

Loftus Peak Global Disruption Fund (Hedged)

Investing | Future Focused



Research Rating:



April 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

March quarter earnings were reported in the first weeks of April. Five of the so-called "Magnificent Seven" reported with four of those beating expectations – **Alphabet, Meta, Amazon** and **Microsoft** with broadly positive guidance. These companies represent the key customers for Artificial intelligence (AI) hardware and their earnings show significant growth in capital expenditure (capex) – a strong read-through for the likes of Nvidia, Broadcom and Advanced Micro Devices (AMD) all three of which are vendors.

April was also a turning point in macro sentiment. The market abandoned its aggressive outlook for rate cuts in 2024. For example, UBS went from a forecast of 275 bps of interest rate reductions (this forecast was given in November 2023) to just 50 bps for 2024. At least Fed Chair Jerome Powell did not indicate that rate hikes were on the table.

	1m	3m	6m	1y	3y p.a.	5y p.a.	Inception p.a.
Loftus Peak (Net) ¹	-4.80%	+3.82%	+32.16%	+42.50%	-	-	+24.87%
Benchmark	-2.76%	+5.06%	+18.98%	+17.97%	-	-	+14.54%
Outperformance (Net) ²	-2.04%	-1.24%	+13.17%	+24.53%	-	-	+10.32%

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

Source: Loftus Peak, MSCI

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

Alphabet was the largest contributor for the month, adding +0.6% to the Fund after a strong earnings report. The company beat revenue expectations across most of the major segments. Advertising re-accelerated after lapping weak year numbers with cloud revenue up +28% to USD 9.6 billion. The company referenced meaningful AI uptake across the board, from start-ups, unicorns and large enterprise, demonstrating the importance of existing distribution when monetising AI functionalities. The company expects YouTube and cloud combined to exit 2024 at an annual run rate of over USD 100 billion – roughly equivalent to the entire search business in 2018.

Teradyne also reported strongly, adding +0.2% to the Fund. Teradyne runs a semiconductor testing business. Demand for data-centre hardware has increased meaningfully due to AI. This demand has persisted leading to a greater-than-usual number of chip designers seeking to design hardware. This includes Nvidia (which is doubling the speed of its product roll out), AMD, Broadcom and more. Teradyne is the direct beneficiary of an increased volume of hardware design. This was reflected in the stronger than expected quarter and the stronger than expected guidance.

Spotify was the third largest contributor, adding +0.1% to the Fund. Spotify, which is already the world's leading audio streaming platform, has an ambition to reach 1 billion users. It delivered accelerating revenue growth to 20%+ with a step change in gross margins. CEO Daniel Ek stated that 2024 will be a year of monetisation as the company seeks to bring the margins of audiobooks and podcasting in line with the mainstay music-streaming business. The margin expansion of these other products is accretive to the bottom line.

Key Facts

Inception Date	1 July 2022
APIR Code	ETL9930AU
Strategy FUM (AUD)	\$820 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>68% less carbon intensive than benchmark:</p> <p>tCO2e/Mil USD</p> <p>42.8 (LPGD)</p> <p>132.6 (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 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
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 30 April 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

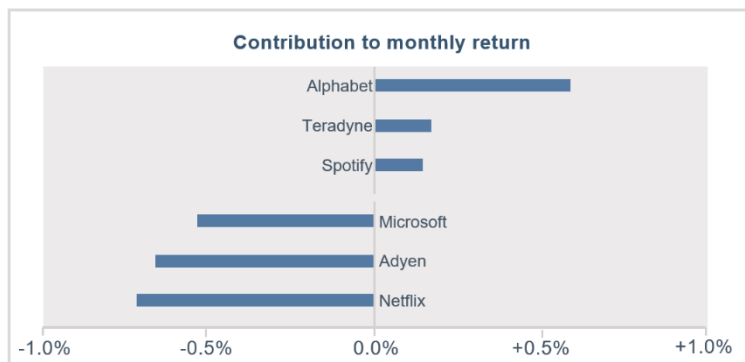
Date	30 April 2024
Entry Price (in AUD)	1.5063
Exit Price (in AUD)	1.4987

Netflix was the largest detractor of the month, cutting -0.7% from Fund value. The company implied a slower exit rate for revenue heading into FY25 and signalled that subscriber numbers would no longer be regularly disclosed in the future. The market reacted negatively. Our thesis remains unchanged; in our view, cracking down on password sharing and the advertising tier, for example, offer longer term opportunities for more subscriber growth than the market assumes. The company is also slowing the rate of content spend growth relative to revenue growth, directly improving earnings.

Dutch FinTech company **Adyen** provided a quarterly business update. Although payment volumes accelerated as Adyen gains market share, the take rate compressed. This led to less than expected net revenue growth of 21% year-over-year. Adyen cut -0.6% from the Fund and was the second largest detractor. Microsoft was the third largest detractor for the month, cutting -0.5% from the Fund. Momentum in the stock waned across the month until earnings where the company showed the success (so far) of the AI ramp.

As at 30 April 2024, after the impact of currency hedging the Fund carried an Australian dollar exposure of 99.8%.

Selected Contributors and Detractors⁴



Portfolio Construction⁴

At April month end, the Fund was 94.5% 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	Micron Technology	Mega Cap > \$100b	71.8%
Amazon	Microsoft	Large Cap \$50-100b	7.8%
AMD	Netflix	Mid Cap \$2-50b	14.9%
Broadcom	Qualcomm	Small Cap < \$2b	0.0%
Meta	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 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 began his career as an analyst in global disruption investment more than a fifteen years ago. This was soon followed by portfolio manager responsibilities across information technology and communications services sectors, before taking on the Portfolio Manager role at Loftus Peak as one of the founders of the firm in 2014.

Being mentored by the best in this space early on in his career, and having travelled extensively to meet hundreds of global companies, Anshu brings a wealth of experience to investing in disruption.



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.

5 Years of Recognition



Visit www.loftuspeak.com.au to find more commentary, including Fund performance.

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