

# Loftus Peak Global Disruption Fund (Hedged)

Investing | Future Focused



## Research Rating:



July 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

July saw a reversal in many of the names that have performed strongly over the last six months, with the Fund delivering a return of -3.8% net-of-fees in July, underperforming the MSCI All Countries World Index (net dividends reinvested) hedged to Australian dollars by -5.0%. While the holdings were evenly split between positive and negative returns for the month, contribution was heavily weighted to the negative. Investors looked to take profits on strongly performing semiconductor names.

Simultaneously, the sector was hurt by U.S. government suggestions of further trade restrictions as well as bombastic commentary from Republican candidate Donald Trump as to the U.S. defence policy regarding Taiwan. Large technology companies also sold off, especially Nvidia and its customers. The market is bringing increased scrutiny to companies willing to spend heavily on artificial intelligence (AI) infrastructure. Various articles as well as earnings commentary corroborate large technology companies' preference to overspend on AI rather than to underspend and potentially miss out.

	1m	3m	6m	1y	3y p.a.	5y p.a.	Inception p.a.
Loftus Peak (Net) <sup>1</sup>	-3.80%	+7.85%	+11.97%	+25.18%	-	-	+26.07%
Benchmark	+1.18%	+7.43%	+12.87%	+17.21%	-	-	+16.63%
Outperformance (Net) <sup>2</sup>	-4.98%	+0.42%	-0.89%	+7.97%	-	-	+9.44%

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, Reference Guide and Target Market Determination.

<sup>2</sup> Outperformance is shown as the Loftus Peak (Net) minus the Benchmark.

## Contributors and Detractors to Return<sup>4</sup>

**Spotify** was the largest contributor, adding +0.3% to the Fund's value after posting a significant beat on earnings because of better-than-expected improvement in gross margins and operating margins. Top line revenue grew strongly at +21%, driven by premium subscriber growth and an increase in the average revenue per user. Gross margins also rose ahead of expectations as the company experienced greater music profitability (i.e. lower royalties due to bundling) and a reduction in spending towards the burgeoning podcast segment.

**ON Semiconductor** also contributed +0.3%. ON is pointing to comparative stability in end markets like automotive and industrials while other analog companies were uncertain. Meanwhile on its earning call, the company quantified the growing addressable markets for power management chips in AI datacentre racks.

**Halozyme** was the third largest contributor to the Fund, adding +0.2%. Halozyme partners with intravenous medications, reformulating them for subcutaneous delivery. This process results in cheaper treatment to patients and potentially extends the patents of the partner ingredient. Halozyme's key ingredient will fall out of patent in the next couple years and the market has historically discounted the company as being unable to secure enough reformulation patents to protect its revenue. A recent patent approval for the underlying delivery platform has sparked optimism in the company's ability to secure patents more broadly.

## Key Facts

Inception Date	1 July 2022
APIR Code	ETL9930AU
Strategy FUM (AUD)	\$962 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>	<p><b>67% less carbon intensive</b> than benchmark:</p> <p><b>1CO2e/Mil USD</b></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 <sup>2</sup>	\$5,000
Additional Investment via BPAY <sup>®</sup>	BPAY <sup>®</sup> 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.

<sup>3</sup>Source: Sustainalytics as at 31 July 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 July 2024
Entry Price (in AUD)	1.5522
Exit Price (in AUD)	1.5444

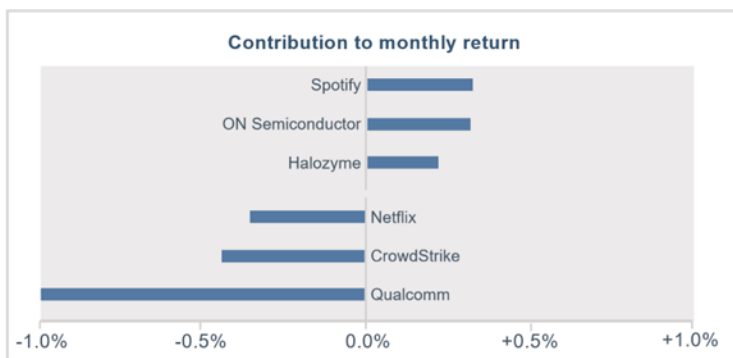
**Qualcomm**, the largest position in the Fund, was the weakest performer, detracting -1.0% from Fund value. The company sold down with the AI infrastructure names despite operating in different end markets. The company remains primarily a smartphone chip designer with growing revenue from PCs, automobiles and IOT segments. An end to large technology companies' expenditure on AI infrastructure would impact Qualcomm far less than Nvidia. The valuations for this company remain compelling.

**CrowdStrike**, the second weakest performer, cut -0.4% from Fund value. Its share price collapsed after a faulty software update caused a global Windows outage. While not indicative of a structural issue, the company's reputation for excellent execution was somewhat diminished. This will hurt the business. The stock was down nearly 40% at July end but has since recovered around 10%.

**Netflix** was the third largest detractor, trimming -0.4% from Fund value. Despite strong earnings, the market was unhappy with revenue generation from the new advertising tier. The company suggested that advertising revenue will be "meaningful" but not a "primary" driver of revenue in 2024 or 2025, getting to "critical scale with advertisers in advertisement countries in 2025".

As at 31 July 2024, after the impact of currency hedging, the Fund carried an Australian dollar exposure of 98.5%.

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



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

At July month end, the Fund was 99.0% invested in 27 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)	
Alphabet	Netflix
Amazon	Qualcomm
MercadoLibre	Roku
Meta	Samsung
Microsoft	Taiwan Semiconductor

Capitalisation USD	
Mega Cap > \$100b	71.0%
Large Cap \$50-100b	11.1%
Mid Cap \$2-50b	17.2%
Small Cap < \$2b	0.0%

<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 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](http://www.loftuspeak.com.au) to find more commentary, including Fund performance.

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