

## The art of disruption

June 2025



**Jacinta (00:00):**

Welcome to the Ideas Exchange by ASX, connecting you with investment experts, market updates, and ideas. I am Jacinta King, business development manager, Investment Products at ASX, and this is our regular podcast, covering everything from investment trends through to different ways to invest using a variety of products.

**Speaker 2 (00:20):**

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**Jacinta (00:47):**

Welcome to the Ideas Exchange. I'm your host, Jacinta King from ASX. Loftus Peak is a global fund manager with a focus on investment in listed disruptive businesses. And their investment approach across a wide range of global industries lowers the concentration risk, which is inherent perhaps in the typical Australian portfolio with its skew towards banks resources and the Australian dollar. And today we're pleased that Alex Pollak, chief investment officer and co-founder of Loftus Peak, could join us. He is a great speaker and mind in the disruptive investing space. So welcome, Alex.

**Alex Pollak (01:23):**

Thank you very much.

**Jacinta (01:24):**

So arguably, there's probably not too many people doing exactly what you're doing, that is investing specifically in those disruptive businesses. And for our listeners, would you please tell us what disruption is and a bit about the work you do?

**Alex Pollak (01:35):**

Yes, of course. So disruption is different to growth. Everyone sort of thinks that disruption is growth or technology, et cetera, but it's neither of those two things, although it can utilize elements of those philosophies, investment thematics. But we always talk about it in respect of the car because it's an easy one for people to get their heads around. So if you think about the car a hundred years ago, four wheels, an engine, pretty rudimentary. You might make it, you might not make it. Noisy, smelly, dirty, open topped, et cetera, et cetera. And over a period of a hundred years of innovation, the car changed significantly. Automatic gearboxes and great sound systems and anti-lock brakes and satellite navigation, et cetera, et cetera. And all of those things are part of innovation in the car. And the car supply chains and sales chains remain the same, so to speak. I mean, they get amended, et cetera, over time a little bit, but they're fundamentally the same businesses.

(02:41):

The electric car comes along, and by changing the actual motive power from fossil fuels into battery is massively disruptive. Why is it disruptive? Well, first of all, the engine, such as it is, isn't an engine. It goes from being an internal combustion engine, which is pistons and gearboxes and crankshafts and all those 10,000 moving parts that make up an internal combustion engine. And simply by making them battery-powered, it's just literally a battery on four wheels and the motive power is generated by the bushes in the battery, the generator running off the battery and driving the car. That disrupts all that group of manufacturers of 10,000 different kinds of auto parts. It also, of course, massively disrupts the petroleum value chain.

(03:34):

So you go from a hundred years of innovation and all of the bits and pieces of the cars are kind of swept away, and all you get left with is a battery. And the four wheels and the steering wheel and, well, the gearbox is gone as well because the electric cars effectively don't have them. And that's the difference between innovation and disruption. And you see it in industry after industry.

**Jacinta (04:00):**

I think there's some great analogies there, Alex. And that will help I think our listeners and myself to start getting my head around it maybe in more depth.

(04:08):

Now, I think tying in with this perhaps semiconductors, I know that you've spoken favourably about this for some time. So is it still a keen interest in the investing space or is it peaked as an investment opportunity?

**Alex Pollak (04:19):**

No, no, I don't think it's peaked. It needs to be considered in the framework of the first semiconductors, which are now were made in the '50s and '60s, and the users to which they were put. And of course one of the users was for the guidance of missiles, and then for the growth of the PC itself and then for the World Wide Web, et cetera, et cetera. And then for smartphones, and then ultimately for the artificial intelligence that's starting to be the framework work and the delivery mechanism for information.

(04:54):

So the semi-chip is not going away anytime soon. And I can't remember what the numbers are with respect to the number of transistors on a semiconductor. Once upon a time, it was eight. And now it's in the billions. I don't even know what the number is, but it's huge. And so it's not going away. And operating these big digital models, and of course in the end, companies are basically receptacles of big digital models. Their organizational model lives there, their sales leads live there, their financials live there. They're all living as it were digitally. And the storage, the compute, and the networking of those models has to be done on ever more sophisticated chips.

(05:51):

And so we remain investors in the chip industry at sort of moderately significant levels, and there doesn't really seem like there's any reason that we should change that. I mean, we move levels up and down, et cetera, as you do, but they're a core part of the portfolio. And will we to have started this business 25 years ago, they would've been a core part then. They're a core part now. And certainly for the next five years, I can't imagine any time that they're not going to be a core part of what we do because they're a core part of business globally right now.

(06:30):

AI demands on semiconductors and company's data means that the chips involved will have to become more powerful and quicker and better able to organize information so that it creates useful data, not just I have a saying too much data, no information, whenever I get confronted with something that looks like [inaudible 00:06:58], right? All data, no information. I don't want all data, I want information. And for the chip to be able to deliver information, it needs to be massively sophisticated, which is why you're getting these GPUs from Nvidia, et cetera.

**Jacinta (07:13):**

Yeah, you're right. It's integrated in everything that we do because we touch really personally and professionally, our working day, our lives outside of work.

(07:22):

So the fund you run, the Loftus Peak Global Disruption active ETF under ticker LPGD, takes advantage of this fact, this continual digitization. I'd love you to hone in on some of those key drivers that you see within this space.

**Alex Pollak (07:36):**

For the time being, it's just more of the same. So companies are coming to grips with the way AI has to be used on their data. So that's a really, really big deal because previously you sort of had one data set, which was your HR, one data set which was your payroll, one data set which was all the leases in the company, one data set which was your P&L, one data set which was the register of all the assets in the business and all the vehicles in the business. All of that, it needs to be read and acted upon by the one interface, if you want to put it that way. That interface, increasingly, has got to be AI.

(08:28):

And so what you will see over the next five years and what has already been the case over the last five years, because this didn't just start with Sam Altman in November 2022, this has been going on since... I'll give you a little bit of history in a moment, since 2012. This integration of all the different data sets, all of which are acted upon to produce a natural language answer, which is AI, has got a long way to go, bearing in mind that the natural language answer is simply a statistical probability of the next thing being X, where X is the highest probability thing, and then the next highest probability thing, and then the next highest probability thing.

(09:21):

So if the first highest one is wrong, then all the subsequent ones is wrong. And then the AI must kind of go back over itself. It's called recombinant, as it were. Go back over itself and start from the beginning and get the first part of the data set right again. That will take significant amounts of processing power.

(09:44):

So we've been investors in AI effectively since 2015, but it's worth noting that the first time that AI got over 90% accuracy was in a competition in 2011 or '12, and there was a system called AlexNet, which was run by some really important people in the field. And those people got 92% accuracy on a series of images. And it was the first time that the accuracy had got to 92%. I can't remember what it was, but I think it was even something like dogs or cats or something like that. Because you can imagine a picture of a dog or a cat might be in the shadows, might be a black cat, might be a white cat, might be a cat hiding underneath a bureau, et cetera, et cetera. So being able to identify all the different ways in which a cat can present and which elements of a cat can present and

getting 92% accuracy was simply phenomenal. It was an amazing breakthrough. And once they got that 92% on that simple input, which was, are these cats or are these dogs, then the whole industry has evolved.

(10:59):

We run a video, an Nvidia 2016 presentation, and the presentation shows boxes of pedestrians and cars and street lamps, et cetera, as a car navigates down the street. So we thought this was pretty exciting in 2016 when we bought Nvidia. We thought it was exciting in 2015 when we bought Amazon for the same reasons. So we've been following this now for 10-ish years. I don't see that there's a point at which it's going to become less important in the next five years.

**Jacinta (11:35):**

I was listening to something recently in the discussion. I was talking about what you've just gone through, and that the computational time quite takes a lot of energy, power, and it's only short periods where the AI can be thinking so to speak. But then that arguably will increase its capability very quickly in a couple of years, do you think, from what you are reading and seeing when you speak to businesses, is it sort of jumping streets ahead its ability?

**Alex Pollak (12:07):**

It's gated by the size of the data centre and the power that it draws. The power that it draws will have to come from elsewhere than the existing grid over time. So it'll need its own solar or wind or geothermal. And in the case of Microsoft and Azure, it's even got the Three Mile Island reactor in the background as well there. So that's what the gating is. The gating is around how much power it requires and the processing power within the data centres. So it'll advance reasonably quickly, but not as quickly as it could if it was unconstrained.

**Jacinta (12:47):**

What are some of the exciting things that AI offers for the future, do you think, for businesses and for the end user alone?

**Alex Pollak (12:54):**

Today, when you order an Uber or literally your taxi, there is significant AI that gets that taxi or Uber from wherever it is gets chosen, gets routed a certain way, and then taken to you and from you to your new destination and then build it. There's already significant AI. So I mean, when people sort of say AI, where is it, and the answer is you're standing in. It's everywhere. It's everywhere. It's in everything. It's only going to increase.

**Jacinta (13:27):**

What do you think are some of the things that we should be cautious about when implementing AI into the businesses? And I imagine cyber security is priority, perhaps more than ever. I mean, it's always been a significant factor for [inaudible 00:13:40].

**Alex Pollak (13:40):**

I'll get to cyber security in a minute, but before I get there, I want to touch on deep fakes.

**Jacinta (13:46):**

Okay.

**Alex Pollak (13:46):**

Just fakery, right?

**Jacinta (13:48):**

Yeah.

**Alex Pollak (13:48):**

I mean, there is already, I believe, significant fakery in AI-generated going on the web as we speak. There's already Scott Galloway, who's a podcaster that I listen to, a professor at NYU, has some deep fake has appropriated his Scott Galloway voice and image and said for investment advice, call Scott Galloway. Well, it's not Scott Galloway. Scott Galloway is not licensed to give investment advice, and this is a fake. And it's a clear and obvious fake because if you listen to Scott Galloway, you know he's not allowed to give advice and he never would. That's not what he does.

(14:34):

So there's a lot of fakery already out there on the internet, fake pictures of Morgan Freeman saying things. Those are just for examples, et cetera. But I have no doubt that there was a significant amount of skullduggery going back to the 2016 Trump campaign with the use of AI by Cambridge Analytica before even we sort of knew about AI particularly and all its uses. I think Cambridge Analytica was pretty well-versed then at creating sock puppets for the purpose of influencing people to vote for Trump.

(15:14):

What I say to people, if it looks a bit sus and it sounds a bit sus and it's out of character with what's been said before, then it's probably a deep fake. And so you ask me what are some of the things we should look for, well, that's one of them. Because it's going to get really, really sophisticated in the same way that there's a whole ton of Facebook marketing around "Miracle: Apple cider cures" and stuff like that. It's all just deep... It's just fake data. So it's there already, right? We're swimming in it.

**Jacinta (15:50):**

Yeah. So it's a minefield actually.

**Alex Pollak (15:52):**

It's a minefield.

**Jacinta (15:53):**

The companies that you are talking to investing in, is there more of a, what would you say, like a focus on the cyber security? Are they allocating more budgets towards that to go, "If we're going to live in this AI digitized space, this has to now become forefront of the businesses that we run?"

**Alex Pollak (16:13):**

So the companies that we invest in themselves are significant consumers of cyber security tools, point one. And then because they themselves are significant users and they're big companies of cyber security tools, it means that the tools of the cyber security companies that they use, those companies themselves are worthy of worthwhile investments as well. So we're in a company, for example, like CrowdStrike, which is a very important company for... Because once the integrity is breached, it notifies all of the end points about the integrity of being breached and the warning is kind of put out more generally. So we both want to see the companies in which we're invested use a lot of cyber security tools. And we're investors in the companies that make the cyber security tools as well, like CrowdStrike. Palo Alto is another. There's a half a dozen of them. They're all kind of interesting.

**Jacinta (17:18):**

Can we talk about Trump briefly? You saw a volatile April with the tariff announcements. I mean, my thought around this was how will Trump make America great again. Is it possible with the way that he's going about it? I had a look at the funds report for the month, most volatile ever that you've had in some time. And you've adjusted the portfolio accordingly. How do we make sense of this?

**Alex Pollak (17:44):**

Well, exactly to your point, right? We ended the month higher than we were at the beginning of the month. And the round trip was huge. The volatility was big. And we've continued to build on that in May. So we are navigating thus far through the Trump thing pretty well. We're happy with what we've done.

**(18:06):**

So one of the things that happened over April, which was very strange, is that the bond market sold off really, really significantly, but the equity market went up. And those two things shouldn't really go together. The

bond market's selling off and the equity market going up shouldn't really happen at the same time. And that worked for us. So there was very strong conflicting signals coming out. So that's the first point.

(18:35):

The second point is around, can, what Trump's doing, make America great again? No. And the reason why it's no is because just thinking about, for argument's sake, Apple, the fiction that if you could bring all these jobs that are currently done by Foxconn, a Taiwanese company, by people who were working on very, very, very low wages, literally 5, \$10, \$15 an hour, and the idea that somehow putting in an assembly factory inside of the United States where you'd get workers at \$10 an hour or thereabouts, is a nonsense because even Amazon pays \$18 an hour. I think Walmart does too now as well. The minimum wage now is not \$12 or I don't know what it is for Foxconn, it's probably even less. But even that would be a very big wage relative to what people earn generally across the whole of China.

(19:35):

And Americans are not going to and don't want to take jobs at \$12 an hour screwing in tiny little screws. Americans want jobs at \$150,000 a year based on designing the kinds of interfaces and the music and the technology and the disruption of the next big business, so to speak. They want those high-paying jobs. They don't want jobs at \$12 an hour or whatever they are. So no. And even if you did that and Americans took those jobs, would that make America great again, this kind of brump of poor people earning \$12 an hour? I don't think it would.

(20:24):

That's the solution. To make America great again, to make America great, you need a fair distribution. What do you need? You need the majority of people having good wages and appropriate government benefits, which kind of means that you need to, one, create the environment in which jobs are more plentiful, high-paying jobs, one. And two, shift the tax burden further towards the wealthy and away from those at the bottom end of the work curve. In doing that, you would create a wealthier America because there'd be more money at the bottom end, so to speak. That's how you'd get to an America that was greater than it was. It's not by creating tax breaks, which is what the congressional bill is just gone through, creating tax breaks at the top and worsening tax position at the bottom. So no, that won't work.

**Jacinta (21:27):**

So I really appreciate your time. Unfortunately, that's all we have time for, but if there are any other areas that you wanted to share with us on the work that you do and within the fund?



**Alex Pollak (21:39):**

I'm literally writing the campaign for what we did over the course of May, and it's a surprise to me. Again, we're outperforming solidly and generating quite decent returns even today. And you can see that on the movement in the stock price of the ETF, on the ASX.

(22:02):

So we just do two things. We just stick to the valuation process, and that's something that the seven analysts, including myself, do on a day-to-day basis. And that's the first thing. And the second thing we do is we look beyond the short-term noise of what they say about this or that or something else, to how things must work in a proper business sense over because businesses last longer than governments do. So because they last longer than governments, they're ultimately always going to navigate towards what they need to look like in three or four or five years time. We just think about what that is as well by thinking about the businesses. And that seems to work in combination with everything else to continue to generate positive returns even through this really quite nasty, volatile, tariff-ridden world.

**Jacinta (23:05):**

There you have it, everybody. Thank you, Alex. And there you have it, the art of disruption. And if you've enjoyed hearing from Alex, please head to the Loftus Peak website and look for the menu items. We've got investment insights. And also explore our funds. There's a whole lot of other information on there. Of course, you can also head to the ASX website and search under ticker LPGD. So many thanks for your time, Alex.

**Alex Pollak (23:30):**

Thank you, Jacinta. Thank you very much. I really enjoyed it.

**Jacinta (23:31):**

You're welcome. Thank you as always to our listeners. If you like this episode, please share and tune in again next month to the Ideas Exchange.

**Speaker 2 (23:41):**

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