Loftus Peak Global Disruption Fund (Hedged)

Investing | Future Focused

Loftus Peak

Research Rating:

SQM Research 4.25 Stars

June 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

The Fund gained +6.0% net-of-fees in June, outperforming the MSCI All Countries World Index (net dividends reinvested) hedged to Australian dollars by +3.5%. The month was dotted with economic data pointing to a weakening consumer and a softer economy – all positive signs that give the green light to Powell and the Federal Reserve to cut rates in the back half of the calendar year. For the full financial year, the Fund gained +37.6% net-of-fees while the benchmark grew +19.4%, outperformance of +18.2%. Apple overtook **Microsoft** as the largest company in the world by market capitalisation. Less than a week later, Apple was supplanted by Nvidia. The chip company then sold off with Microsoft retaking its position from Apple by the end of the month. All three companies are jostling to leverage artificial intelligence (AI) to entice users and investors.

	1m	3m	6m	1y	3y p.a.	5y p.a.	Inception p.a
Loftus Peak (Net)[1]	+6.00%	+6.73%	+21.12%	+37.64%	-	-	+29.78%
Benchmark	+2.47%	+3.25%	+12.88%	+19.42%	-	-	+16.70%
Outperformance (Net)[2]	+3.54%	+3.48%	+8.24%	+18.22%	-	-	+13.09%

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.

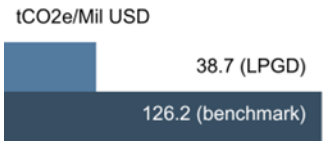
Contributors and Detractors to Return[4]

Taiwan Semiconductor Manufacturing (TSMC) was the largest single contributor for the month, adding +1.7% to the Fund. TSMC dominates the fabrication of high-end logic chips. For the last year, demand for datacentre semiconductors from companies like **Advanced Micro Devices** and Nvidia (some of TSMC's largest customers) have helped push revenues higher. More recently, Apple's integration of AI (which requires newer, better chips) as well as the broader cyclical recovery of smartphones has bolstered TSMC's top line. Monthly net revenue for May was the third highest ever and was up +30.1% year-over-year. TSMC has also obtained approval for another USD10.3 billion in subsidies from the Japanese government for the construction of a fabrication plant in Japan.

Amazon was the second largest contributor, adding +0.7% to the Fund. Despite being the largest cloud provider in the world, Amazon's AI offering has generally been considered second-rate compared to competitors like **Alphabet** and Microsoft. As much as Microsoft and Alphabet are better positioned to monetise their own AI products to consumers, a large amount of third party AI workloads will nevertheless find their way onto Amazon Web Services (AWS) given its scale and existing relationships with a significant number of businesses and governments. Across June, the share price rose to reflect this. The advertising segment of Amazon's ecommerce business also continues to perform strongly. The company recently hit all-time highs, creeping ahead of the previous high in 2021. Microsoft achieved this a year ago while Alphabet did likewise in January this year.

Broadcom was the third best performer of the month, contributing +0.6% to the Fund. The company reported earnings in the first half of the month, posting a strong beat off the back of inflecting demand for AI products. Historically, Broadcom designs the infrastructure behind datacentres, including the switches and adapters. Adding to this are ramping application specific integrated circuits (ASICs) for AI end uses.

Key Facts

Inception Date	1 July 2022
APIR Code	ETL9930AU
Strategy FUM (AUD)	$961 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]	**69% less carbon intensive** than benchmark:  No exposure to companies involved in fossil fuel extraction, generation and related products and services.
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 June 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 June 2024
Entry Price (in AUD)	1.6886
Exit Price (in AUD)	1.6802

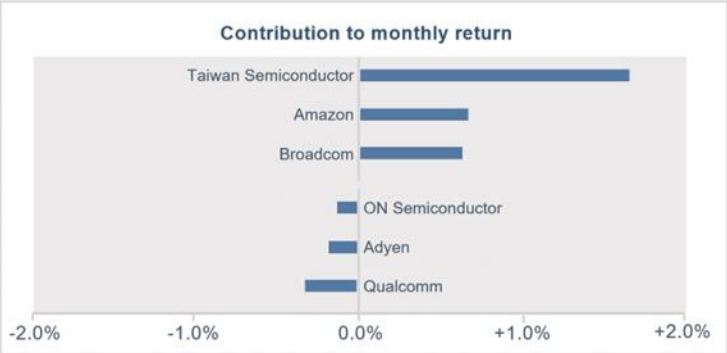
These ASICs are a less flexible but ultimately cheaper (at scale) alternative to graphics processing units (GPUs). Alphabet's TPU chips are among Broadcom's ASIC offerings.

Qualcomm was the worst performing holding for the month, detracting -0.3% from the Fund. Qualcomm sold off along with Nvidia (and most of the broader semiconductor sector). We remain bullish. The company is exposed to a cyclical recovery in smartphones as well as the continuing secular expansion into the internet-of-things and automotive end markets. These tailwinds underpin our valuations.

June also saw the much-anticipated launch of Microsoft's Copilot+ PC, which contains Qualcomm's Snapdragon X Elite. This chip - hailed as the hardware behind the first AI PC – is also (arguably) the first meaningful instance of Windows on ARM. This month, we had the chance to test the product ourselves. The improvement to battery life from the ARM architecture is meaningful, bringing Windows products into comparability with Apple devices. The foray into PCs is added optionality for a stock which already has a robust growth story.

As at 30 June 2024, after the impact of currency hedging, the Fund carried an Australian dollar exposure of 98.6%.

Selected Contributors and Detractors[4]



Portfolio Construction[4]

At June month end, the Fund was 98.2% invested in 28 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
AMD	Roku
Meta	Samsung
Microsoft	Taiwan Semiconductor

Capitalisation USD	
Mega Cap > $100b	74.1%
Large Cap $50-100b	10.7%
Mid Cap $2-50b	13.3%
Small Cap < $2b	0.0%

[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.

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

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