Antipodes Global

Quarterly Investment Option Update

30 June 2022

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 visit amp.com.au/performance.

Investment Option Overview

Investment Category	Global Shares
Suggested Investment timeframe	5 years
Relative risk rating	7 / Very high
Investment style	Special – absolute return
Manager style	Single Manager

Asset Allocation	Benchmark (%)	Actual (Net %)
Global Shares	100	66.7
Cash	0	4.2

Sector Allocation	%
Software/Internet	19.7
Industrials/Materials	5.7
Financials	8.6
Retail	7.5
Healthcare	6.0
Hardware	6.7
Energy/Ind. Services	6.6
Infra./REITS/Communications	8.6
Staples	2.5
Housing/Durables	4.3
Consumer & Commercial Services	0.0
Precious	3.2
Tail Risk (Equity)	-6.0
Tail Risk (Other)	-6.9

Regional Allocation (Net Equity)	%
North America	29.9
Developed Asia x Japan	4.0
Japan	2.2
Developing Asia	17.3
Western Europe	24.6
Australia	-1.0
Rest of World	-3.3

Portfolio Summary

- The strategy outperformed the MSCI All Country World Index in the June quarter.

Investment Option Commentary

Key contributors to performance over the quarter included:

- Consumer Cyclical – Asia/EM cluster, including Trip.com and Yum China. Trip.com reported top-line results exceeding analyst expectations with management also highlighting that airline ticket bookings on its global platforms increased 270% from the corresponding quarter in 2021. Similarly, Yum China also benefited from lockdowns easing and consumers returning to stores and restaurants later in the quarter.
- Healthcare cluster, notably Merck with the company reporting robust earnings for 1Q22. Highlights included a 50% increase in sales from 1Q21, led primarily by key cancer drug Keytruda, as well as the company's COVID-19 antiviral drug and vaccine business. Later in the Quarter Merck benefited from news of a purported takeover of cancer biotech company, Seagen.
- Internet/Software – Asia/EM with Chinese technology stocks rallying during the month as China's leadership vowed to drive economic stimulus and end speculation around the crackdown on internet companies.
- Oil/Natural Gas Cluster, which benefited from the recent surge in commodity prices
- Shorts, namely tail risk and industrials clusters as higher rates from the Fed's battle against inflation continued a severe sell off in weaker companies with higher starting multiples, given their sensitivity to rising rates.

Key detractors to performance over the quarter included:

- Internet/Software – DM cluster with technology stocks and platform companies, such Meta Platforms, Compass Inc. and Amazon heavily sold-off during the quarter, detracting from returns.
- Industrials cluster, which saw Siemens declare a write down in the value of its 35% stake in Siemens Energy due to a sharp drop in share price over recent months.
- Hardware cluster, with the recent pullback in portfolio holdings TSMC and Mediatek over the quarter reflecting heightened investor concerns of a broader economic slowdown impacting the semiconductor industry as well as increasing chip material prices.

Market Commentary

After a decade of global quantitative easing, the second quarter of 2022 (the Quarter) was dominated by the challenges faced by central banks as supply chain bottle necks, persistent inflation and elevated energy and commodity prices showed little sign of easing. Global equities were down during the Quarter (-7.9% in AUD) as central banks implemented monetary policy tightening and further indicated more was to come.

US equities were down (-9.2% in AUD) over the Quarter as the Federal Reserve's tone gradually became more hawkish. Overall, Asian equities were down for the Quarter (-2.8% in AUD). The region was led by Chinese equities which outperformed broader markets (+12.4% in AUD) helped by supportive policy and signs of further support from the government and the People's Bank of China. The relaxation of COVID-19 restrictions in some cities towards the end of the Quarter saw a notable uplift to economic activity.

Over the Quarter energy, consumer staples and utilities outperformed, whilst information technology, consumer discretionary and materials underperformed.

Outlook

Looking ahead towards the next 12 months, the fund manager considers the range of outcomes around economic activity and inflation remain wide. Regardless of whether inflation has peaked, CPI remains materially above the Fed's 2% target. Internal modelling from the fund manager suggests that while slowing money supply growth will help reduce inflation, structural issues may keep CPI above central bank targets over the coming year. The fund manager's analysis also suggests global economic growth will continue to slow but can remain positive. Antipodes base case of a backdrop of stagflation will see investors pay more attention to valuations, and as a result multiple dispersion can continue to narrow.

The equity market is already pricing in a mild recession in the West, but not a hard landing. Worryingly, there have been clear capitulation in credit markets as US and European high yield spreads are already wider than at the end of the last peak in the policy rate in late 2018 (rates rose from 0.25% to 2.50% over three years). That is, the credit market is pricing in a higher level of stress, and we are only three months into a tightening cycle (though to date, the speed of rate rises has been more aggressive). The credit market is pricing in a hard landing scenario i.e., that Western central banks have already overtightened (as they over loosened in response to the initial COVID-19 crisis) and/or that China has been too slow to reverse policy reform/tightness to offset a Western slow-down.

Economic activity in China continues to be weighed down by policy tightening that occurred in 2021 and lockdowns associated with the country's zero-COVID policy, but pleasingly there are signs of recovery in subway, airline, intracity movement and cargo freight.

The fund manager remains comfortable with the tilts in the portfolio. In the US the portfolio is underweight expensive tech, though finding opportunities at the margin, and domestic cyclicals which will bear the brunt of a weaker US consumer, and we remain overweight energy (with a focus on natural gas). The overweight to Europe has a bias towards decarbonisation (utilities and enablers) and the overweight to China/Emerging Markets focuses on domestic businesses that will benefit from a cyclical economic rebound and structural consumption trends. As much as many investors find it uncomfortable, China remains relevant for global investors because it has preserved both fiscal and monetary policy flexibility. Far from being "uninvestable", the divergence in the Chinese and Western economic cycles provides a relative unique opportunity to invest in some great companies at attractive valuations, that will act in a generally non-correlated manner to the parts of the portfolio that are sensitive to Western economic outcomes.

Availability

Product name	APIR
SignatureSuper*	AMP1550AU
SignatureSuper Allocated Pension*	AMP1562AU

*Closed to new investors

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