Antipodes Global

Quarterly Investment Option Update

31 December 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	100	N/A
Cash	N/A	N/A

Sector Allocation	%
Banks	10.5
Internet	9.9
Healthcare	6.7
Hardware	6.8
Industrial	4.4
Software	4.7
Retail	4.7
Energy	4.9
Communications	2.9
Insurance	3.8
Staples	2.0
Industrial Services	2.9
Infrastructure	1.9
Precious Metals	2.4
Other	0.2

Regional Allocation	%
North America	20.9
Developed Asia x Japan	7.4
Japan	6.9
Developing Asia	14.1
Western Europe	19.5
Australia	1.3
Rest of World	0.3

Top Holdings	%
Alibaba	3.1
Facebook	3.1
Microsoft	3.0
Samsung	2.7

Portfolio Summary

- The fund underperformed the benchmark in the December quarter as further monetary easing, optimism for a US-China trade deal and a market positive UK election result saw global equities close the year at all-time highs.

Investment Option Commentary

Key contributors to performance include:

- Connectivity/Compute cluster including Samsung Electronics, Taiwan Semiconductor Manufacturing Co and Qualcomm as the market increasingly expects a strong uptake in 5G devices in 2020 and inventory has rebalanced.
- Online Services – Asia/Emerging Markets cluster including Alibaba and LINE. Alibaba reported another strong result with growth in e-commerce, cloud computing and offline retail sales, while also completing its secondary listing in Hong Kong. LINE rose on news our shares would be bought post a takeover from Yahoo Japan.
- Consumer Cyclical - Developed Markets cluster including UniCredit and ING Groep. UniCredit reported strong results as the company continues to make strides towards repairing the balance sheet via cost control and selling non-core assets. ING reported better than expected earnings driven by revenue growth thanks to resilient net interest margins.

Key detractors to performance include:

- Infrastructure/Property - Asia/Emerging Markets cluster, notably our exposure to China Telecom and China Unicom which reacted to mixed news flow as positive news on 5G network cooperation was somewhat offset by competitively priced 5G plans.
- Infrastructure/Property - Developed Markets, notably SES as the US Federal Communications Commission announced a public, rather than private, auction of C-Band spectrum, likely resulting in a reallocation to the US telecom operators in order to move into a 5G world.
- Expedia Group in Online Services - Developed Markets cluster as the company will incur higher advertising expenses as it pays more to Google for search traffic.

Market Commentary

Global equities were strong in the December quarter (+4.5%), closing the year at all-time highs, as further monetary easing, optimism for a US-China trade deal and a market positive UK election result boosted sentiment. Characterised by a cyclical bias, investors showed a stylistic preference for profitability and growth at the expense of momentum. Information Technology, Healthcare and Materials outperformed whilst Utilities and Consumer Staples lagged.

Against this backdrop, US equities performed in line. The US Federal Reserve cut interest rates by 25bps in both September and October, having also cut in July, and indicated that it expects to leave rates unchanged in 2020. The Fed also began expanding its balance sheet again to address a perceived shortage in system reserves. This led to a much weaker US dollar over the quarter, supporting Emerging Market equities.

Asian equities outperformed as the US and China agreed to a phase-one trade deal, avoiding the scheduled tariff increase on the 15th December. Trade sensitive markets, such as Korea and China, saw significant relief rallies while India lagged as Moody's lowered its credit rating outlook to negative citing risks to its growth outlook.

Outlook

For the year, global equities delivered the second-best performance since the Global Financial Crisis (GFC), rising 26.8%. Buoyant equity and credit markets have interpreted the US Federal Reserve’s recent actions as mid-cycle insurance cuts. In stark contrast, the fixed income market continues to price in a much lower growth/later cycle/recessionary environment with very little change in record low real yields across the curve. This means the duration bubble continues to inflate. How this apparent inconsistency between equity and bond markets is resolved has broad implications for both equity sector and style outcomes.

Antipodes’ base case is that the major structural change in the macro backdrop in recent times has been a move towards populism in response to extreme wealth disparity. This will take many different forms but will ultimately result in much larger fiscal deficits and a less certain regulatory environment. The US is well down this path.

Whilst US and Chinese geopolitical competition will likely intensify, steps towards a near-term comprehensive trade resolution would reduce some of the uncertainty impacting business investment decisions. Hence, as trade uncertainty falls away, fiscal stimulus gains traction and interest rates remain accommodative, they see an ongoing path towards a cyclical rebound, especially ex-US where valuations of domestic/cyclical equities remain attractive.

This acceleration in global economic growth would likely result in a slight steepening of the yield curve and outperformance of lower multiple stocks (commodities, financials, domestic ex-US). Conversely, the rise in the discount rate would represent a headwind for some of the more expensive growth and bond proxy stocks that have been played as the equity beneficiaries of the duration bubble.

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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What you need to know