Antipodes Global

Quarterly Investment Option Update

30 June 2020

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	0	N/A

Sector Allocation	%
Internet	11.8
Hardware	9.7
Healthcare	8.3
Banks	8.8
Industrial	3.0
Retail	4.5
Staples	3.8
Software	2.8
Precious Metals	4.0
Other	19

Regional Allocation (Net)	%
North America	21.7
Developed Asia x Japan	7.9
Japan	2.9
Developing Asia	17.7
Western Europe	23.1
Australia	2.5

Top Holdings	%
Alibaba	3.2
Microsoft	3.0
Ping An Insurance	2.9
Facebook	2.8
Siemens	2.8
Samsung Electronics	2.7
Électricité de France	2.7

Portfolio Summary

- The fund underperformed the benchmark by 6.8% gross of fees in the June quarter.

Investment Option Commentary

Key contributors to performance over the quarter included:
Consumer Cyclicals - Developed Markets (DM) cluster, including Lowe's which has been a COVID-19 beneficiary as home improvement has proven resilient during lockdown. Further, the company reported a strong result with low-teens same store sales growth which accelerated into April and May. Strong execution resulted in better conversion of sales to profits relative to peers.

Key detractors to performance over the quarter included:
Shorts, which protect the portfolio in down/volatile markets (as seen last quarter) but can act as a headwind in strong upwardly moving markets. The portfolio is short businesses that are expensive, vulnerable to competition and in many cases have highly geared balance sheets.

Healthcare cluster, notably Merck on lacklustre full year guidance at the March quarter result and concerns over its concentration on Keytruda. This should be offset by progress in Merck's vaccine business, its expanding drug pipeline and animal health optionality

Market Commentary

Investors failed to exhibit a clear cyclical or defensive bias during the quarter. Value lagged whilst momentum and growth styles outperformed as Technology continued to be strong. Economically sensitive sectors such as Consumer Discretionary and Materials performed well, having been amongst the worst performing sectors during the sell off. Whilst all sectors were higher, Utilities, Consumer Staples and Financials underperformed.

Against this backdrop, US equities outperformed (+21.6% in USD) with the benchmark S&P index rising the most since the fourth quarter of 1998 as the Fed's balance sheet increased by US$2t to a record US$7t. US incomes have been supported by stimulus cheques and generous unemployment benefits. Almost all states began relaxing lockdown orders relatively early compared to other developed nations. However, towards the end of the quarter infections were rising again. US technology mega-caps have been consistently resilient through the crisis as consumers and businesses make greater use of their services. The focus on politics intensified as Joe Biden took the lead over Donald Trump in the polls ahead of the US presidential election in November 2020.

European equities posted strong gains (+15.3% in USD) but underperformed the broader global index as the market awaits the final details of a coordinated €750b Recovery Fund plan inclusive of grants to countries hardest hit by the virus. Europe saw new infections fall and lockdown restrictions were eased, with the worst affected countries such as Spain, France and Italy relaxing measures later in the quarter.

Outlook

The US value factor has retraced the entire reopening rally, and European value has given back about half the gains from the low point (Global Value Factor, Figure 5). The question is how to balance near-term risks regarding reopening with the longer-term impact of stimulus on economic activity. The market's preference will likely continue to oscillate between growth and value until there is a clearer path forward.

The value factor is really a measure of valuation dispersion. When investors claim the value factor is cheap, what they are really saying is that the valuation multiple that investors are willing to pay for perceived winners is VERY high relative to perceived losers. And it's no secret just how wide this dispersion has become over recent years. Given the acceleration in technological disruption and multiple hits to business confidence it's no surprise that today the lower multiple "losers" are characterised by the more economically sensitive, or cyclical, parts of the market. Returns from value on a global sector-neutral basis are in negative territory on a three-year rolling return basis8 (Figure 6), and value as a style has rarely been this cheap.

In this context it is worth noting how narrow performance has become. Year to date around two-thirds of the move in the S&P500 can be explained by just five stocks: Facebook, Apple, Amazon, Alphabet/Google and Microsoft. Breadth and market cap concentration are at 30-year extremes (Figure 6). Only 20% of stocks are outperforming the index (breadth) and a smaller number of companies are accounting for an ever-larger percentage of market cap (concentration/HHI).

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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