

Loftus Peak Global Disruption Fund (Hedged)

Investing | Future Focused



Research Rating:



October 2024 Update

Founded in 2014, Loftus Peak is a global equities 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 Microsoft 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 U.S. presidential election has been decided post month-end, so commentary on this is not discussed in this month's newsletter. The Fund ended October with a -0.4% net-of-fees return, outperforming the MSCI All Countries World Index (net dividends reinvested) hedged to Australian dollars by +0.8%. Markets lurched upwards ahead of the U.S. elections with little reaction to escalating conflict in the Middle East. Much of the October gains occurred before earnings.

Companies began reporting in the back half of the month, and results were generally strong. However, market expectations are also relatively high and share price movements have been mixed.

| | 1m | 3m | 6m | 1y | 3y p.a. | 5y p.a. | Inception p.a. |
|-----------------------------------|--------|--------|---------|---------|---------|---------|----------------|
| Loftus Peak (Net) ¹ | -0.39% | +6.02% | +14.34% | +51.11% | - | - | +26.10% |
| Benchmark | -1.16% | +2.25% | +9.84% | +30.69% | - | - | +15.82% |
| Outperformance (Net) ² | +0.77% | +3.77% | +4.50% | +20.42% | - | - | +10.28% |

Source: Loftus Peak, MSCI. Past performance is not a reliable indicator of future performance. Returns greater than one-year are annualised.

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, Reference Guide and Target Market Determination.

² Outperformance is shown as the Loftus Peak (Net) minus the Benchmark.

Contributors and Detractors to Return⁴

The largest contributor to the Fund was **Taiwan Semiconductor Manufacturing (+1.3%)** which reported a beat on the top and bottom line. The company points to continued demand for the fabrication of Artificial Intelligence (AI) server chips, which are expected to represent a mid-teen % of total 2024 revenue. The fabrication demand for most end markets has yet to inflect. This includes chips for PCs and smartphones. A cyclical recovery in these end markets would push TSMC into an even stronger position.

Netflix (+0.8%) was the second largest contributor, also surging after earnings. The company continues to add subscribers at a solid pace while increasing pricing, so supporting double digit revenue growth. Management expects this growth to persist through next year even without material impact from the advertising business. The potential for the ad business to support similar growth beyond 2025 provides valuation comfort.

The third largest contributor was Japanese semiconductor testing equipment provider **Advantest (+0.5%)**. The company reported handy beats in all its segments. The semiconductor testing equipment is split between Advantest and Teradyne (which has previously been a holding). The two companies serve different semiconductor end-customers. Advantest operates in datacentre chip companies such as Nvidia and **Advanced Micro Devices (-0.3%)** while Teradyne is more exposed to smartphones and PCs with customers like Apple. At this stage in the cycle, the demand for datacentre chips has made Advantest a more attractive investment.

Alphabet (+0.4%) reported all-around strong earnings. The cloud business was a particular bright spot with subsequent earnings from **Microsoft (+0.1%)** and **Amazon (+0.3%)** also showing strong cloud growth.

Key Facts

| | |
|---|--|
| Inception Date | 1 July 2022 |
| APIR Code | ETL9930AU |
| Strategy FUM (AUD) | \$1,024 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} | <p>59% less carbon intensive than benchmark: tCO2e/Mil USD</p> <div style="display: flex; align-items: center;"> <div style="width: 100px; height: 20px; background-color: #0056b3; margin-right: 10px;"></div> 52.5 (LPGD) </div> <div style="display: flex; align-items: center; margin-top: 5px;"> <div style="width: 100px; height: 20px; background-color: #333; margin-right: 10px;"></div> 126.6 (benchmark) </div> <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 ² | \$5,000 |
| Additional Investment via BPAY [®] | BPAY [®] Biller Code: 427419 Customer Reference Number (CRN): generated after initial application. |
| Pricing Frequency | Daily |
| Distributions | Paid annually as at 30 June |
| Latest distribution date | 30 June 2024 |
| Latest distribution | 7.5 cents |
| 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. |

³ Source: Sustainalytics as at 31 October 2024.

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 October 2024 |
| Entry Price (in AUD) | 1.6456 |
| Exit Price (in AUD) | 1.6374 |

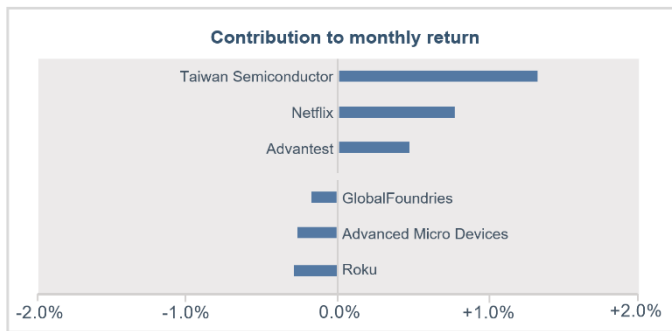
In Microsoft's case, the cloud was overshadowed by worse-than-expected revenue guidance, driven by weakness in business segments outside of AI.

Roku (-0.3%) was the largest detractor. On the earnings call, Roku stated its monthly active users had grown to 86 million, up +13% year-over-year. However, the revenue from advertising that these users imply is yet to flow through and management has been reticent to guide bullishly. Ultimately advertising dollars will follow eyeballs.

Advanced Micro Devices (AMD) also fell despite raising revenue guidance for its graphics processing unit (GPU) business. AMD GPU's are expected to bring in more than US\$ 5 billion in revenue this year, coming from a base of zero. However, this phenomenal rate of growth has been matched by a high rate of op-ex expansion. The company is not getting the leverage that investors had hoped – thus the shares sold off. Nevertheless, this quarter appears to be a turning point for AMD's cyclical segments, which have been a headwind to the secular AI story. The combination of cyclical and secular growth offers the valuation comfort to hold this company instead of peers like Nvidia.

As at 31 October 2024, after the impact of currency hedging, the Fund carried an Australian dollar exposure of 100.3%

Selected Contributors and Detractors⁴



Portfolio Construction⁴

At October month end, the Fund was 99.1% invested in 30 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 | 66.3% |
| Amazon | ON Semiconductor | Large Cap \$50-100b | 8.2% |
| AMD | Qualcomm | Mid Cap \$2-50b | 24.6% |
| Meta | Salesforce | Small Cap < \$2b | 0.0% |
| Microsoft | Taiwan Semiconductor | | |

⁴ 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 has a deep understanding of the mechanisms through which disruption changes business models and the impact it has on company valuation, with an acknowledged record of identifying thematic early in the investment cycle.



Anshu Sharma Portfolio Manager and Founder

Anshu began his career more than 15 years ago as a global investment analyst, covering companies that have now been at the forefront of disruption for over a decade. He then took on a similar role with a focus on the Asian market, gaining a unique perspective on the global scale and impact of disruptive businesses. In 2014, Anshu became one of the founding members of Loftus Peak and quickly progressed to portfolio management, assuming the role of Portfolio Manager.

At Loftus Peak, his focus has been on developing a standardised repeatable process to unearth, value, and risk-adjust portfolio positions to stay ahead of the market.



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 to find more commentary, including Fund performance.

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