

Loftus Peak Global Change Portfolio

Investing | Future Focused



October 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*

Earnings season kicked off in October with investors closely monitoring results for clues on how the Federal Reserve's aggressive interest rate tightening has impacted corporate America. **Netflix** and **Arista Networks** delivered earnings which trumped these macroeconomic headwinds, while **Amazon** and **Alphabet (Google)** didn't. The labour market, which is often used as a barometer for the health of the economy, continued to show strength, even as the benchmark Fed Funds Rate topped 3.25%.

Geopolitics was also front-of-mind with Xi Jinping moving to consolidate his power within the Chinese Communist Party, stacking the Politburo with loyalists and anointing himself for a third Presidential term. Chinese companies fell after the announcement given Xi's hostility to domestic internet firms and continuing COVID-zero policies which stifle economic growth.

The Portfolio closed out the month up +3.0% in absolute terms (net-of-fees) with underperformance of -3.6% relative to the benchmark MSCI All Countries World Index (net) as expressed in AUD from Bloomberg (which was up +6.6%).

	1m	3m	6m	1y	3y p.a.	5y p.a.	8y p.a.	Inception p.a.
Portfolio (gross-of-fees)	+3.07%	-7.26%	-5.85%	-21.58%	+11.79%	+12.73%	+16.13%	+16.87%
Benchmark	+6.60%	+0.76%	+0.32%	-6.00%	+7.47%	+9.11%	+10.55%	+10.81%
Outperformance (gross-of-fees)	-3.53%	-8.02%	-6.17%	-15.57%	+4.32%	+3.62%	+5.58%	+6.06%
Portfolio (net-of-fees)	+2.96%	-7.58%	-6.49%	-22.62%	+8.74%	+9.98%	+13.39%	+14.16%

*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 +14.2% p.a. net-of-fees, outperformance of +3.4% p.a. 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. We invest in companies profiting from the shift to streamed entertainment, for example, as well as the efficiencies relating to ecommerce and the movement of information technology to the cloud.

Contributors and Detractors to Return

Netflix was the Portfolio's top performer for the month, increasing Portfolio value by +1.3% after it delivered earnings which beat market expectations. Importantly, the streamer reported the addition of 2.4 million net global subscribers, doubling their projection from a quarter ago and shaking off the past two quarters of lacklustre subscriber figures. Most of this subscriber growth came from the Asia-Pacific region, accounting for 1.4 million subscribers with the US and Canada adding just 100,000.

Over the past five years, the company has made a co-ordinated effort to increase its appeal to non-US customers with the development of local (i.e., non-US) content for which it is now being rewarded with new subscribers joining the platform.

Key Facts

Inception Date	30 June 2014
Strategy FUM (AUD)	\$176 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

During the earnings call, management also discussed its new ad-supported tier and the plan to crack down on password sharing – two measures aimed at improving monetisation.

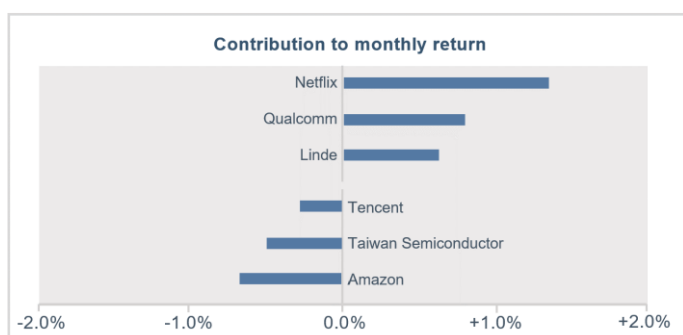
One of our long-time holdings, **Amazon**, cut -0.7% from Portfolio value in October after its earnings failed to satisfy markets. Investors were troubled by slowing growth (15% year-over-year), a weak guide and the absence of serious enough efforts to cut costs (and drive profitability) given the macroeconomic backdrop.

Many in the media were quick to pile on the company, using the falling share price (down -40% year-to-date) and slowing growth to suggest it's the end of an era, but we're a little more optimistic. Firstly, there is a large foreign exchange component that is negatively impacting the company's growth rates – on a constant currency basis Amazon grew revenues 19% year-over-year. And these growth rates are being achieved on top of already elevated levels brought about by the pandemic. Some level of normalisation was in order, and in any case pandemic-era revenue is sticking (and still growing). Finally, the secular trends driving Amazon's growth remain in their early innings – e-commerce penetration sits at just above 20% in the US and IT (and increasingly non-IT) services continue to move to the cloud.

In volatile times, it is crucial to disentangle structural (disruptive) forces from cyclical (macroeconomic) ones, because business cycles come and go, but disruption can drive value over multiple decades.

The Australian dollar depreciated -1.3% over the month against the US dollar, which meant the value of the Portfolio's US dollar positions increased. As at 31 October 2022, the Portfolio carried a foreign currency exposure of 99.8%

Selected Contributors and Detractors



Portfolio Construction

At October month end, the Portfolio was 95.1% 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	63.4%
Large Cap \$50-100b	12.5%
Mid Cap \$2-50b	19.2%
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.

IMPORTANT INFORMATION:

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

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