

# Loftus Peak Global Disruption Fund (Hedged)

Investing | Future Focused



## Research Rating:



March 2023 Update

Founded in 2014, Loftus Peak is a global fund manager with a focus on investment in listed disruptive businesses. We have extensive experience and 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, resources and the Australian dollar.

## Review and Performance

March numbers built on the strong January and February performance with the Fund finishing the month up +7.0% net-of-fees. Economic data released early in the month implied that inflation could be more persistent than expected, requiring a more hawkish response from the US Federal Reserve, with comments from Chair Jerome Powell exacerbating these concerns, driving yields up and stocks down. Then Silicon Valley Bank and Signature Bank collapsed, followed by the fire sale of an embattled Credit Suisse to rival UBS. US regulators acted swiftly to guarantee the deposits of American banks, halting a possibly more severe systemic banking crisis. It appeared to spell the end of the aggressive rate tightening from the US Fed, with one wag noting that 'whenever the Fed taps the brakes, someone goes through the windshield.' Markets rallied, and the Fund rallied harder: the Fund outperformed substantially in March, finishing +4.6% above the benchmark MSCI All Countries World Index (net) hedged to Australian dollars.

For the March quarter, the Fund gained +20.1% net-of-fees which is outperformance against the benchmark of +13.7%. Through the quarter, the Fund benefitted from easing macroeconomic concerns and a rotation back to technology, particularly in semiconductors and big tech.

	1m	3m	6m	1y	3y p.a.	5y p.a.	Inception
Loftus Peak (Net) <sup>1</sup>	+7.00%	+20.13%	+18.58%	-	-	-	+10.28%
Benchmark	+2.42%	+6.44%	+14.15%	-	-	-	+7.28%
Outperformance (Net) <sup>2</sup>	+4.57%	+13.69%	+4.43%	-	-	-	+3.00%

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>

The Fund's semiconductor holdings outperformed strongly during the month. Forward earnings estimates look to have reached a bottom following an inventory glut caused by improving supply chains and softer demand in some end markets. However, semiconductor share prices have been reflecting the softness in earnings for more than 12 months, with the stocks broadly underperforming the market in 2022. March performance suggests investors are looking through the trough in earnings.

**Advanced Micro Devices** and **Nvidia** together contributed +2.2% to Fund return for March after their stock prices were bolstered by the continuing development of and growing applications in generative artificial intelligence (AI), particularly ChatGPT applications. Semiconductors are the picks and shovels of AI, the key building blocks for the data centres where models for recommendation, computer vision and now large language models like generative pretrained transformers (GPT) are trained and often run. The importance of Nvidia and AMD's accelerator solutions for AI workloads cannot be overstated.

**Microsoft** is another one of the Fund's holdings that has benefitted from the rise of generative AI, namely through its relationship with the creators OpenAI. The two companies have a complex partnership structure where Microsoft's investments into OpenAI will be upwards of US\$10 billion.

## Key Facts

Inception Date	1 July 2022
APIR Code	ETL9930AU
Strategy FUM (AUD)	\$209 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>63% less carbon intensive</b> than benchmark:</p> <p>tCO2e/Mil USD</p> <p>55.1 (LPGD)</p> <p>149 (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>3</sup>	\$5,000
Pricing Frequency	Daily
Distributions	Paid annually as at 30 June
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 homepage to request a copy.

<sup>3</sup> Source: Sustainalytics as at 31 March 2023.

## Fees

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

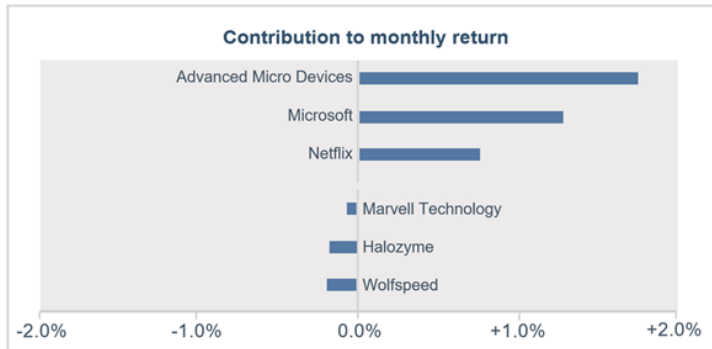
Date	31 March 2023
Entry Price (in AUD)	1.1056
Exit Price (in AUD)	1.1000

In return, Microsoft is able to integrate OpenAI's latest technology into its ecosystem, including the company's office suite of products (Microsoft 365 Copilot), search engine (Bing) and more. Investors reacted positively to Microsoft's early lead to the megatrend, with the stock rising +16% in March.

**Wolfspeed**, which is the Fund's pure play into the silicon carbide power semiconductor industry, detracted -0.2% from March return after Tesla indicated its intention to substantially reduce its use in (cheaper) new generation vehicles. Silicon carbide chips increase the efficiency of electric vehicles by reducing the energy lost in the conversion from DC to AC power, increasing range and improving performance. Tesla engineers said at an event that they had found a way of maintaining performance and efficiency without the use of silicon carbide, driving these stocks down. **ON Semiconductor**, another Fund power semiconductor holding, with a smaller silicon carbide business, ended the month as a contributor with demand in the broader automotive and industrial end markets remaining strong.

As at 31 March 2023, after the impact of currency hedging the Fund carried an Australian dollar exposure of 99.0%.

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



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

At March month end, the Fund was 94.7% 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 investors.

Top 10 Holdings (in alphabetical order)		Capitalisation USD	
Alphabet	Netflix	Mega Cap > \$100b	67.1%
Amazon	Nvidia	Large Cap \$50-100b	9.5%
AMD	Qualcomm	Mid Cap \$2-50b	16.5%
Apple	Roku	Small Cap < \$2b	1.6%
Microsoft	Taiwan Semiconductor		

<sup>4</sup> The portfolio characteristics shown in this report, apart from references to currency exposure, refer 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.

Loftus Peak Pty Limited ABN 84 167 859 332 AFSL 503 571