Antipodes Global

Quarterly Investment Option Update

30-June-2018

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.

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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	Net Range
Global Equities*	61.9	50-100
Cash	10.2	0-50

* Including equity derivatives

Industry Exposure (%)	Long	Short	Net
Banks	10.6	-2.9	7.7
Communications	8.9	-0.8	8.1
Internet	8.6	-0.4	8.2
Energy	8.1	-1.9	6.2
Software	8.0	-2.4	5.7
Hardware	6.9	-3.6	3.3
Staples	6.2	-1.2	5.0
Retail	4.5	-0.8	3.7
Industrial Services	4.5	0.0	4.5
Other	23.6	-14.0	9.5

Regional Exposure (%)	Long	Short	Net
North America	**29.4**	**-14.9**	**14.5**
Developed Asia	**20.9**	**-5.0**	**15.9**
Korea/Taiwan	9.5	-1.4	8.1
Japan	11.4	-3.6	7.8
Developing Asia	**19.3**	**-1.6**	**17.8**
China/Hong Kong	19.3	-0.5	18.8
India	0.0	-1.1	-1.1
Western Europe	**18.0**	**-4.1**	**13.9**
Eurozone	16.8	-1.7	15.1
United Kingdom	0.6	-0.8	-0.2
Rest Western Europe	0.6	-1.6	-1.0
Australia	**1.7**	**-2.4**	**-0.7**
Rest of World	**0.5**	**0.0**	**0.5**
Total Equities	**89.8**	**-27.9**	**61.9**
Cash	**10.2**	**-**	**-**
Totals	**100.0**	**-27.9**	**61.9**

Top Ten Securities	%
Electricite de France	2.8
Baidu	2.7
Gilead Sciences	2.7
KT Corporation	2.7
Cisco Systems	2.7
Samsung Electronics	2.5
INPEX	2.5
KB Financial Group	2.5
Ping An Insurance Group	2.4
Qualcomm	2.4

Market Commentary

Protectionist global trade tendencies, tighter monetary conditions and a stronger dollar pacified global equities in the June quarter (+0.5% USD, +4.4% AUD). As markets transitioned from a paradigm of synchronised global growth to one of US fiscal exceptionalism, US equities outperformed (+3.4%) whilst Emerging Markets (EM) ex Asia (-13.6%), China (-10.8%), Korea (-9.2%), Japan (-2.8%) and Europe (-1.3%) underperformed.

Despite facing retaliatory tariffs from major trading partners, a strong corporate earnings cycle helped US equities buck the global trend. With unemployment at its lowest level in more than a decade and wage inflation beginning to bite, the insertion of fiscal stimulus at this point in the cycle has cleared the way for the Federal Reserve (Fed) to continue its pathway of interest rate and balance sheet normalisation. Against a backdrop of moderating economic growth in the rest of the world, the US dollar (USD Dollar Index +5.0%) found support, undermining sentiment towards EM more generally.

Renewed fears of a global trade war continued to dominate, with the protectionist stance of the US government extending steel and aluminium tariffs to Canada, Mexico and the European Union (EU), with potential escalation to imported automobiles. The subject proved to be a source of acrimony at the G7 summit, with trade matters further alienating the Trump administration from traditional allies following earlier attempts to have Russia reinstated to the group after its membership was suspended in the wake of the 2014 Crimean annexation.

Escalation in the US trade dispute with the July announcement of tariffs on a further $200 billion in Chinese imports weighed heavily on global equities sensitive to Chinese growth, with China’s equity market falling 8.0% in June alone, the inaugural month of its inclusion in the MSCI Emerging Markets Index. Chinese macro-prudential property related tightening and increasingly restrictive banking regulation, coupled with a wave of bond defaults, stoked fears of weaker China centric growth. Against this backdrop, global corporate credit spreads continued to widen.

Following a period of bellicose North Korea-US interchanges, the leaders of both nations met at a historic summit in Singapore. Whilst no specifics were agreed on with respect to denuclearisation, sanctions or regional security guarantees, heightened tensions between the two nations appear to have abated. Buoyed by Moon Jae-in's recent diplomacy in North Korean relations, South Korea’s Democratic Party enjoyed a landslide victory in June’s local elections. Despite the party’s agenda for reform and nascent optimism around reunification, investors in Korean equities were deterred by the prospect of weaker global growth.

After the Italian federal election in March ended in deadlock, a period of relative stability gave way to the prospect of anti-establishment forces abandoning efforts to form a coalition following President Sergio Mattarella's veto of the coalition's choice of a Eurosceptic finance minister. Perceived as having the potential to morph into a referendum on the Euro, and set against moderating Eurozone growth, Italian and Eurozone equities fell -7.3% and -1.3% respectively over the quarter, with Italian 10-year bond yields increasing by 120 basis points over their German counterparts.

Troubled by fears of de-synchronising global growth, specifically in Europe, Asia and Emerging Markets, investors maintained a regional preference for the US whilst rotating out of relatively low multiple stocks, or "value", in favour of "structural growth" and "quality" exposures, irrespective of price. Value has now underperformed structural growth over 1, 3, 5 and 7-year time horizons, with the underperformance particularly acute over the last 1 and 7 years.

In commodities, Oil (+14.3%) moved sharply higher, driven by ongoing production cuts by OPEC to curb the global glut of crude, production issues in Venezuela and uncertainty around Iranian supply following Trump's decision to unilaterally exit its nuclear deal. Non-energy commodities (Bloomberg Commodity Index -0.1%) and Gold (-5.5%) underperformed on the back of global growth concerns and a stronger US dollar.

Global sector-wise, Energy made gains of +10.2%, spurred on by rising oil prices, whilst Technology overcame first quarter regulatory concerns to post positive performance of +3.9%, with Financials (-5.6%), Telecommunications (-4.2%) and Industrials (-2.7%) the biggest detractors.

Investment Option Commentary

Against this backdrop, the Antipodes Global Fund underperformed the respective benchmark. Solid absolute returns posted by the Antipodes Global Fund reflected gains in our Online Services, Consumer & Software Incumbent, Mobile Connectivity, Low Cost Oil and Natural Gas exposures.

Antipodes observed a spike in correlation across their Financial, Telecommunication Incumbent and Global Cyclical exposures, a common denominator being a style bias to "value". Following the sharp rotation out of "value" into "growth" over the quarter, these exposures were amongst the fund's biggest detractors.

Since inception, through volatile market conditions, the fund has outperformed the benchmark whilst also delivering solid absolute returns – the goal over the investment cycle (typically 3-5 years). Encouragingly, in the case of the Antipodes Global Fund, its 3.6% p.a. outperformance was achieved with an average net equity exposure of 59% in a rising global market. The longs and currency management were the key contributors to this outperformance.

Key quarterly *contributors* included:

• Online Services such as **TripAdvisor** supported by user growth and wider recognition of the advertising monetisation potential of its platform; **Baidu** resulting from the value highlighted by the successful iQiyi spinoff and the extension of its Chinese autonomous driving platform lead**.**

• Consumer Incumbents such as **Yamato Holdings** as its dominance in Japanese parcel delivery results in surprisingly better contract price renewals; **Jiangsu Yanghe** following increased contribution from premium liquor and ongoing expansion beyond its home province of Jiangsu; **Under Armour** as recent operational turn-around initiatives gain traction, supported by a strong athleisure innovation cycle and less discounting.

• Software Incumbents such as **Microsoft**, **Cisco** and **NetApp** continued to benefit from new product success and a rebound in demand as their mainstream corporate clients finally opened their wallets to modernise their I.T. infrastructure as fears of competitive disruption mount.

• Mobile Connectivity exposures such as **Qualcomm** and **Nokia** as the companies delivered better results against a backdrop of softening handset demand.

• Low Cost Oil exposures such as **CNOOC** following quarterly results that displayed impressive cash generation on the back of the rally in oil prices.

• Natural Gas exposures such as **CNX Resources** reported growing gas production, lower costs and reduced balance sheet leverage post the coal asset spin-off.

Key *detractors* included:

• Domestic Recovery exposures in Asia and Europe where fiscal discipline, escalating trade tensions and political uncertainty have dampened domestic growth expectations. Specifically, European exposures such as **UniCredit** and **Telecom Italia**, both with substantial operations in Italy, were adversely affected by the broad sentiment reversal brought on by the Italian federal election and subsequent refocus on the vulnerability of the EU; **China Construction Bank** and **KB Financial** as the impact of escalating trade tensions and moderating domestic growth weighed on sentiment.

• Natural Gas exposure **Inpex** after announcing lower than expected guidance, resulting from a delay to the start-up of the Ichthys LNG mega project and higher future capital spending.

• Global Cyclical exposures such as **Honda Motor** and **Hyundai Motor** following the suspension of Honda's best-selling CRV model in China (now rescinded) and tariff speculation affecting the global industry more broadly.

• Aggregate short exposures *detracted* from performance.

Outlook

Putting aside trade wars and policy missteps, whilst the US growth environment is unlikely to accelerate much from here, the combination of fiscal stimulus and the easiest US financial conditions since the Global Financial Crisis should sustain growth at current levels for longer. However, Antipodes believe the unusually favourable goldilocks combination of accelerating growth and tepid inflation experienced in 2017 will not repeat. Instead, normalisation of interest rate policy will likely upset the rhythm with more volatile and less forgiving markets. The manager simplistically see two opposing scenarios, with the most recent weight of evidence supporting the second outcome:

• Cyclical growth surprises 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 bond proxy and quality/growth equity exposures.

• Cyclical growth disappoints due a US or Chinese policy error. In this scenario, credit volatility would spike triggering a major sell-off in credit sensitive equities. Conversely, the inevitable central bank reaction function would further amplify imbalances and support a continued melt-up in the quality/growth factor, led by the Internet and Software giants.

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, Antipodes 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, the team 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.