

Loftus Peak Global Change Portfolio

Investing | Future Focused



February 2023 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 Advanced Micro Devices 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 Performance¹

February opened weaker after January's strong performance, with evidence of persisting inflation curbing investor optimism that US interest rate cuts would happen this year. Nevertheless, the Portfolio gained +3.2% net-of-fees, with solid outperformance of +1.8% relative to the benchmark MSCI All Countries World Index (net) as expressed in AUD from Bloomberg. Since inception, the Portfolio has generated +14.5% p.a. net-of-fees which is +3.9% p.a. outperformance against the benchmark.

Turning to the bigger picture, inflation is still the major worry and is driving market volatility, with the United States consumer price index (CPI) rising +0.5% in January and +6.4% annually (Source: US Bureau of Labor Statistics 14/02/2023) against estimates of +0.4% and +6.2% (respectively). This pushed the 10-year Treasury note to its highest level since November last year (Source: Bloomberg 28/02/2023). The futures market is pricing in rates of ~5.4%, which indicate at least three more 25 basis point increases from the current upper bound level of 4.75%.

	1m	3m	6m	1y	3y p.a.	5y p.a.	8y p.a.	Inception p.a.
Portfolio (gross-of-fees)	+3.33%	+3.16%	+3.11%	-11.47%	+9.62%	+12.64%	+15.07%	+17.15%
Benchmark	+1.41%	-0.61%	+4.91%	-1.47%	+7.38%	+8.89%	+8.71%	+10.63%
Outperformance (gross-of-fees)	+1.92%	+3.77%	-1.80%	-10.00%	+2.24%	+3.75%	+6.36%	+6.52%
Portfolio (net-of-fees)	+3.22%	+2.82%	+2.42%	-12.65%	+6.70%	+10.00%	+12.44%	+14.48%

¹ 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.

Contributors and Detractors to Return

The earnings season has been largely positive for the Portfolio. Across the 19 Portfolio holdings that reported in February, 13 beat on revenue and 16 beat earnings expectations. The largest contributor, **Roku**, added +0.8% to the value of the Portfolio as the company announced a move towards cost-cutting, reported a significant beat on net active account additions (five million vs two million expected) and was the number-one selling smart TV operating system in North America (38% share in the US, 30% in both Canada and Mexico). The company also accelerated its content catalogue additions.

Collectively the Portfolio's semiconductor names contributed +1.1%. Over half of this came from **Advanced Micro Devices (AMD)** in part because of the improving outlook for the company in the second half of 2023. AMD is a beneficiary of the increased recognition of the importance of artificial intelligence (AI), and was the second largest contributor for the month adding +0.6%. **Nvidia** followed suit, with the share price rising +18.8% over the month. These datacentre-facing semiconductor names are critical to the back-end of generative AI models like ChatGPT, which itself lifted **Microsoft** to being the sixth largest contributor for the month.

Qualcomm was the largest detractor for the month, slightly missing the street's revenue estimate and detracting -0.5% from the Portfolio. **Google** (which was also a negative detracting -0.3%) missed revenue estimates, amid a weak advertising market and potential competition from chat-bot powered search by Microsoft's Bing.

Key Facts

Inception Date	30 June 2014
Strategy FUM (AUD)	\$195 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

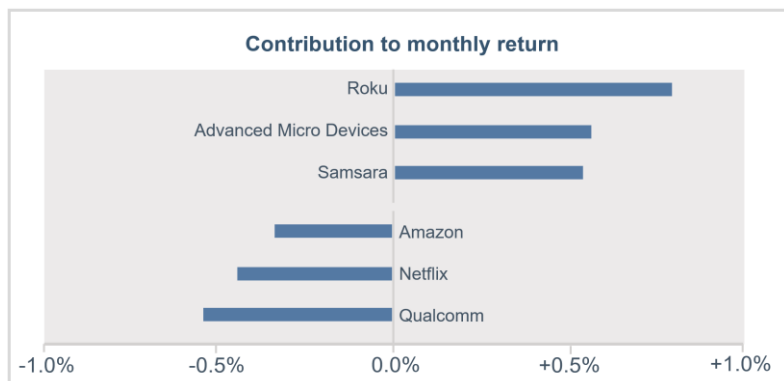
Fees

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

Amazon detracted -0.3% for the month. Despite being a key cloud player in AI workloads, the company did not follow Google and Microsoft with generative AI product announcements and media tours. This likely led to the (mostly unfounded) perception it is less exposed to generative AI tailwinds, thus missing some of the uplift through February. While the company's core ecommerce business is beginning to feel the pinch of an increasingly challenging consumer environment, growth could remain resilient given the remaining runway of its retail ads business and the recent launch of Buy with Prime.

The Australian dollar depreciated -3.7% against the US dollar over the month, which meant the value of the Portfolio's US dollar positions increased. As at 28 February 2023, the Portfolio carried a foreign currency exposure of 99.7%.

Selected Contributors and Detractors



Portfolio Construction

At February month end, the Portfolio was 93.2% invested in 31 holdings with the balance in cash. The Portfolio has a high exposure to large capitalisation names which are highly cash generative with strong balance sheets. Focusing on high quality companies helps the Portfolio to withstand difficult periods in the market and drive strong, long-term outcomes for investors.

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

Capitalisation USD	
Mega Cap > \$100b	62.8%
Large Cap \$50-100b	8.9%
Mid Cap \$2-50b	19.7%
Small Cap < \$2b	1.7%

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 sophisticated², 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.

² a person qualifying as a sophisticated investor under section 708 (10) of the Corporations Act 2001 (Cth) (Act)

IMPORTANT INFORMATION:

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