

# Loftus Peak Global Disruption Fund (Hedged)

Investing | Future Focused



## Research Rating:



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. 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 Advanced Micro Devices 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

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 Fund closed out the month up +1.4% net-of-fees, which was underperformance of -4.7% against the Benchmark. Since inception, the Fund has generated -5.7% net-of-fees which is -5.4% underperformance against the Benchmark.

	1m	3m	6m	1y	3y p.a.	5y p.a.	Inception
Loftus Peak (Net) <sup>1</sup>	+1.37%	-15.35%	-	-	-	-	-5.73%
Benchmark	+6.08%	-6.31%	-	-	-	-	-0.30%
Outperformance (Net) <sup>2</sup>	-4.72%	-9.04%	-	-	-	-	-5.43%

Past performance is not a reliable indicator of future performance.

Source: Loftus Peak, MSCI

<sup>1</sup> 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.

<sup>2</sup> Outperformance is shown as the Loftus Peak (Net) minus the Benchmark.

## Contributors and Detractors to Return<sup>4</sup>

**Netflix** was the Fund's top performer for the month, increasing Fund 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. 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 Fund 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.

## Key Facts

Inception Date	1 July 2022
APIR Code	ETL9930AU
Strategy FUM (AUD)	\$176 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 <sup>3,4</sup>	<p><b>64% less carbon intensive</b> than benchmark:</p> <p>tCO2e/Mil USD</p> <p>72.0 (LPGD)</p> <p>199.5 (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	20%
Suggested time frame	3-5 years
Minimum Investment <sup>2</sup>	\$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.

<sup>3</sup> Source: Sustainalytics as at 31 October 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

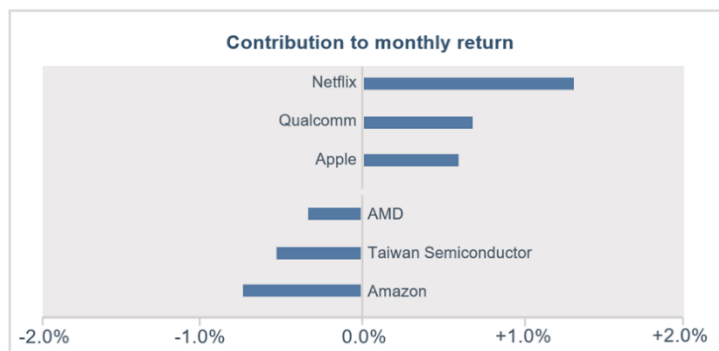
## Unit Prices

Date	31 October 2022
Entry Price (in AUD)	0.9451
Exit Price (in AUD)	0.9403

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.

## Selected Contributors and Detractors<sup>4</sup>



## Portfolio Construction<sup>4</sup>

At October month end, the Fund was 93.4% 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)		Capitalisation USD	
Alphabet	Netflix	Mega Cap > \$100b	62.4%
Amazon	ON Semiconductor	Large Cap \$50-100b	12.5%
AMD	Qualcomm	Mid Cap \$2-50b	19.4%
Apple	Roku	Small Cap < \$2b	0.0%
Microsoft	Taiwan Semiconductor		

<sup>4</sup> 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.

Visit [www.loftuspeak.com.au](http://www.loftuspeak.com.au) to find more commentary, including Fund performance.

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