Loftus Peak
Global Change Portfolio

Investing | Future Focused

Loftus Peak

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. 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[1]

July saw a reversal in many of the names that have performed strongly over the last six months, with the Portfolio delivering a return of -1.8% net-of-fees in July, underperforming the MSCI All Countries World Index (in AUD) from Bloomberg by -5.6%. 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.	7y p.a.	Inception p.a.
Portfolio (net-of-fees)	-1.75%	+9.71%	+14.67%	+34.11%	+12.24%	+18.84%	+19.08%	+18.74%
Benchmark	+3.84%	+7.37%	+13.54%	+20.49%	+9.97%	+12.21%	+13.03%	+12.55%
Outperformance (net-of-fees)	-5.59%	+2.35%	+1.13%	+13.61%	+2.27%	+6.62%	+6.05%	+6.18%

[1] 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

Spotify was the second largest contributor, adding +0.3% to the Portfolio'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 fourth largest contributor to the Portfolio, 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.

Qualcomm, the largest position in the Portfolio, was the weakest performer, detracting -1.0% from Portfolio value. The company sold down with the AI infrastructure names despite operating in different end markets.

Key Facts

Inception Date	30 June 2014
Strategy FUM (AUD)	$931 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

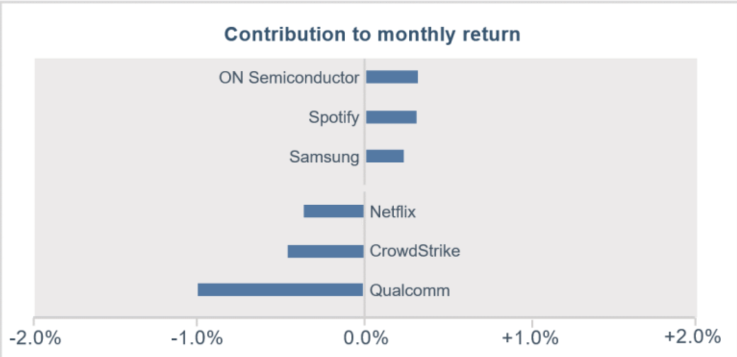
The company remains primarily a smartphone chip designer with growing revenue from PCs, automobiles and IOT segments. An end to large technology companies' expenditure on AI infrastructure would impact Qualcomm far less than Nvidia. The valuations for this company remain compelling.

Crowdstrike, the second weakest performer, cut -0.5% from Portfolio 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 Portfolio 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".

The Australian dollar depreciated -2.2% against the US dollar over the month, which meant the value of the Portfolio's US dollar positions increased. As at 31 July 2024, the Portfolio carried a foreign currency exposure of 100.0%.

Selected Contributors and Detractors



Portfolio Construction

At July month end, the Portfolio was 97.9% invested in 26 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	Netflix
Amazon	Qualcomm
Meta	Roku
Mercado Libre	Samsung
Microsoft	Taiwan Semiconductor

Capitalisation USD	
Mega Cap > $100b	72.4%
Large Cap $50-100b	8.2%
Mid Cap $2-50b	17.4%
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[2], 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.

[2] a person qualifying as a sophisticated investor under section 708 (10) of the Corporations Act 2001 (Cth) (Act)