

# Loftus Peak Global Disruption Fund (Hedged)

Investing | Future Focused



## Research Rating:



July 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. 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

The Fund grew +5.8% net-of-fees during July, generating +2.7% outperformance against our benchmark index, the MSCI All Countries World Index (net dividends reinvested) hedged to Australian dollars, which was up +3.1%.

It now seems that markets were right to rally in the first half of the year, with the US Federal Reserve's program of interest rate rises to curb inflation appearing to have worked. The consumer price index remains controlled and even more pleasing is the absence of the predicted recession, with unemployment sitting around a respectable 4% and second quarter GDP up +2.4% annualised.

	1m	3m	6m	1y	3y p.a.	5y p.a.	Inception p.a
Loftus Peak (Net) <sup>1</sup>	+5.78%	+22.77%	+23.97%	+16.24%	-	-	+26.91%
Benchmark	+3.09%	+8.12%	+9.96%	+10.48%	-	-	+16.10%
Outperformance (Net) <sup>2</sup>	+2.69%	+14.65%	+14.01%	+5.77%	-	-	+10.80%

Past performance is not a reliable indicator of future performance. Returns greater than one-year are annualised.

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 performance was underpinned by **Roku** (increasing Fund value by +2.1%), **Qualcomm** (+1.3%) and **Alphabet (Google)** (+0.8%), with good contributions from companies such as **ON Semiconductor** (+0.2%) and **WolfSpeed** (+0.3%), the latter two of which are important players in vehicle electrification. ON reported on the last day of this month, with better-than-expected earnings and revenue for the quarter and an upgrade to guidance to both in the three months to September this year.

Qualcomm, our largest position, advanced because of the perception that smartphone and laptops are set to recover in the coming months. Roku performed very well late in the month from an oversold position. Investors again contemplated the company's commanding lead in free ad-supported streamed television (FAST) at a time when advertising growth is poised to re-accelerate.

Alphabet (Google) surprised with a return to advertising revenue growth and an extension in profitability for the Google Cloud Platform first shown last quarter.

**Taiwan Semiconductor** was the biggest detractor for the month, cutting -0.2% from the Fund's value, with the next three worst detractors (**Netflix**, **Microsoft** and **Arista Networks**) summing to only a -0.4% reduction. Microsoft's relative underperformance is to a certain extent a function of timing - the company is up around +40% this year as it has made all-time highs fuelled by artificial intelligence (AI). Microsoft's AI products have access to one of the broadest groups of enterprise customers in the world today. Already, the company is adding AI to applications including Office, Teams and Enterprise, with new tiered pricing announced earlier in the month.

## Key Facts

Inception Date	1 July 2022
APIR Code	ETL9930AU
Strategy FUM (AUD)	\$263 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>	<b>66% less carbon intensive</b> than benchmark: <b>TCO2e/Mil USD</b>  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 <sup>2</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 July 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

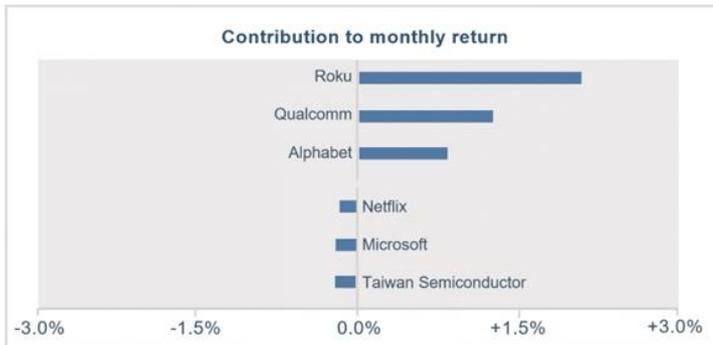
Date	31 July 2023
Entry Price (in AUD)	1.2977
Exit Price (in AUD)	1.2913

Arista Networks, which was a detractor for July, reported in the aftermarket of the last day of the month. The company beat consensus on the top and bottom line and recovered well. Arista reported this strong result because of its important position in the AI tools story: very fast connectivity in the datacentre is its core competency.

Netflix too had a pullback on subscriber growth numbers (which were solid nonetheless at 5 million). The market sold the company down because it wanted more, but this view fails to take account of the competitive failure of streaming rivals including Paramount+, the storied HBO and even Disney. Their inability to generate profits as they attempt to scale has scared away investors, who are not prepared to reward an unsuccessful business model with a big valuation.

As at 31 July 2023, after the impact of currency hedging the Fund carried an Australian dollar exposure of 99.6%.

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



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

At July month end, the Fund was 98.0% invested in 29 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	70.9%
Amazon	Nvidia	Large Cap \$50-100b	11.0%
AMD	Qualcomm	Mid Cap \$2-50b	14.3%
Meta	Roku	Small Cap < \$2b	1.9%
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.

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