Antipodes Global

Quarterly Investment Option Update

31-December-2017

Availability

Product name	APIR
Flexible Super – Choice (Retirement)	AMP1586AU
Flexible Super – Choice (Super)	AMP1574AU
CustomSuper	AMP1526AU
Flexible Lifetime – Allocated Pension	AMP1538AU
Flexible Lifetime – Super	AMP1526AU
Signature Super	AMP1550AU
Signature Super – Allocated Pension	AMP1562AU

Investment Option Performance

Investment performances are subject to product fees and where relevant tax as outlined in the product PDS. Therefore investment performance may differ between products. In addition, activity on your account such as contributions and deductions will also impact the investment performance specific to you. To view the latest investment performances for each product, please visit **www.amp.com.au**. You can also view the last investment performance specific to you by visiting your My Portfolio account.

Contact Us

Web: www.amp.com.au

Email: askamp@amp.com.au

Phone: 131 267 (Mon. to Fri 8:30am to 6:00pm AEST)

Overview

Aim & 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.

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 category: Global Shares

Suggested Investment Timeframe: 7 to 10 years

Relative Risk Rating: 6 / High

Asset Allocation (%)	Actual	Range
Global Equities	67.0	Net exposure 50-100
Cash	4.5	Typically 0-50

Industry Exposure (%)	Long	Short	Net
Banks	11.7	-2.4	9.3
Software	9.9	-1.4	8.5
Energy	8.5	-1.2	7.2
Retail	7.6	-0.8	6.9
Communications	7.1	-0.2	6.9
Staples	6.7	-0.5	6.2
Hardware	6.0	-2.6	3.3
Insurance	5.9	0.0	5.9
Internet	5.5	-0.8	4.7
Other	26.7	-18.7	8.0

Regional Exposure (%)	Long	Short	Net
North America	**25.8**	**-16.2**	**9.6**
Developed Asia	**24.1**	**-2.9**	**21.2**
Korea	10.2	0.0	10.2
Japan	13.9	-1.8	12.1
Developing Asia	**20.4**	**-2.7**	**17.6**
China/Hong Kong	20.4	-1.7	18.7
India	0.0	-1.0	-1.0
Western Europe	**19.2**	**-4.2**	**15.0**
Eurozone	16.7	-2.3	14.4
United Kingdom	1.5	0.0	1.5
Rest Western Europe	1.0	-1.9	-0.9
Australia	**1.9**	**-2.6**	**-0.7**
Rest of World	**1.2**	**0.0**	**1.2**
Total Equities	**92.5**	**-28.5**	**64.0**
Other	3.1	0.0	3.1
Cash	4.5		
Totals	**100.0**	**-28.5**	**67.0**

Top Ten Securities	%
Cisco Systems, Inc.	3.2
Ping An Insurance (Group) Co. of China Ltd.	2.8
KT Corp.	2.8
INPEX Corp.	2.7
Microsoft Corp.	2.7
Gilead Sciences, Inc.	2.7
Baidu, Inc.	2.7
KB Financial Group, Inc.	2.6
Hyundai Motor Co., Ltd.	2.6
Electricite de France	2.6

Market Commentary

Cross-asset risk appetite was strong over the quarter, buoyed by the synchronicity of the global economic upswing, accommodative forward guidance from central banks and improving corporate earnings momentum. Global equities rose +5.7% (USD terms, +6.1% AUD), with Japan (+8.5%), Asia ex Japan (+8.2%) and the U.S. (+6.4%) outperforming whilst Europe (+2.2%) and China (+2.8%) lagged. Across regions, cyclical sectors broadly outperformed.

Against a backdrop of strong U.S. growth, subdued inflation and robust corporate earnings, particularly from the technology sector, U.S. equities were boosted by the progression of the Trump administration's legislative agenda. Fearing Republican defeats in the Alabama and Virginia Senate contests as a precursor to next year's mid-term elections, Congress rallied together to approve the long-awaited tax reform bill that includes as its centerpiece the reduction of the corporate tax rate from 35% to 21%.

Following a strong year, European equities lagged despite the persistence of the Eurozone's economic recovery. In the wake of eighteen consecutive quarters of GDP expansion, indicators of economic activity remain at multi-year highs driven broadly by manufacturing and service sectors. Political tensions returned to the fore, with coalition talks collapsing between Angela Merkel's CDU/CSU, the liberal FDP and the Greens, whilst regional elections in Catalonia failed to resolve its separatist ambitions. Towards quarter end an agreement struck to allow talks to proceed to the future of trade arrangements lifted hopes around the advancement of Brexit negotiations.

In Japan, uncertainty around October's snap general election diminished in the lead up to Prime Minister Abe's victory, cementing expectations of a sustained loose monetary and fiscal policy setting. Strong global growth, a weaker Yen and improving domestic macroeconomic conditions saw Japanese equities, particularly exporters, outperform.

Asia ex Japan rebounded strongly with Korea (+11.2%) and India (+11.8%) the standouts. Korean equities benefitted from China's effort to reset relations following the fallout over the deployment of THAAD (U.S. anti-missile system), bringing an end to China's boycott of Korean goods and tourism. More generally, Korea's exposure to global growth and a reflating domestic economy, set against modest valuations, has seen foreign investors revisit opportunities in this market. India's Rs1.35 trillion plan to re-capitalise its state owned banks was taken to boost economic growth in the medium-term, whilst Prime Minister Mohdi's tighter than expected victory in the Gujurat state elections fueled expectations of increased government stimulus ahead of the 2019 national elections.

In China, President Xi Jinping secured his political primacy for the foreseeable future, laying out a vision for a new "era" led by a stronger Communist party. Noticeably absent was any material change to the reform agenda, and despite policy conditions remaining conducive to measured growth, recent tightening and strengthened financial supervision has slowed overall credit growth, tempering expectations around future economic activity.

For a fourth consecutive quarter the U.S. trade weighted dollar (-1.0%) fell as global growth outpaced the U.S. and the market grew cautious around the pace of further interest rate hikes from the Federal Reserve (Fed). Whilst broad indicators are suggestive of strengthening global demand, pockets of weakness persist in the U.S. economy and inflation has remained below target. This set the scene for a rally in EM (+7.4%) and commodities, underpinned by industrial metals and energy. Nickel (+22%), copper (+12%) and iron ore (+12%) were particularly strong as Chinese demand remained firm. Oil (+17.7%) continued its rise as OPEC and Russia agreed to extend their production cuts to the end of 2018.

Despite lingering concerns around the pace of global inflation, after years of ultra-loose policy the European Central Bank (ECB) took measured steps towards exiting its quantitative easing (QE) program, reducing the rate of net asset purchases by half starting in January 2018, whilst extending the program by another 9 months until September 2018. The Fed, Bank of England (BoE) and Bank of Korea (BoK) raised policy rates in turn, whilst robust economic growth in Malaysia, Thailand, and India appear likely to bias their central banks towards normalisation. Notwithstanding this gradual shift, cross-asset volatility continued to fall (Chart 8) and Developed Market (DM) yield curves flattened.

Global sector-wise, Energy (+6.8%), Materials (+7.9%), Information Technology (+8.1%), Consumer Discretionary (+7.7%) and Financials (+6.1%) outperformed whilst Healthcare (+1.3%), Telecommunications (+2.0%) and Utilities (- 0.3%) lagged. Global factor-wise, stocks with low multiples and yield underperformed those with high Profitability/Growth/Momentum characteristics.

Investment Option Commentary

Against this backdrop, for the quarter, the Antipodes Global Fund outperformed its benchmark. Posting strong absolute returns, reflecting gains in its Consumer and Software Incumbent, Online Services, Natural Gas, Low Cost Oil and Global Cyclical exposures.

Since inception, through volatile market conditions, the fund has outperformed the benchmark whilst also delivering solid absolute returns – its goal over the investment cycle (typically 3-5 years). Encouragingly, the 4.6% p.a. outperformance has been achieved with an average net equity exposure of 58% in a rising global market. Antipodes' longs and currency management have contributed to this outperformance, whilst shorts detracted.

Key quarterly contributors included:

• Consumer Incumbent exposures such as Ping An Insurance where the inherent strength of the life insurance product offering became apparent; Michael Kors rallied as restructuring efforts have helped to stabilise the business sooner than expected and prospects for growth returned; similarly Chinese branded noodle maker Tingyi delivered strong 3Q results with various initiatives - improving product mix, innovation and asset utilisation - starting to pay off despite higher raw material prices• Online Services exposures such as Baidu where revenue growth expectations increased as regulatory headwinds abated.

• Online Services exposures such as Twitter where the market has begun to focus on the monetisation potential of their global platform,

• Software incumbent exposure such as NetApp, which delivered strong results in the quarter, benefitting from share gains in the all-flash storage market as well as strong margin leverage. Cisco Systems benefited from the success of new product introductions and the ongoing transition of its business model to recurring subscription,

• Connectivity related names such as Qualcomm benefited from the emergence of a takeover offer from US rival Broadcom

• Cyclical names such as Japan Steel Works continued its 2017 rally on the back of a pick-up in orders in the steel business along with sustained robust demand in the industrial machinery business, leading to increased profit guidance.

Key detractors included:

• Connectivity name Nokia fell sharply after an unexpected earnings miss caused by a combination of market share losses in China and higher than expected expenses associated with equipment upgrades

• Consumer Incumbent Office Depot continued to decline on fallout from its recently announced acquisition and negative commentary from sell-side analysts,

• European recovery name Leonardo fell sharply after warning on the performance of their key helicopter division for the remainder of 2017 whilst failing to adequately explain the sudden deterioration in the business.

• Short exposures detracted from Fund performance.

Outlook

The general uptrend in the broader equity market seems set to continue given economic data globally remains robust and central banks very accommodating. However, the blind assumption of unendingly low rates is a dangerous one. As a result, Antipodes simplistically see two likely scenarios:

• Growth continues to surprise to the upside driving greater urgency from central banks to normalise policy. To minimise disruption to short-term funding markets, tapering would likely focus on the long-end of the yield curve leading to a potentially self-reinforcing pro-growth steepening, resulting in a significant increase in bond volatility and headwinds for the crowded/expensive low volatility, bond proxy and growth/quality equity exposures.

• Growth disappoints due to policy tightening by China or the U.S. In this scenario, credit volatility would spike triggering a major sell-off in credit sensitive equities regardless of their duration, i.e., a repeat of the 2015/16 commodity high yield melt-down which ended up spilling over into non-commodity exposures. Conversely, the inevitable central bank response would extend the illusion of stability and amplify the imbalances with a continued melt-up in the low volatility, bond proxy and growth/quality equity exposures.

Antipodes Partners' investment goal is to build portfolios with a capital preservation focus from non-correlated clusters of opportunity. In the fund's long investments Antipodes seek both attractively priced businesses (margin of safety) and investment resilience (characterised by multiple ways of winning), with the opposite logic applying to our shorts, i.e. no margin of safety and multiple ways of losing. Whilst the investment case will always be predicated on idiosyncratic stock factors such as competitive dynamics, product cycles, management and regulatory outcomes, we seek to amplify the investment case by taking advantage of style biases and macroeconomic risks/opportunities.

Given the divergent risks that the above two scenarios represent, investors should focus more than ever on uncovering sources of idiosyncratic alpha, rather than relying on momentum or passive beta. In this sense, Antipodes is encouraged by the high level of valuation dispersion within and across markets (region/sector/factor) as indicative of broad pragmatic value opportunities, both long and short.