

# Loftus Peak Global Change Portfolio

Investing | Future Focused



May 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. Our Portfolio 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, resources and the Australian dollar.

## Review and Performance<sup>1</sup>

Artificial Intelligence (AI) continues to drive markets. **Nvidia** once again beat expectations and raised guidance on its earnings call as **Qualcomm** ran on the back of its launch as the flagship chip in **Microsoft's** upcoming Copilot+ PC. However, software companies had a meaningful sell off at the end of the month following a number of weak results as a result of a softer demand environment from cyclical headwinds and uncertainty created over AI spending and implementation.

|                              | 1m     | 3m     | 6m      | 1y      | 3y p.a. | 5y p.a. | 8y p.a. | Inception p.a. |
|------------------------------|--------|--------|---------|---------|---------|---------|---------|----------------|
| Portfolio (net-of-fees)      | +4.92% | +3.03% | +23.07% | +40.88% | +14.76% | +20.17% | +19.02% | +18.55%        |
| Benchmark                    | +1.65% | +1.49% | +13.49% | +20.28% | +10.61% | +12.64% | +11.88% | +12.16%        |
| Outperformance (net-of-fees) | +3.27% | +1.54% | +9.59%  | +20.60% | +4.15%  | +7.53%  | +7.13%  | +6.39%         |

<sup>1</sup> Manager estimated returns. The Portfolio Benchmark is the MSCI ACWI (net) (as expressed in AUD from Bloomberg). Portfolio Inception date is 30/06/14. All returns are shown to two decimal places. Returns for periods of more than one year are annualised. Total returns include realised and unrealised gains. Valuations are computed and performance reported in Australian dollars. Net-of-fees performance returns are presented after management and performance fees. Returns are based on the theoretical performance of a portfolio which implemented the Model Portfolio based on simplifying assumptions and stock weightings. Actual individual returns of each client's portfolio will differ depending on factors such as date of initial investment, timing of transactions, contributions and withdrawals, fees and any customisations. Past performance is not a reliable indicator of future performance and may not be achieved in the future. Each client should also take into account their own taxation situations. All information provided in this Report is correct as at the date of this Report.

## Contributors and Detractors to Return

Qualcomm was the largest contributor for the month, adding +2.8% to Portfolio value from multiple secular tailwinds. Last month's performance review detailed the opportunity of the Snapdragon X Elite, the breakthrough chip in Microsoft's flagship AI-enabled personal computer. This is a laptop with an on-device AI "Copilot" and is the first meaningful ARM architecture chip which promises similar or even superior battery life to Apple's performant M3 laptops. The smartphone business is also experiencing the start of a cyclical recovery, separately to this new PC chip.

**Netflix** was the second largest contributor for the month, adding +0.8% to the Portfolio, after the market shrugged off the negative reaction to earnings, specifically the intention to wind down quarterly subscriber growth disclosure. The thesis around Netflix' dominance in the streaming industry remains intact underpinned by multiple revenue levers and spending discipline. This company is about more than just subscriber growth.

**MercadoLibre** was the fourth largest contributor, adding +0.3% to the Portfolio. The Latin American ecommerce giant reported earnings at the start of the month. Macroeconomic turmoil in Argentina was expected to weigh heavily on earnings, but strong execution in Brazil and Mexico prevailed. The share price pushed upwards in response.

The worst performing stock for the month was **DoubleVerify** which cut -0.5% from the Portfolio's value. Although the company beat current quarter earnings expectations, guidance fell well short, the midpoint of full year revenue was 5% below street estimates. DoubleVerify revenue is dependent on large retail and consumer packaged goods advertisers. These groups are showing uneven spending patterns, impacting the topline of DoubleVerify in the near term.

**Samsung Electronics** was the second-worst performing stock, detracting -0.3% for the month. Samsung is an exposure to memory chips. Historically, the memory market has been commoditised, dominated by three large players. Competition has heated up in the high-bandwidth memory (HBM) category – crucial in systems like Nvidia's and **Advanced Micro Devices'**.

## Key Facts

|                                  |  |
|----------------------------------|--|
| Inception Date                   | 30 June 2014   |
| Strategy FUM (AUD)               | \$885 million  |
| Product Type                     | Managed Discretionary Account                        |
| Product Sponsor                  | Mason Stevens Limited                                |
| Benchmark                        | MSCI ACWI (net) (as expressed in AUD from Bloomberg) |
| No. of Investments               | 10-35  |
| Minimum Cash Allocation          | 2%   |
| Maximum Cash Allocation          | 20%  |
| Maximum weighting per investment | 20% at time of purchase                              |
| Minimum Investment               | AU\$150,000  |
| Liquidity                        | Daily  |
| Suggested timeframe              | 3-5 years  |

## Fees

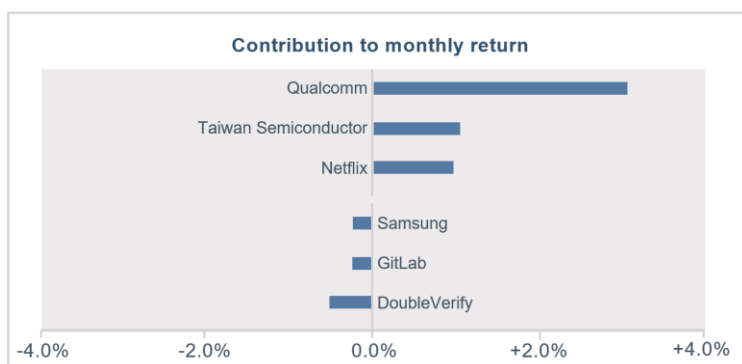
|                                |   |
|--------------------------------|---|
| Management Cost                | 1.00% p.a. (inc. GST) calculated daily and charged monthly in arrears   |
| Administration and Custody Fee | 0.275% p.a. calculated daily and charged monthly in arrears. A lower fee applies for investments above \$1 million. |
| Performance Fee                | 15% of excess returns over the benchmark return   |
| Transaction Cost               | 0.55% of the value of the transaction   |

Here, it appears Samsung lags competitors **Micron** and SK Hynix. However, a similarly important tailwind for these companies is that the demand for memory is only just exiting its cyclical bottom. We also note structural changes in traditional end-markets, such as the step change in memory requirements for devices at the edge (phones, PCs) needing to run LLMs or other AI. All positive signs for Samsung.

The broader software sector fell after earnings from Salesforce highlighted a weaker than expected demand environment as enterprise customers navigate cyclical headwinds and software budgets face greater scrutiny as they work out the best way to implement AI. Our software exposures: **GitLab**, **ServiceNow**, **Adobe** and **Nutanix** all fell because of the broader software weakness. We note that recent quarterly results from ServiceNow, GitLab and Nutanix were all relatively strong. We continue to believe our software names are well placed to benefit over the medium term from monetizing AI products that drive increased productivity and are not structurally challenged over the longer term.

The Australian dollar appreciated 1.9% against the US dollar over the month, which meant the value of the Portfolio's US dollar positions increased. As at 31 May 2024, the Portfolio carried a foreign currency exposure of 100.0%.

## Selected Contributors and Detractors



## Portfolio Construction

At May month end, the Portfolio was 93.8% invested in 27 holdings with the balance in cash exposure. The Portfolio has a high exposure to large capitalisation names which are highly cash generative with strong balance sheets. Focusing on high quality companies helps the Portfolio to withstand difficult periods in the market and drive strong, long-term outcomes for investors.

| Top Holdings (in alphabetical order) |                      |
|--------------------------------------|----------------------|
| Alphabet                             | Microsoft            |
| Amazon                               | Netflix              |
| AMD                                  | Qualcomm             |
| Broadcom                             | Samsung              |
| Meta                                 | Taiwan Semiconductor |

| Capitalisation USD  |       |
|---------------------|-------|
| Mega Cap > \$100b   | 71.1% |
| Large Cap \$50-100b | 9.4%  |
| Mid Cap \$2-50b     | 13.3% |
| Small Cap < \$2b    | 0.0%  |

## 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 listed disruptive business investment in Australia.

He was instrumental in bringing both Seek and Carsales.com to the Australian stock market. He has a deep knowledge of investment and global change companies.



**Anshu Sharma**  
Portfolio Manager and Founder

Anshu began his career as an analyst in global disruption investment more than 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 funds management firms in Australia, including BT Funds Management.

Rick is also Chairman of CitizenBlue, an impact enterprise operating a container recycling service for its environmental members.

## How can investors access Loftus Peak's global equity disruption capability?

All investors, both retail and sophisticated<sup>2</sup>, may access Loftus Peak's global equity disruption capability by investing in the Loftus Peak Global Disruption Fund or the Loftus Peak Global Disruption Fund (Hedged), which are unit trusts. As the name suggests, the hedged class of the Fund seeks to substantially hedge the foreign currency exposure arising from investments in overseas markets back to Australian dollars. Sophisticated investors may also invest by way of the Loftus Peak Global Change Portfolio (LPGCP) which is a managed discretionary account. The minimum account size for investments in the Portfolio is \$150,000.

While offered by way of two different legal structures, the two products are managed according to the same underlying investment objective and carry similar portfolio holdings. The main difference between the two products is that the Fund has a greater capacity to hedge market and currency exposure.

If you are uncertain as to which product is appropriate for you, we suggest you speak with your financial adviser or contact us directly at [enquiry@loftuspeak.com.au](mailto:enquiry@loftuspeak.com.au).

<sup>2</sup> a person qualifying as a sophisticated investor under section 708 (10) of the Corporations Act 2001 (Cth) (Act)

### IMPORTANT INFORMATION:

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