Antipodes Global

Quarterly Investment Option Update

30 June 2019

Aim and Strategy

To achieve absolute returns in excess of the MSCI All Countries Index over the investment cycle (typically 3-5 years).

Antipodes applies a flexible, benchmark agnostic style to investing in global shares that allows for long/short exposure and actively managed cash levels. It offers active contrarian approach which seeks to exploit two broad types of market opportunities; high quality companies trading at cyclical lows where it is believed the market has become too pessimistic about the business cycle, and companies benefiting from structural change or sustained growth which is underestimated by the market. Across these opportunities the team diligently looks for a 'margin of safety' in a discount to valuation. For shorting opportunities, the symmetrically opposite logic to long investment is used.

The option primarily invests in global listed equities with maximum allowable gross exposure (sum of long and short positions) of 150% of its net asset value and a maximum net equity exposure (long minus short positions) of 100% of its net asset value. Antipodes also actively manages its currency exposure with the view of both generating and protecting portfolio returns rather than automatically hedging back to Australian dollars.

Investment Option Performance

To view the latest investment performances for each product please visit amp.com.au

Investment Option Overview

Investment category	Global Shares
Suggested investment timeframe	5 years
Relative risk rating	6 / High
Investment style	Special – absolute return
Manager style	Single manager

Asset Allocation	Benchmark (%)	Actual (%)
Global Shares	N/A	65.7
Cash	N/A	5.7

Regional Allocation	%
North America	15.8
Developed Europe	18.3
Japan	10.0
Developed Asia x Japan	8.6
Emerging Markets	13.0

Sector Allocation	%
Utilities	0.9
Telecomm. Services	10.6
Materials	3.4
Info. Technology	9.8
Industrials	7.5
Healthcare	6.0
Financials	11.4
Energy	4.5
Consumer Staples	1.8
Consumer Discretionary	13.5
Real Estate	-1.8
Cash / Other	3.8

Top Holdings	%
Facebook	3.2
Ping An Insurance	3.0
Microsoft	2.9
Siemens	2.8
Samsung Electronics	2.6
KB Financial	2.6
General Electric	2.6
Qualcomm	2.5
Cisco Systems	2.5
SAP	2.5

Portfolio Summary

- Global equities (+4.9%) extended a positive start to 2019 in Q2 as central banks signalled further easing to prevent a trade/industrial slowdown from morphing into a consumer recession.
- Key contributors to performance included our Connectivity/Compute, Online Services, Software and Industrials clusters in additional to our gold exposures, while our Oil/Natural Gas, Telco/Infrastructure and short exposures detracted.

Investment Option Commentary

The Antipodes Global Fund underperformed its benchmark. Key contributors included:

- Connectivity/Compute cluster, notably Qualcomm following the favourable resolution to the multi-year licensing dispute with Apple, a testament to the strength of Qualcomm's intellectual property and leading position in 5G modems.
- Online services, notably Facebook and Sony. Facebook continues to show growth across its platforms and is accelerating innovation in e-commerce and interoperability to drive further engagement and monetisation. Sony entered into a collaboration with Microsoft for cloud gaming services which will likely bolster its market leading streaming offering and announced plans to buy back another 4.8% of shares.

Key detractors to performance include:

- Oil/Natural gas cluster, including Range Resources and CNX Resources following a decline in gas prices.
- Telco/infrastructure cluster, notably China Telecom and China Unicom due to disappointment regarding capital management within the sector and concerns of a US-China trade war escalation impacting 5G network rollouts.
- Our short positions detracted from performance. The portfolio is short businesses that we believe are vulnerable to competition and have highly geared balance sheets, with the market overly optimistic about their near-term growth projections.

Market Commentary

Global equities (+4.9%) extended a positive start to 2019 in Q2 as central banks signalled further easing to prevent a trade/industrial slowdown from morphing into a consumer recession. It was a volatile quarter as economic data continued to deteriorate and US-China trade uncertainties persisted. Characterised by a moderate cyclical bias, investors showed a stylistic preference for high multiple/growth and momentum stocks. Financials, Information Technology and Industrials outperformed whilst Energy, Healthcare and Utilities lagged.

Outlook

It was a volatile quarter where, unusually, both bonds and equities rallied hard in the face of weak data. The equity leg has been led by highly defensive sectors and/or growth stocks where valuations are at extreme levels. With Fed futures pricing in a recessionary level of cuts over the next 12 months, the recession, if it happens, has already been priced into cyclical valuations. The quarter's significant tightening of credit spreads seems inconsistent with the deterioration in global activity surveys and the underperformance of cyclical stocks.

In terms of "end of cycle" warning signs we would highlight the following as worth monitoring closely:

- Growing evidence of Fed policy impotence if policy easing results in higher credit spreads and/or very little real-world stimulus. In this regard, US housing starts need to be monitored closely.
- Chinese policy limits. Since December 2018, Chinese banks' Cash Reserve Ratios have been cut from 17% to 13.5% but unlike 2015, FX reserves have encouragingly remained stable. Signs that further easing are matched by capital outflow bringing Renminbi devaluation back into the calculus would be fuel on the fire for world trade tensions.
- Risk of the Fed pushing the unemployment level below the NAIRU (Non-Accelerating Inflation Rate of Unemployment) level for too long that ultimately leads to a 1965-style wage-price inflation spike.

Against this backdrop, and in a market that is currently giddy for structural growth and quality at any price, the conundrum we face is how to balance increasingly attractive cyclical valuations against risks regarding the durability of the cycle. Given the apparent stabilisation in the Chinese data, investors should be more open to cyclicality. Even more appealing would be owning stocks perceived to be cyclical that represent structural growth opportunities – that is looking for quality and growth in less obvious parts of the market.

Availability

Product name	APIR
AMP Flexible Lifetime Super	AMP1526AU
AMP Flexible Super - Retirement account	AMP1586AU
AMP Flexible Super - Super account	AMP1574AU
CustomSuper	AMP1526AU
Flexible Lifetime - Allocated Pension	AMP1538AU
SignatureSuper	AMP1550AU
SignatureSuper Allocated Pension	AMP1562AU
SignatureSuper Select	AMP1550AU

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