

Loftus Peak Global Disruption Fund (Hedged)

Investing | Future Focused



Research Rating:



November 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. The Loftus Peak Global Disruption Fund (Hedged) ("Fund") 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 and resources. It is our intention to substantially hedge the capital component of the foreign currency exposure of the Fund arising from investments in overseas markets back to Australian dollars.

Review and Performance

November saw two significant events, both related to expectations of slower interest rate rises, which together lifted Loftus Peak investor portfolios by +8.4% net-of-fees for the month, with outperformance of +2.4% relative to the Benchmark. Since inception, the Fund has generated +2.2% net-of-fees which is -3.5% underperformance against the Benchmark.

The first of these two events was a lower-than-expected 0.4% month-on-month US CPI increase for October which implied a less aggressive series of future rate rises, while the second was the explicit comment by Federal Reserve Chairman Jerome Powell who said last week that if the "promising" inflation numbers continued "the time for moderating the pace of rate increases may come as soon as the December meeting."

More broadly we do not see these big market moves as reflecting a re-rating of companies in the portfolio based on the prospects of the underlying businesses, but instead as a recovery from oversold positions on the expectation of a more favourable trajectory for interest rates. Even the narrowly based Dow Jones, with only 30 stocks, was up +20% from its September low - enough to state that on the numbers, this index is in a bull market.

	1m	3m	6m	1y	3y p.a.	5y p.a.	Inception
Loftus Peak (Net) ¹	+8.43%	-3.43%	-	-	-	-	+2.22%
Benchmark	+6.06%	+2.43%	-	-	-	-	+5.74%
Outperformance (Net) ²	+2.37%	-5.86%	-	-	-	-	-3.52%

Past performance is not a reliable indicator of future performance.
Source: Loftus Peak, MSCI

¹ Net-of-fees performance for the Fund is based on end-of-month unit 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 Outperformance is shown as the Loftus Peak (Net) minus the Benchmark.

Contributors and Detractors to Return⁴

The largest contribution came from our semiconductor holdings, with **AMD** adding +1.5% to portfolio value. Temporary weakness in the company's consumer-facing PC business is being offset by structural market share gains against Intel in the datacentre (the segment was up +45% year-over-year). **Taiwan Semiconductor Manufacturing Company** (TSMC) generated +1.2% most of which came after Warren Buffett was revealed as a significant buyer and against the backdrop of the geopolitics around China and Taiwan. **Qualcomm** also ended strongly adding +0.5%. The dominant narrative across the semiconductor industry has been that chips are entering a cyclical downturn with revenues and earnings expected to fall as the industry enters a post-pandemic supply glut. It is true that some end-user markets, like smartphones and PCs, are experiencing headwinds due to inflation and recessionary pressures, but the countervailing factor is that the scope of applications for semiconductors continues to expand very significantly. We believe it is this latter point that will drive values higher over time.

Key Facts

Inception Date	1 July 2022
APIR Code	ETL9930AU
Strategy FUM (AUD)	\$190 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 dividends reinvested) hedged to Australian dollars
Carbon Intensity ^{3,4}	53% less carbon intensive than benchmark: tCO2e/Mil USD 92.4 (LPGD) 195.9 (benchmark) No exposure to companies involved in fossil fuel extraction, generation and related products and services.
No. of Investments	15-35
Minimum Cash	1%
Maximum Cash	20%
Suggested time frame	3-5 years
Minimum Investment ²	\$5,000
Pricing Frequency	Daily
Withdrawal Notice	Generally, notice received by 2pm (Sydney time) receives the price effective for that business day.
Research Rating (SQM)	Click the SQM logo on our website to request a copy.

³ Source: Sustainalytics as at 30 November 2022.

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

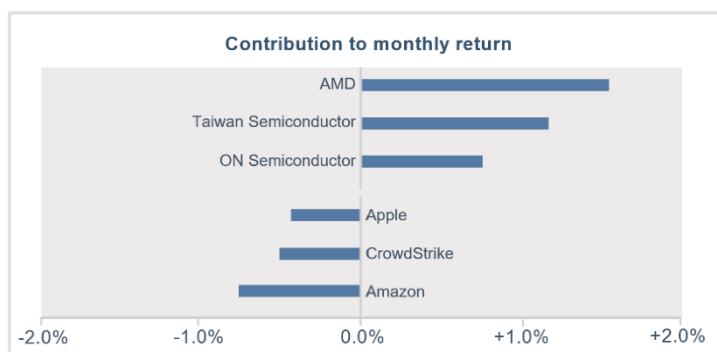
Unit Prices

Date	30 November 2022
Entry Price (in AUD)	1.0248
Exit Price (in AUD)	1.0196

The worst performers were **Amazon, CrowdStrike** and **Apple** which together cut -1.7% from Fund value, with Apple falling on concerns about high-end iPhone production delays as a result of the COVID lockdowns in China. We do not view this as lost demand, but rather delayed demand. In any case, the company is taking significant steps to relocate production and assembly to Vietnam, India and the US.

Elsewhere **Netflix** is doing much better. Streaming is disrupting the way TV is consumed and further changes are imminent - it is likely that within ten years all TV will be streamed. However, it is a scale game, and Netflix only generated positive operating cashflow in 2020 once it exceeded 175 million subscribers. The company is now comfortably profitable, unlike many of its competitors which are struggling to build scale.

Selected Contributors and Detractors⁴



Portfolio Construction⁴

At November month end, the Fund was 95.0% invested in 28 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)		Capitalisation USD	
Alphabet	Netflix	Mega Cap > \$100b	69.0%
Amazon	ON Semiconductor	Large Cap \$50-100b	7.5%
AMD	Qualcomm	Mid Cap \$2-50b	18.5%
Apple	Roku	Small Cap < \$2b	0.0%
Microsoft	Taiwan Semiconductor		

⁴ The portfolio characteristics shown in this report refers to the data applying to the Loftus Peak Global Disruption Fund, into which the hedged class invests to attain its market exposure. Typically, the hedged class will also carry some cash to facilitate currency hedging which will impact the characteristics when viewed on a look-through basis.

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The Loftus Peak Global Disruption Fund (Hedged) Target Market Determination is available at <http://www.loftuspeak.com.au> in the Investors/Global Disruption Fund (Hedged) 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.

4 Years of Recognition



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

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