Portfolio based on simplifying assumptions and stock weightings. Actual individual returns of each client's portfolio will differ depending on factors such as date of initial investment, timing of transactions, contributions and withdrawals, fees and any customisations. Past performance is not a reliable indicator of future performance and may not be achieved in the future. Each client should also take into account their own taxation situations. All information provided in this Report is correct as at the date of this Report.

Contributors and Detractors to Return

Positive contributors were thin on the ground, with the best of them being agricultural equipment maker **John Deere**, **Volkswagen**, **Nvidia** and **Taiwan Semiconductor**, which together added a total of +0.6%.

The rest of the portfolio was in solid negative territory. **Netflix** and **AMD** were both weaker for the month, cutting a combined -2.1% from return. Netflix's fall was something of a shock – the company had been sold down by over 40% with the only new data point a slightly more muted outlook for subscriber growth, which in any case is rarely smooth. Programming, competition, the macro environment and of course consumer tastes can all lead to lumpy customer acquisition. Interestingly, hedge fund Pershing Square opportunistically acquired 3.1m shares of Netflix just after the price dropped 20% to the US\$400 mark.

AMD, a company just now coming into its own against Intel, also had a bad month, hit by the prospect of higher interest rates. But its position as a significant challenger in the data centre market has already borne fruit – revenue growth in this category was up 100%.

Key Facts

Inception Date	30 June 2014
Strategy FUM (AUD)	\$243 million
Product Type	Managed Discretionary Account
Product Sponsor	Mason Stevens Limited
Benchmark	MSCI ACWI (net) (as expressed in AUD from Bloomberg)
No. of Investments	10-35
Minimum Cash Allocation	2%
Maximum Cash Allocation	50%
Maximum weighting per investment	20% at time of purchase
Minimum Investment	AU\$150,000
Liquidity	Daily
Suggested timeframe	3-5 years

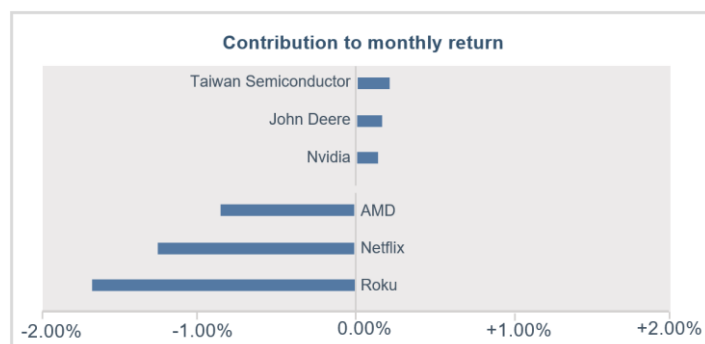
Fees

Management Cost	1.00% p.a. (inc. GST) calculated daily and charged monthly in arrears
Administration and Custody Fee	0.275% p.a. calculated daily and charged monthly in arrears. A lower fee applies for investments above \$1 million.
Performance Fee	15% of excess returns over the benchmark return
Transaction Cost	0.55% of the value of the transaction

Roku was the biggest detractor in January cutting over -1.6% from the value of the portfolio. The company has been caught in the interest rate hike/inflation downdraft. We have spent considerable time re-examining the company from a strategic and financial perspective. Strategically the company is in a very strong position, with close to 50 million active accounts in the US alone. Only YouTube has a larger advertising-funded streaming business in the US, and its content is not predominantly traditional long-form programming – i.e. TV shows and movies as commonly understood. Roku is important because as content moves to streaming over broadband the data provided by the viewer's use of the Roku platform enables more effective recommendations (better engagement) and more effective advertising. For example, where a local TV station broadcasting in its local area to a local viewer would know the weather that day (say cold), Roku viewers may be streaming from somewhere distant, meaning different relevant advertising (say, hoodies) would be inserted. In terms of the numbers, Roku has around US\$2b cash and cash equivalents and is generating small positive annual cash flows which in the past three years have totalled US\$510m. It is well-capitalised to execute on its growth plan.

The Australian dollar depreciated -2.7% over the month against the US dollar, which meant the value of the Portfolio's US dollar positions increased. As at 31 January 2022, the Portfolio carried a foreign currency exposure of 99.6%.

Selected Contributors and Detractors



Portfolio Construction

At January month end, the Portfolio was 93% invested in 27 holdings with the balance in cash.

Top Holdings	Capitalisation USD	
Qualcomm	Mega Cap > \$100b	72.8%
Amazon	Large Cap \$50-100b	5.4%
Alphabet	Mid Cap \$2-50b	14.8%
Microsoft	Small Cap < \$2b	0.0%
Roku		

The Team



Alex Pollak CIO and Founder

With 25 years' experience in disruptive business models gained during a career with Macquarie Bank, Alex heads one of the best-performing teams in global listed disruptive business investment in Australia.

He was instrumental in bringing both Seek and Carsales.com to the Australian stock market. He has a deep knowledge of investment and global change companies.



Anshu Sharma Portfolio Manager and Founder

Anshu started his career in global disruption investment almost a decade ago at TechInvest. This was followed by Portfolio Manager and Technology Analyst responsibilities for the Asia region at Eight Investment Partners.

Being mentored by the best in this space early on in his career and having extensively travelled in Asia to meet hundreds of companies, Anshu brings a wealth of experience to investing globally.



Rick Steele CEO

Drawing on more than 30 years in funds management and government Rick is the CEO of Loftus Peak. After a successful career in the Australian Treasury, Rick held senior positions in a number of funds management firms in Australia, including BT Funds Management.

Rick is also Chairman of CitizenBlue, an impact enterprise operating a container recycling service for its environmental members.

How can investors access Loftus Peak's global equity disruption capability?

Investors may access Loftus Peak's global equity disruption capability in two ways:

- For **all** investors, the [Loftus Peak Global Disruption Fund](#), which is a unit trust; or
- For **sophisticated** investors, the [Loftus Peak Global Change Portfolio](#), which is a managed discretionary account.

While offered by way of two different legal structures, the two products are managed according to the same underlying investment objective and carry similar portfolio holdings. The main difference between the two products is that the Fund has a greater capacity to hedge market and currency exposure.

If you are uncertain as to which product is appropriate for you, we suggest you speak with your financial adviser or contact us directly at enquiry@loftuspeak.com.au.

IMPORTANT INFORMATION:

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Loftus Peak Pty Limited ABN 84 167 859 332 AFSL 503 571