Loftus Peak
Global Change Portfolio

Investing | Future Focused

Loftus Peak

August 2022 Update

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. Our Portfolio comprises some of the best and fastest-growing companies in the world – companies that we believe are driving change across all industries globally, constructed on the basis of strict criteria at carefully determined valuations. Holdings include large capitalisation names like Apple and Google (Alphabet), 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*

This month's bogey was European inflation, which was up to 9.1% for the twelve months to August, so still increasing. Energy and food prices drove this rise, courtesy of the Russian invasion of Ukraine, the result of which is that US interest rates will remain higher for longer.

August saw a reduction in cash exposure and an increase in the Portfolio's position into high quality names. During the month the Portfolio fell -3.4% (net-of-fees) in absolute terms with underperformance of -1.3% (net-of-fees) relative to the benchmark MSCI All Countries World Index (net) (as expressed in AUD from Bloomberg) which was down -2.0%.

	1m	3m	6m	1y	3y p.a.	5y p.a.	8y p.a.	Inception p.a.
Portfolio (gross-of-fees)	-3.27%	-1.30%	-14.14%	-21.63%	+13.40%	+15.85%	+17.42%	+17.85%
Benchmark	-1.97%	-1.09%	-6.08%	-10.30%	+7.35%	+10.13%	+10.64%	+10.67%
Outperformance (gross-of-fees)	-1.30%	-0.21%	-8.06%	-11.33%	+6.05%	+5.73%	+6.78%	+7.18%
Portfolio (net-of-fees)	-3.37%	-1.63%	-14.72%	-22.66%	+10.32%	+13.03%	+14.66%	+15.10%

*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.

Since the Portfolio's inception it has returned +15.1% p.a. (net-of-fees), outperformance of +4.4% p.a. (net-of-fees) This outperformance is the outworking of a process that seeks to identify and analyse changes impacting global business using a framework that properly values those changes.

Contributors and Detractors to Return

The large capitalisation companies were the hardest hit in August, with **Qualcomm, Nvidia, Microsoft, Amazon** and **Alphabet** collectively cutting -2.4% from the value of the portfolio, which was in sum down -3.4% (net-of-fees). They were all hurt in the general sell-off, but remain among the strongest and attractively valued companies on the global market, having developed a range of important platforms which are accessed daily by tens of millions of customers, whether in the office, through the datacentre or via smartphones. We used the weakness to increase our holdings to these companies.

Positives for the month were Roku**, Volkswagen, On Semiconductor** and **Arista Networks** which together added +0.6% to portfolio value. Two of these, On and VW, are players in the emerging electric car architecture. We believe that VW will be a larger producer of electric vehicles than Tesla during 2023-24, while the holding in On Semiconductor is related to the necessary conversion of power into different modes whether in the car or the home.

The Portfolio's subscription video on demand holding, **Netflix**, ended the month flat after a number of turbulent months throughout this year. Netflix has recently announced plans to launch an ad-supported tier to its platform to target the more cost-conscious consumers. These may be either consumers who have never had a Netflix subscription due to the price, or those it lost earlier in the year when the price of a subscription was increased. Advertisers have long sought to connect with Netflix's subscriber base with ad customers reportedly looking to pay premium prices for access.

Key Facts

Inception Date	30 June 2014
Strategy FUM (AUD)	$186 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

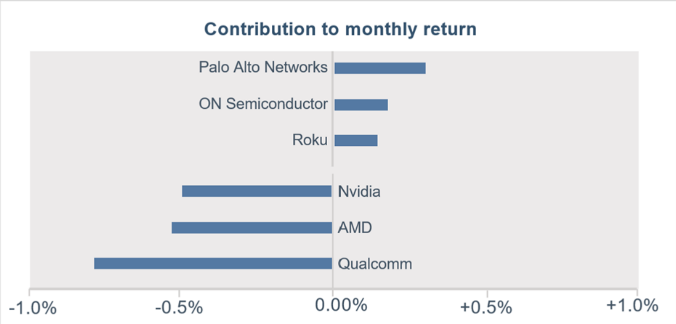
Recent data from LightShed Partners distils the Netflix value proposition with one measure – trailing twelve-month earnings before interest, tax, depreciation and amortisation (EBITDA). Netflix generated EBITDA per subscriber of US$28, while other streaming services generated losses per subscriber.

This is important because it shows that amongst these providers, only Netflix has a profitable business. Notably, streamers from legacy media companies like Comcast (Peacock) and Warner Bros Discovery struggle to match the profitability of Netflix given their existing clumsy legacy businesses and the costs associated with the transition to streaming. Compounding this are the lost revenues from subscribers switching from pay TV, which generate over $100 per month, to a much cheaper streaming option. Netflix doesn't have this problem. Even Disney, which is frequently cited as the legacy player most likely to be successful in streaming, is running at an EBITDA loss.

The writing is clearly on the wall for the legacy media players with pay TV products – cable bundle providers Altice, Charter, Comcast and Verizon are losing subscribers at a rapid pace because the service provided by streamers is accessible from anywhere with an internet connection, more functional, cheaper and overall a better experience.

The Australian dollar depreciated -1.8% over the month against the US dollar, which meant the value of the Portfolio's US dollar positions increased. As at 31 August 2022, the Portfolio carried a foreign currency exposure of 98.6%

Selected Contributors and Detractors



Portfolio Construction

At August month end, the Portfolio was 93.6% invested in 27 holdings with the balance in cash.

Top Holdings (in alphabetical order)	
Alphabet	Netflix
Amazon	ON Semiconductor
AMD	Qualcomm
Apple	Roku
Microsoft	Taiwan Semiconductor

Capitalisation USD	
Mega Cap > $100b	64.4%
Large Cap $50-100b	13.5%
Mid Cap $2-50b	15.7%
Small Cap < $2b	0.0%

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 as an analyst in global disruption investment more than 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?

All investors, both retail and sophisticated*, may access Loftus Peak's global equity disruption capability by investing in the Loftus Peak Global Disruption Fund or the Loftus Peak Global Disruption Fund (Hedged), which are unit trusts. As the name suggests, the hedged class of the Fund seeks to substantially hedge the foreign currency exposure arising from investments in overseas markets back to Australian dollars. Sophisticated investors may also invest by way of the Loftus Peak Global Change Portfolio (LPGCP) which is a managed discretionary account. The minimum account size for investments in the Portfolio is $150,000.

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.