

Loftus Peak Global Disruption Fund

Investing | Future Focused



Research Ratings:



Lonsec Research
- Investment Grade



SQM Research
- 4.25 Stars



Zenith Investment Partners
- Approved

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 Australian Securities Exchange listed Fund (**ASX code: LPGD**) 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 and included 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 AMD and Qualcomm. This approach to investment across a wide range of global industries 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 Fund's position into high quality names. During the month the Fund underperformed against the benchmark MSCI All Countries World Index (net, as expressed in AUD from Bloomberg) by -1.3%. The contrast with July was stark – the Fund returned +9.9% for that month. Since inception, the Fund has returned an annualised +16.7% p.a. with outperformance of +5.6% p.a.

	1m	3m	6m	1y	3y p.a.	5y p.a.	Inception p.a.
Loftus Peak (Net) ¹	-3.27%	-1.00%	-13.32%	-20.57%	+11.98%	+14.45%	+16.67%
Benchmark ²	-1.97%	-1.09%	-6.08%	-10.30%	+7.35%	+10.13%	+11.06%
Outperformance (Net) ³	-1.31%	+0.09%	-7.24%	-10.27%	+4.63%	+4.33%	+5.61%

Past performance is not a reliable indicator of future performance.

Source: Loftus Peak, MSCI

¹ Net-of-fees performance for the Loftus Peak Global Disruption Fund is based on end-of-month redemption prices after the deduction of fees and expenses and the reinvestment of all distributions. Investment return and the principal value fluctuate, so your units, when sold, may be worth more or less than the original cost. For further details, please refer to the Fund's product disclosure statement.

² The benchmark for the Fund is the MSCI All Countries World Index (net) as expressed in AUD from Bloomberg.

³ Outperformance is shown as the Loftus Peak (Net) minus the benchmark.

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 -3.3%. 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 Fund's subscription video on demand holdings, **Netflix** and **Roku**, 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.

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.

Key Facts

Inception Date	15 November 2016
ASX Code APIR Code	LPGD MMCO110AU
Fund FUM (AUD)	\$173 million
Strategy FUM (AUD)	\$186 million
Product Type	Registered Managed Investment Scheme domiciled in Australia
Responsible Entity	Equity Trustees Limited
Investment Universe	Listed Global Equities
Benchmark	MSCI All Countries World Index (net) (as expressed in AUD from Bloomberg)
Carbon Intensity ¹	<p>54% less carbon intensive than benchmark: tCO2e/Mil USD</p> <p>87.8 (LPGD) 189.9 (benchmark)</p> <p>No exposure to companies involved in fossil fuel extraction, generation and related products and services.</p>
No. of Investments	15-35
Minimum Cash	1%
Maximum Cash	50%
Suggested time frame	3-5 years
Minimum Investment ²	\$5,000
Additional Investment via BPAY	<p>BPAY® Biller Code: 349845 Customer Reference Number (CRN): generated after initial application.</p> <p><i>Please note that BPAY® is not available for purchasing units on the ASX.</i></p>
Pricing Frequency	Daily
Withdrawal Notice	Generally, notice received by 2pm receives price effective for that business day.
Research Ratings (Lonsec, SQM, Zenith)	Click Lonsec, SQM or Zenith logo on our website to request a copy.

¹ Source: Sustainalytics as at 31 August 2022.

² No minimum investment for units purchased on the ASX

Fees

Distributions	Paid annually as at 30 June
Annual Management Costs	1.20% per annum (inc. GST)
Performance	15% in excess of the hurdle return with a high watermark payable six monthly as at 30 June and 31 December each year

Unit Prices

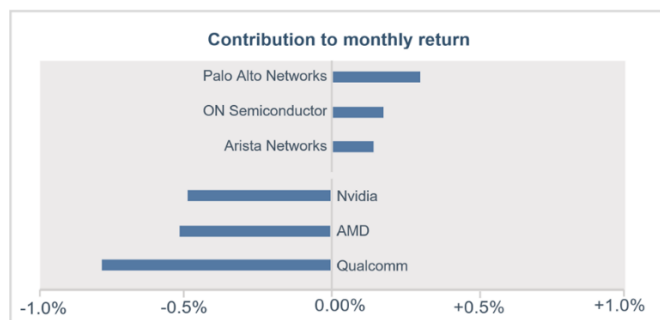
Date	31 August 2022
Entry Price (in AUD)	2.5982
Exit Price (in AUD)	2.5852

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 Fund's US dollar positions increased. As at 31 August 2022, the Fund carried a foreign currency exposure of 95.4%.

Selected Contributors and Detractors



Portfolio Construction

At August month end, the Fund was 95.7% invested in 27 holdings with the balance in cash exposure. The Fund has a high exposure to large capitalisation names which are highly cash generative with strong balance sheets. Focusing on high quality companies helps the Fund to withstand difficult periods in the market and drive strong, long-term outcomes for the Fund.

Top 10 Holdings (in alphabetical order)	
Alphabet	Netflix
Amazon	ON Semiconductor
AMD	Qualcomm
Apple	Roku
Microsoft	Taiwan Semiconductor

Capitalisation USD	
Mega Cap > \$100b	65.5%
Large Cap \$50-100b	14.1%
Mid Cap \$2-50b	16.1%
Small Cap < \$2b	0.0%

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The Loftus Peak Global Disruption Fund's Target Market Determination is available at <http://www.loftuspeak.com.au> in the downloads tab. It describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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 investment management in Australia.

He was instrumental in bringing both Seek and Carsales.com to the Australian stock market. He has a deep understanding of the mechanisms through which disruption changes business models and the impact it has on company valuation.

Anshu Sharma Portfolio Manager and Founder



Anshu started his career as an analyst in global disruption investment more than a decade ago. 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 financial services firms in Australia, including more than a decade at BT Funds Management.

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

Visit www.loftuspeak.com.au to find more commentary, including Fund performance.

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