MONDAY FUNDIE

ALEX POLLAK

Chief investment officer, Loftus Peak

20pc a year for a decade: How this CIO cracked the AI trade



Loftus Peak co-founder and investment chief Alex Pollak has no doubts on his artificial intelligence strategy. PHOTO: LOUIE DOUVIS

Alex Gluyas

When it comes to the artificial intelligence trade, perhaps no investor in Australia is better qualified to share their views than Loftus Peak chief investment officer Alex Pollak.

His $1.6 billion Global Disruption Fund boasts a long list of early investments in the sharemarket's hottest stocks, including chip giant Nvidia in 2016, Tesla and Netflix in 2018, and chipmakers AMD, Broadcom and TSMC in 2022. That has generated one of the strongest track records of any fund manager in the country over the past decade, with the portfolio returning 20.8 per cent a year since its inception in November 2016.

Loftus Peak is sticking with its huge exposure to those semiconductor stocks, which rocketed higher in the first half of this year but have recently come under pressure as investors question the durability of AI spending by major technology companies. The widely tracked Philadelphia Stock Exchange Semiconductor Index recently suffered an eight-day losing streak, its longest since the global financial crisis in 2008.

While some jittery investors are running for the exits over fears that the tech bubble is starting to leak air, Pollak has barely touched his portfolio, which remains jam-packed with the world's largest technology companies.

"That was just a sentiment sell-off, and people that had unrealistic expectations being sold off, and people who were panicking, selling off," Pollak says. "It's not our view that anything has gone wrong, and if you look at this month's portfolio holdings and weightings, you won't see much difference from last month or the months before."

Loftus Peak dodged much of the carnage because it has no exposure to what the market is increasingly viewing as the weakest link in the AI trade: neocloud data centre operators. This relatively new group of companies, including Australia's Firmus Technologies, relies on debt to buy vast amounts of computer chips, lease space in data centres to house them, and then rent the computing power to big tech customers. Pollak says he wasn't surprised Firmus was forced to pull its high-profile IPO because the neocloud did not deserve a $44 billion valuation.

He also believes the sell-off in US rival CoreWeave's bonds shows it will struggle to raise any more capital via debt in the next six months. CoreWeave's debt recently fell to levels that indicate distress, while the cost of protecting its bonds against default rose to the highest level on record.

"We don't own those stocks because they're leverage plays and it's uncertain to us," says Pollak. "We're not nimble enough to be able to move according to the whims of the bond market, so we just don't play in those spaces."

Pollak is adamant that tech stocks are not in a bubble, given the so-called "usage boom" of AI products accelerating worldwide, which he says separates the current tech revolution from the dotcom era in the early 2000s.

"People are using AI at an exponentially expanding rate which is more like the iPhone boom rather than the telco boom in 1999, which of course didn't really happen," he says.

"It was actually a financing boom, but it wasn't a usage boom because you couldn't get broadband speed to actually make the internet work."

Pollak points to Meta Platforms' new consumer agent, Muse – which does everything from managing calendars and restaurant reservations to filling in forms – as evidence of the enormous demand for agentic AI.

Shares in Meta, which is among the five largest positions in Loftus Peak's fund, have surged since Muse was released in early September. The stock extended those gains this week after its quarterly earnings report showed the company raised its 2026 capital spending outlook.

"Muse marked the first consumer-oriented agentic AI aimed at widespread adoption," says Pollak. "That is important because up to now, the money seems to have been made more by Anthropic's Claude, which is an enterprise-based AI play."

Loftus Peak is betting the proliferation of agentic AI will require significant computing power, which is why his fund is keeping large positions in semiconductor stocks such as AMD, TSMC, Nvidia and Marvell Technology.

While about a quarter of the portfolio sits in AI and data infrastructure stocks, Loftus Peak invests in disruption across a range of sectors, including life sciences, streaming, e-commerce and electrification, among others.

That diversification has been a key driver of returns across all time horizons. The global disruption fund has returned 21 per cent a year over seven years, 17 per cent over five years, 29 per cent over three years and 17 per cent in the 12 months through September 30.

One of the biggest contributors in recent months has been medical and life science stocks, including global pharmaceutical giants Moderna, AstraZeneca, and Eli Lilly, and precision oncology company Revolution Medicines.

"In the case of medical stocks, the big theme is much faster processing power, which is allowing companies to develop therapies and drugs faster, which leads to more success," says Pollak.

The investment chief highlights a recent American Cancer Society journal article showing the five-year survival rate for all cancers jumped from 50 per cent in the mid-1970s to 70 per cent this year.

Shares in Moderna have almost quadrupled since mid-August, when the company reported successful results in a late-stage trial for a melanoma vaccine called Intismeran, in partnership with US pharmaceutical giant Merck. (Those gains were tempered late last week after some of the data was leaked and came in weaker than expected.)

Still, drugmaker Eli Lilly is the second-largest holding in the fund due to Pollak's conviction about its weight-loss and diabetes treatments.

Loftus Peak bought the stock at about $US600 a share in 2024, and that has since doubled to about $US1300 ($1849) a share, with Pollak expecting even more gains to come.

"If you cut people's weight, they get less kidney disease, heart disease and pretty much everything that's bad," he says. "So that's a disruptive drug that has disrupted cancer and other diseases five and 10 years down the track."

But not all of Loftus Peak's stock picks have been winners. Recent detractors from performance include companies that are perceived by the market as at disruption risk from agentic AI, such as subscription-based entertainment groups like Netflix and Spotify.

Investors have sold those stocks, worried that customers would use AI agents to track their user history and automatically cancel subscriptions they haven't used recently.

"Such share price declines appear largely knee-jerk," says Pollak. "Neither Netflix nor Spotify relies on hindering customer cancellations as a primary strategy for subscriber retention."

Loftus Peak does acknowledge, however, that Uber could be at risk if users installed multiple ride-share platforms and then used an agent on top to select the best ride.

"However, [Uber's] valuation remains compelling," says Pollak.

As the money manager approaches the 10-year anniversary of the fund listing on the Australian sharemarket, Pollak attributes the success to sticking to its process and a positive culture.

"What we've done well is we've crafted a process, and we've stuck to it through thick and thin – we don't change things when we're up or down," he says.

"Everybody in the team gets to speak about their individual stock picks, and there's never any heat in our discussions and things rarely ever get personal, so people feel comfortable speaking up."

As for the next five to 10 years, Pollak is showing no sign of slowing down, with the global disruption fund expected to manage $2 billion by the end of this year and at least $5 billion down the track.

Ex-Macquarie dealmaker Moss urges businesses to borrow in China

Bonds

Cecile Lefort

Bill Moss, a former prominent dealmaker at Macquarie Group, says Australian companies should be tapping into China's booming 234 billion yuan ($50 billion) "panda bond" market to secure cheaper borrowing rates.

Moss, who was best known for his dealmaking in Macquarie's property and banking divisions and is now chairman and founder of Boston Global family office, said there was a huge opportunity to connect Australian businesses with Chinese lenders as governments around the globe drive the cost of long-term borrowing to levels not seen in decades.

"Debt's getting very expensive, and the Chinese see that they can provide capital cheaper than anywhere else in the world," said the former banker, who has devoted much of his post-retirement time to improving conditions for people living with muscular dystrophy, a condition that has left him in a wheelchair.

These days, he is working with his daughter, Natalie Cooney, and her husband, Corey Cooney, who run Boston Global. They estimate that Australian business could save up to 0.1 of a percentage point by borrowing in China rather than at home.

In Australia, the interest rate on 10-year government debt hit 5.43 per cent last month, its highest point since 2011, and the US 10-year rate breached 5 per cent late last week.

Foreign borrowers in China are paying an average interest rate of just 1.9 per cent. According to Boston Global, Chinese corporate borrowing costs have dropped 1.1 percentage points since 2023, and are continuing to fall.

That gap in interest rates is fuelling a surge in so-called panda bonds, which are debt issued inside China by overseas companies. More than 130 international borrowers have tapped the world's second-largest economy this year, already passing last year's total.

Moss believes it is a missed opportunity for Australian companies.

One Australian business that is considering the move is Fortescue, the world's fourth-largest iron ore miner, which according to *Bloomberg* is eyeing its first panda bond issuance.

This is despite the miner warning that its operations could face disruption if negotiations with China Mineral Resources Group, Beijing's state-backed iron ore buyer, were not settled before Christmas. Moss said the deep trade ties between the two countries made Chinese financing a natural fit for Australian companies, with China also Australia's biggest export market.

"If you're earning income in renminbi, or spending money in renminbi, this is a golden opportunity to look at how you can reduce borrowing costs," said Moss.

Borrowing in China also allows companies to bypass the expensive currency conversions usually required when shuffling money between US dollars, yuan and Australian dollars.

With bond traders starting to price in the possibility of an Australian cash rate above 5 per cent, Moss said the cheaper capital on offer in China was a practical solution to Australia's broader economic challenges.

He said that by lowering the cost of expansion and helping businesses build export capabilities, panda bonds could make Australian companies more competitive and deliver a much-needed boost to productivity.

The former banker warned that the pressure on Australian businesses would only intensify if the country's monetary policy tightened further, and would leave companies vulnerable to broader economic shifts.

"The Reserve Bank of Australia will raise interest rates [again], but you have to understand the whole economy underneath the surface is collapsing very quickly," he said.

Small and medium-sized manufacturers are already struggling to sell goods, raising the risk of widespread closures and forcing Australia to rely even more heavily on imports from China.