Antipodes Partners Quarterly Report

INVESTMENT FUNDS - 30 JUNE, 2017

Fund	APIR	ARSN
Antipodes Global Fund - Long Only	WHT0057AU	118 075 764
Antipodes Global Fund	IOF0045AU	087 719 515
Antipodes Asia Fund	IOF0203AU	096 451 393

Contents

Introducing Antipodes Partners

Dear investor,

I founded Antipodes Partners with a number of former colleagues and like-minded value investors with the shared ambition of creating an owner-managed culture of long-term thinking and alignment with client outcomes.

We aspire to grow your wealth over the long-term by generating absolute returns in excess of the benchmark, at below market levels of risk. The Antipodes' investment team seeks to take advantage of the market's tendency for irrational extrapolation, identify investments that offer a high margin of safety and build portfolios with a capital preservation focus.

We also commit to a process of clear communication which will focus on the rationale behind the funds' major holdings within the context of our overall investment philosophy and approach. To learn more, please contact us on 1300 010 311, at invest@antipodespartners.com or refer to our website antipodespartners.com.

On behalf of Antipodes Partners, I would like to also thank those investors that have entrusted us with their savings and broadly supported our early growth.

Yours sincerely,

Jacob Mitchell
Managing Director and Chief Investment Officer
July 2017

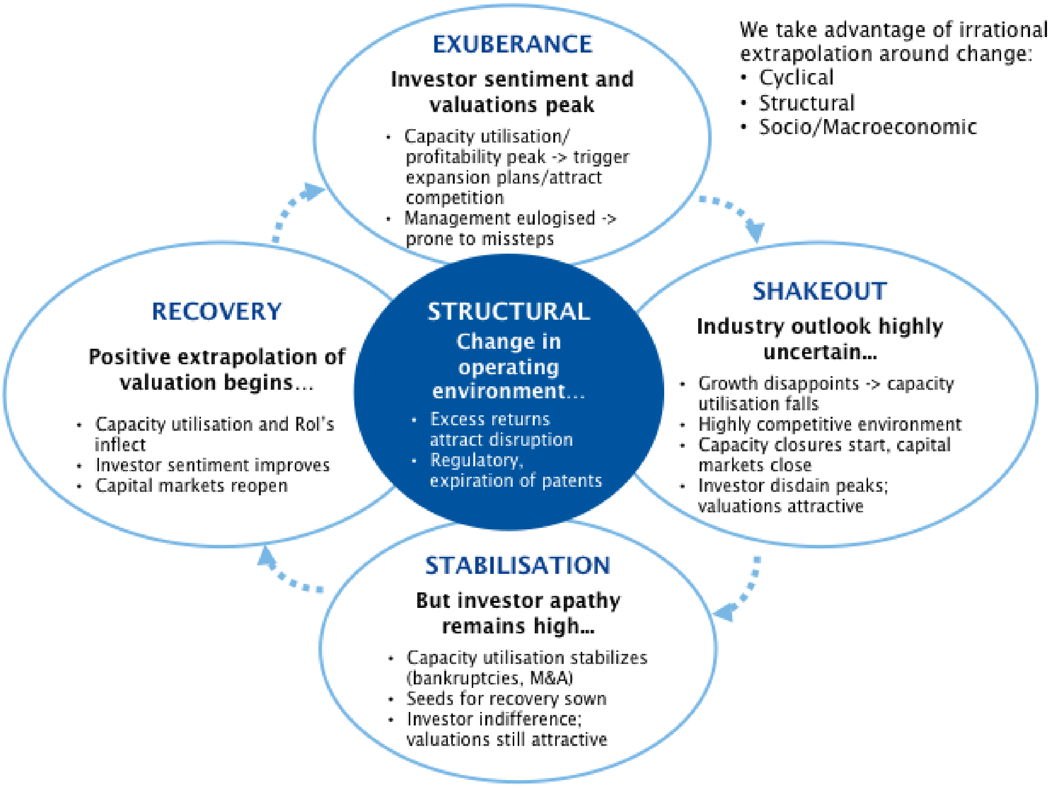
About Antipodes Partners

- Pragmatic value manager of global equities
- Structured to reinforce alignment between investors and the investment team

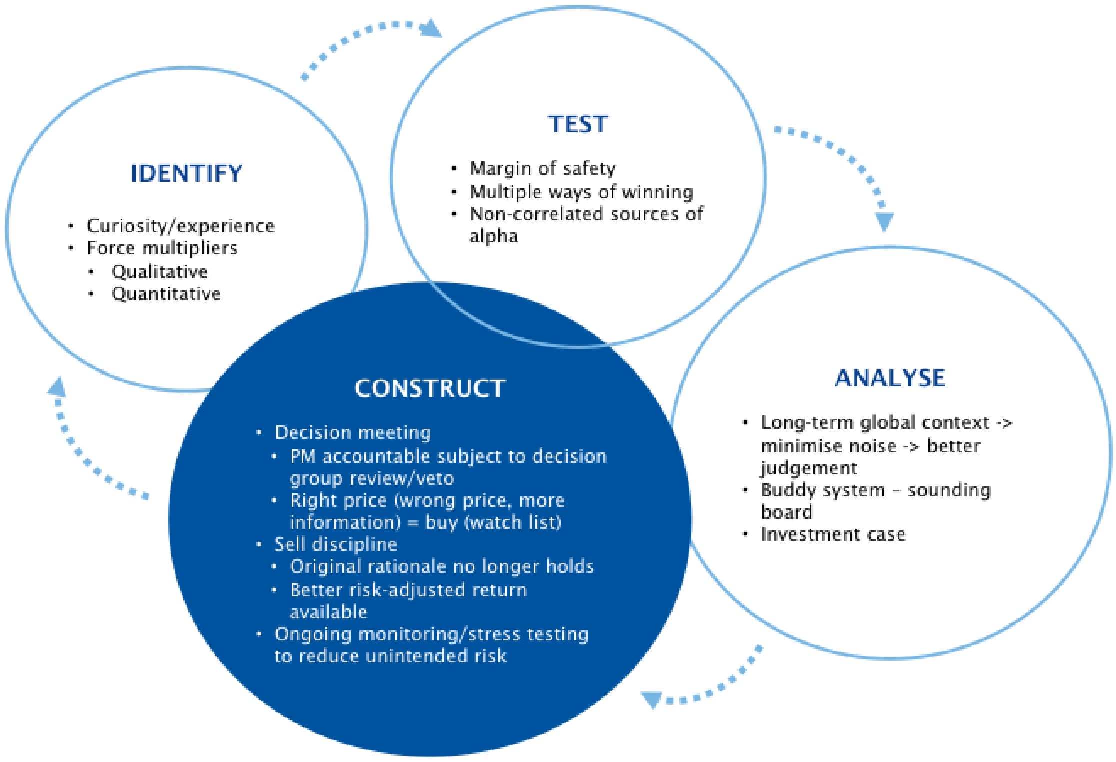
HOW WE INVEST

Opportunity	We take advantage of the market's tendency for ***irrational extrapolation***, identify investments that offer a high ***margin of safety*** and build portfolios with a ***capital preservation*** focus.
Approach	***Holistic approach*** with multiple levers: • Typically 30-60 long holdings, consideration of both cyclical and structural change factors to ***avoid "value traps"*** • Where permitted, ***shorts and currency positions*** to drive alpha, offset unwanted risks and protect from tail risk • Derivatives to amplify high conviction ideas
Goal	Grow client wealth over the long-term by generating ***absolute returns*** in excess of the benchmark at ***below market levels of risk***.

Antipodes Capital Lifecycle Model©



Investment Process



Market Commentary

Global equities rose +4.3% (USD terms, +3.7% in AUD) over the quarter, buoyed by improving earnings momentum, a broadening global macroeconomic recovery and receding political risk premia. Europe (+7.4%) and Korea (+10.2%) were particularly strong followed by Japan (+5.2%), whilst the U.S. (+2.9%), India (+2.9%) and Emerging Markets (EM) ex Asia (+0.3%) lagged.

Ongoing political controversies continued to cast doubt on U.S. President Donald Trump's ability to pass legislative reform despite controlling Congress. The post Trump reflation rally unwound as investors balanced the "certainty" of tax reform, financial system de-regulation and a trillion dollar infrastructure bonanza against a backdrop of premium domestic sector valuations (Table 3), softer than expected economic data, prospectively tighter monetary policy and easing long-term growth expectations (10Y Treasuries -8bp, U.S. Dollar Index -4.7%). Notwithstanding these factors, the U.S. Federal Reserve (Fed) lifted the benchmark rate from 1% to 1.25% and revealed its intention to unwind its US$4.5 trillion balance sheet, supportive of its longer-term assertion of higher growth.

European (+7.4%) and Korean (+10.2%) equities benefitted from the ebbing of heightened political uncertainty, improving earnings momentum and a broadening macroeconomic recovery, juxtaposed against historically low domestic sector valuations (Table 3). The premium for holding French over equivalent German bonds continued to recede from its highest level since 2012 following the victory of French centrist Emmanuel Macron over far right candidate Marine Le Pen in the French presidential runoff, revitalising Franco-German relations and bolstering support for the E.U. (EUR +6.6%, DKK +6.7%, SEK +5.9% NOK +2.5%). British equities and the Sterling (+3.9%) profited from Prime Minister Theresa May's call for a snap election, largely perceived to strengthen the nation's position in Brexit negotiations, but pared gains as her bid to consolidate power resulted in a hung parliament. Despite ongoing geo-political tensions in the Korean peninsula, investors welcomed the impeachment of President Park Geun-hye and election of reformer Moon Jae-in, rousing optimism for shareholder friendly chaebol reform.

In China (+4.3%), official monetary tightening in response to a resurgent property market and growing inflationary pressures prompted a rotation away from Chinese growth sensitive equities and commodities (Bloomberg Commodity Index -3.2%) towards consumption orientated names. In contrast, electoral certainty in Indonesia, tax-reform progression in India and the Philippines, coupled with strong regional macroeconomic data saw equities in Emerging Asia ex China, particularly domestic facing, trend higher.

EM ex Asia was dragged lower by concerns around the sustainability of Brazil's economic recovery as a widening corruption scandal enveloped President Temer, whilst Russian equities succumbed to falling energy prices (Oil -8.9%, Natural Gas -4.9%). OPEC's agreement to extend (but not deepen) production cuts failed to offset continuing concerns around record high U.S. crude inventories and a resurgence in U.S. shale production.

For much of the quarter markets struck a more cautious tone (with regional exceptions), albeit subtle, with cross-asset and equity volatility falling to multi-decade lows (Chart 3). As the quarter neared its final innings, the drum beats around an end to ultra-accommodative monetary policy grew louder, with the Fed, European Central Bank (ECB) and Bank of England (BoE) echoing in their rhetoric that inflationary forces were now replacing deflationary ones, triggering a late rally in global bond yields and a rotation out of the low volatility, bond proxy and growth/quality trade into shorter duration cyclicals such as Banks.

Global sector-wise Health Care (+6.9%), Information Technology (+6.6%), Industrials (+5.5%) and Financials (+5.1%) outperformed whilst Energy (-4.9%), Telecommunication Services (-0.3%), Materials (+2.2%) and Utilities (+3.5%) underperformed. Global factor-wise stocks with high Profitability and Growth (typified by expensive Defensives and long duration growth stocks) outperformed stocks with low multiples (e.g. Resources) and Low Volatility (e.g. Bond Proxies).

TABLE 1: USD P.A. RETURNS TO 30 JUNE 2017

	1M	3M	IY	3Y	5Y	10Y
Regional equities (MSCI)						
AC World	0.5%	4.3%	18.8%	4.8%	10.5%	3.7%
USA	0.6%	3.0%	17.3%	8.8%	13.9%	6.6%
Europe	-1.1%	7.4%	21.1%	-0.2%	8.8%	0.6%
Japan	1.1%	5.2%	19.2%	5.5%	9.6%	1.2%
Korea	1.0%	10.2%	34.9%	3.7%	6.8%	3.1%
AC Asia ex JP	1.6%	8.3%	26.7%	5.0%	8.0%	4.2%
China A + B + H	5.0%	4.3%	11.5%	11.1%	7.1%	2.1%
EM ex Asia	-1.0%	0.3%	13.8%	-6.4%	-2.8%	-1.6%
Global sectors (MSCI AC World)						
Consumer Discretionary	-0.9%	4.1%	20.5%	7.0%	13.8%	6.5%
Consumer Staples	-2.2%	4.0%	4.3%	6.1%	9.8%	8.1%
Energy	-1.6%	-4.9%	0.3%	-11.4%	-0.9%	-1.3%
Financials	4.1%	5.1%	33.4%	5.4%	11.9%	-0.6%
Health Care	2.7%	6.9%	9.6%	7.0%	14.8%	8.6%
Industrials	0.7%	5.5%	22.1%	6.0%	12.0%	3.9%
Information Technology	-1.0%	6.6%	35.5%	14.0%	16.3%	8.6%
Materials	1.3%	2.2%	24.4%	0.0%	3.4%	0.0%
Telecommunication Services	-2.6%	-0.3%	-2.2%	0.3%	5.5%	2.4%
Utilities	-2.2%	3.5%	3.4%	1.8%	6.2%	1.2%
Commodities						
Crude Oil Brent	-3.9%	-8.9%	-1.9%	-24.3%	-13.0%	-3.7%
Gold	-1.9%	-0.2%	-5.9%	-1.9%	-4.9%	6.7%
Bloomberg Commodity Index	-0.3%	-3.2%	-7.0%	-15.0%	-9.4%	-7.0%
Bonds						
BofAML Global Government	-0.4%	2.3%	-5.0%	-0.6%	0.0%	3.6%
BofAML Global Large Cap Corporate	0.4%	3.6%	2.8%	1.0%	3.3%	4.4%
BofAML Global High Yield	0.3%	3.2%	12.4%	3.3%	6.9%	7.4%
Currency						
AUD	3.0%	0.6%	3.0%	-6.7%	-5.6%	-1.0%
EUR	1.4%	6.6%	2.7%	-5.9%	-2.1%	-1.7%
JPY	-1.6%	-0.8%	-8.7%	-3.4%	-6.6%	1.0%
CNY	0.6%	1.7%	-2.0%	-2.9%	-1.3%	1.2%

Performance Analysis

Against this backdrop, for the quarter, the Antipodes Global Fund – Long Only and Antipodes Global Fund outperformed its benchmark whilst the Antipodes Asia Fund underperformed. All three Funds still posted strong absolute returns, reflecting gains in our Korean, European Recovery and EM Consumer exposures.

Since inception, through volatile market conditions, all three Funds have outperformed whilst also delivering solid absolute returns – our goal over the investment cycle (typically 3-5 years). Encouragingly, in the case of the Antipodes Global Fund, our 6.6% p.a. outperformance has been achieved with an average net equity exposure of 60% in a rising global market. Our longs and currency management have contributed to this outperformance, whilst shorts detracted slightly.

TABLE 2: AUD RETURNS AS AT 30 JUNE 2017

Absolute Performance (%)	1 month	3 months	Inception*	Inception* p.a.
Antipodes Global Fund – Long Only	**-1.7**	**5.1**	**27.5**	**12.9**
Antipodes Global Fund	**-1.7**	**3.9**	**29.1**	**13.6**
MSCI AC World Net Index	*-2.5*	*3.7*	*14.6*	*7.0*
Antipodes Asia Fund	**-1.2**	**4.4**	**21**	**10.0**
MSCI AC Asia x Japan Net Index	*-1.4*	*7.7*	*11.8*	*5.7*
Outperformance (%)				
Antipodes Global Fund – Long Only	**0.8**	**1.4**	**12.9**	**5.8**
Antipodes Global Fund	**0.8**	**0.2**	**14.5**	**6.6**
Antipodes Asia Fund	**0.2**	**-3.4**	**9.2**	**4.3**

All returns are net of fees and in AUD terms. Calculations are based on exit price with distributions reinvested, after ongoing fees and expenses but excluding taxation. Past performance is not a reliable indicator of future performance. *1 July 2015, when the current strategy was adopted.

Antipodes Global Fund – Long Only

Key quarterly *contributors* included:

- Korean exposures **Samsung Electronics** as memory demand and profitability remained strong and **KB Financial** as investors warmed to the sustainability of margin recovery and sensible subsidiary consolidation**.**
- European Recovery exposures as the economic upturn broadened and anxieties around the future of the E.U. receded highlighting just how cheap domestic exposures had become. Examples of this included Italian bank **UniCredit** with an extensive continent-wide network, **Deutsche Lufthansa** as industry consolidation lead to stronger profitability and another round of wage negotiations was completed, and **Leonardo** as NATO member states increasingly recognised the need for greater defense spending.
- EM Consumer exposures as Chinese e-commerce retailer **JD.com** reported stronger profitability across all its leading categories and **Belle International,** China's leading branded footwear manufacturer and retailer, received a management/private equity cash buyout offer.
- Retail Disruption exposures as office goods supplier **Office Depot** (see Feature – Office Depot) shook off existential fears and private equity firm Sycamore launched a takeover for rival Staples.

Key *detractors* included:

- Low Cost Oil (e.g. **Eni, Inpex**) exposures were weak due to global supply concerns driving Oil prices lower.
- Gold stocks (e.g. **Newcrest, Barrick Gold**) sold off in-line with a falling Gold price.

Antipodes Global Fund

In addition to the long exposures above (common to both global funds), short exposures *detracted* from Fund performance.

Antipodes Asia Fund

In addition to the Korean and EM Consumer exposures above, key *contributors* included:

- Online Services (e.g. **Baidu, 58.com)** exposures as increasing mobile penetration boosts customer connections, loyalty and the network effect.

In addition to the Low Cost Oil and Gold exposures above, short exposures *detracted* from Fund performance.

Portfolio Positioning

Note: The term "cluster" or "exposure" is used herein to reference a collection of positions which exhibit similarities in their risk-return profile including operational, end-market, style and macro characteristics.

Key changes across portfolios included:

- A further increase in European Domestic Recovery exposures
- Reduction in exposure to U.S. Natural Gas correlated European utilities - **RWE** and **Uniper** - as they approached our valuation targets and the risk-reward profile diminished
- An increase in Over-hyped Growth sensitive short exposures
- A decrease in EM Shakeout short exposures

In summary, long clusters include:

- Global and Domestic Defensives that are not expensive, such as:
  - Software and networking incumbents including **Microsoft**, **Cisco Systems**[1], **Nokia** and **NetApp.** To learn more about our technology exposures, see our webinar "A Deeper Dive into Antipodes Partners' Technology Exposures" at youtu.be/antpWUyqNvk.
  - EM Consumer and online franchises including **Baidu**[2], **JD.com**, **LINE**, **Jiangsu Yanghe Brewery**[3], **ICICI Bank** and **Western Union.** To learn more about our consumer exposures, see our webinar "Shopping Global Consumer Opportunities" at https://youtu.be/13PX253lbN4
- Global Cyclicals that exhibit strong market positions and recovering business fundamentals including **Samsung Electronics**, **Samsung SDI**, **Nippon Electric Glass**[4] and **Hyundai Motor**.
- Global Banks that remain cheap including **ING Groep**[5], **Mediobanca**, **Capital One Financial**, **KB Financial**[6] and **ICICI Bank.** To learn more about low bank valuations, see our webinar "Bond like equities, be careful what you wish for!" at youtu.be/24_OpnCDd_8.
- European Recovery opportunities undergoing structural and/or operational change, such as **Telecom Italia, Deutsche Lufthansa** and **Leonardo**. To learn more about European opportunities, see our webinar "Europe – Selective domestic opportunities" at youtu.be/ynW3zpnstw4
- Retail Disruption candidates including traditional offline retailers, such as **Office Depot**, where the market is overlooking a successful adaptation to an online reality in its fervor to believe that Amazon truly is the "*the everything store*". This is a growing cluster within Antipodes Partners' portfolios and includes a recent successful investment in Belle International, China's leading branded footwear manufacturer and retailer.
- The broad South Korean market valuation is assessed to be very cheap (see Figure 1, Antipodes Partners Region-Sector Valuation Heat-map) and the narrative is highly reminiscent of Japan during the period of persistent Yen strength and investor neglect (2010-12) with "macro" generalisations (government policy stasis, poor corporate governance, highly exposed to China, etc.) drowning out the stock specific discussion. Set against a backdrop of newly elected President Moon Jae-In driving government and corporate reform, generational wealth transfers at the large chaebols (family owned conglomerates) are driving higher shareholder returns via buy-backs and rising dividend payouts. Whilst we have labelled Korea the "Bermuda Triangle" of value investing, we have typically found this type of market highly prospective for absolute returns. To learn more about Korea, see our webinar "South Korea: From neglect to respect" at youtu.be/kvzxfHQY0qA.
- Selective energy investments in Oil (**ENI**, **Inpex** and **CNOOC**) and U.S. Natural Gas correlated exposures with a preference for asset duration, operational quality and improving attitude to capital allocation. In a sector where debt has ballooned from $1.0tn in 2006 to $2.5tn today it remains vulnerable to future credit rationing particularly over-levered and/or high cost producers. U.S. exploration and production (E&P) companies are the worst offenders, where true returns on shale oil investment are well below what promoters suggest. Whilst capital markets remain open to perceived winners, they are becoming more selective overall. As capital withdraws, and supply corrects relative to demand (Chart 10), the seeds for the next up-cycle are sown. To learn more about our

1 See our blog post "Cisco Systems Rides Again: A legacy enterprise software vendor willing to evolve" at antipodespartners.com/cisco

2 See our blog post "Forget China's macro outlook, we like 'China's Google' Baidu" at antipodespartners.com/baidu

3 See our blog post "Jiangsu Yanghe Brewery" at antipodespartners.com/yanghe

4 See our blog post "Nippon Electric Glass" at antipodespartners.com/neg

5 See our blog post "ING Groep - A Leader In Digital Distribution" at antipodespartners.com/ing

6 See our blog post "KB Financial" at antipodespartners.com/kb

Oil and Natural Gas thesis, see our webinar "Long/short opportunities in the global energy sector" at youtu.be/DI1-m9oEqIU.

Short exposures include:

- The extreme thirst for yield has pushed the U.S. high yield corporate debt (non-investment grade or "junk") cycle into uncharted territory with the stock of debt outstanding (Chart 12) and the average leverage ratio expanding significantly beyond the previous 2007 profit cycle peak. The cycle is approaching the shakeout phase. Specific shorts include high yield debt beneficiaries[7], including companies that exhibit:
  - Application of extreme leverage to fund M&A and buybacks combined with declining marginal returns on capital employed
  - U.S. over-leveraged domestic cyclicals approaching the shake-out phase
  - Over-hyped, thematic "disruptors" (cloud, social, etc.) that are just weak imitators with deteriorating fundamentals
  - Low volatility, bond proxies favoured by passive strategies that confuse momentum with value and low volatility with quality, e.g. mobile telecom tower companies priced for the illusion of duration

Currency positions include:

- A partial hedge on the Chinese Renminbi (CNY) as cheap protection against the potential fallout from the excess capacity overhang. The Renminbi's real effective exchange rate has appreciated some 50% against trading partners over the past 10 years and resulted in a shrinking of the current account surplus from 10% to 2.4% of GDP (Chart 11). Evidence of slowing economic growth, as credit led fixed asset investment nears its limits, will result in more easing by the Peoples Bank of China (e.g. policy rate/Cash Reserve Requirement cuts and a weaker currency).
- As a direct manufacturing competitor, we expect the Korean Won (KRW) to be forced lower as China devalues, and have therefore partially hedged our KRW exposure.
- The long side of these hedges are shared across the U.S. Dollar (USD), Australian Dollar (AUD) and Norwegian Krone[8] (NOK). Given Norway's fortress like balance sheet and emerging inflation, we expect a currency supportive tightening cycle to break the NOK-Oil (the Country's key export) price nexus.

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7 To learn more about our high yield thesis, see our research note "The Global Corporate Debt Unwind" at antipodespartners.com/wp-content/uploads/The-corporate-debt-unwind.pdf or webinar "Macro matters, but so do stocks" at youtu.be/rS9k9zFA7Mw

8 See our blog post "NOW THAT'S A COMMODITY DIVIDEND" at antipodespartners.com/now-that's-commodity-dividend/

Feature – Office Depot

Though the U.S. office supplies market has consolidated down to Staples and Office Depot (ODP), many investors consider these two extremely dominant businesses dinosaurs facing extinction by Amazon. We beg to differ with ODP a top ten holding.

ODP has two business lines – Commercial and Retail. Commercial covers large corporate office delivery and accounts for ~50% of revenues. The other half comes from Retail, serviced by a national network of 1,400 stores. Following the merger of ODP and Office Max in 2013 (ranked 2nd and 3rd by market share respectively) this network expanded significantly, with the trend towards industry consolidation reaching its zenith in February 2015 as Staples attempted to buy ODP. The deal appeared *fate accompli* given structural sales declines, particularly within the retail channel. However, in December 2015, the Federal Trade Commission (FTC) blocked the deal due to excessive market power. A subsequent court challenge failed in May 2016 and all bets were off. On the day, ODP and Staples share prices collapsed 40% and 19% respectively. We sensed a buying opportunity with the market underestimating some inherent resilience against online competition.

Irrational Extrapolation

There are two aspects to this. Firstly, the market extrapolated the structural decline in paper use as a structural decline in ODP's addressable market, paying little heed to its success in broadening the offering into the Maintenance, Repair and Operations (MRO) category. Secondly, the market has failed to give ODP credit for having moved 50% of its business online/direct, with the FTC somewhat validating ODP and Staples dominance in the commercial channel as grounds for preventing the merger.

We're not denying that the online/Amazon threat is significant but "*the everything store*" isn't perfect, having to relaunch its somewhat failed "Amazon Supply" commercial offering as "Amazon Business", targeting office products as well as MRO. Amazon is struggling to optimise its low-cost service model for commercial customers, often with slower delivery times versus same day at ODP and deploying multiple delivery batches for bulk orders – a point of friction for client receptionists (the gatekeepers).

Multiple Ways of Winning

In the Commercial business, customer service matters as ODP delivery staff physically check client cupboards/storage and automatically refresh, useful for large corporates that order centrally to multiple locations. The multi-year decline in Commercial sales can flat-line from a recovering customer pipeline and cross-selling opportunities into new growth categories such as Kitchen and Cleaning. Commercial clients also receive bulk discounts when shopping via the offline retail store network.

For retail customers, ODP has been price-matching Amazon for close to three years without any signs of weakness. We expect industry retail sales to fall by low single digits, but in the case of ODP, offset by a further USD250m of annual cost savings from supply chain streamlining and closure of a further 5% of retail stores. New CEO Gerry Smith is well qualified for a bruising fight having formerly headed Lenovo America, where he built a PC business battling giants Dell and HP.

Bring back the merger! Under the new Trump administration, Maureen Ohlhausen, the acting chair of the FTC, is on the record suggesting the FTC has been too heavy handed in recent years. A more open posture from the FTC and USD$1-2bn of annual synergies based on +1000 combined stores closures, may tempt Staples and its new private equity owners ($6.9bn privatisation by Sycamore Partners just announced) to revisit the merits of a merger.

Margin of Safety

Despite an 80% rally in its stock price from the lows, ODP's valuation still looks compelling. The balance sheet carries USD400mn of net cash against a market capitalisation of USD2.9bn providing an enterprise value of USD2.5bn. In 2017, the business should earn USD500m of EBIT (5x EV/EBIT) and USD300m of free cashflow (12% free cashflow yield). Much of that cash should be returned to shareholders via buybacks and dividends. Benchmarking ODP against the takeover offer from Sycamore Partner's for Staples suggests a further 40% upside, though we think the business is worth 7x EBIT indicating upside of 35%, with material optionality around any merger with the Staples retail assets. There's still more to come from this so-called dinosaur.

Correlation Cluster

ODP belongs to our "Retail Disruption" correlation cluster which includes traditional offline retailers successfully confronting and adapting to the online reality that the market is overlooking in its fervor to believe that Amazon truly is the "*the everything store*". This is a growing cluster with Antipodes Partners' portfolios and includes a recent successful investment in Belle International.

Taking stock – the year in review

Reviewing the second year of our investment record, we accrued some respectable successes and endured some inevitable regrets.

What worked

Successes included sustained exposure to resilient, though out of favor Korean stocks. Three of our top ten holdings include **Hyundai Motor, Samsung Electronics** and **KB Financial**.

Backing strong incumbents that were seemingly priced for extinction paid off in stocks like data storage specialist **NetApp** and office supplies veteran **Office Depot.**

Remaining focused during a period of extreme European political uncertainty also proved rewarding via European banks such as **ING Groep** and **Mediobanca**, utilities **RWE** and **Uniper** and luxury retailer **Burberry**.

Exposure to cheaper Emerging Market Consumer stocks versus the better known but more expensive Western names also generated alpha, including stocks like branded Chinese noodle maker **Tingyi**, white spirits producer **Jiangsu Yanghe** and China's largest branded shoe manufacturer and retailer **Belle International.** Having regretted the missed opportunities offered by Brazil's economic and political malaise in 2015, we found multiple reasons to buy consumer names in Mexico and Brazil when Trump and other political tremors reverberated.

With respect to currency, our partial hedge on the Chinese Renminbi (CNY) and correlated currencies paid dividends, with the weaker Yuan serving to cushion the effects of slowing economic growth, whilst our short on the Japanese Yen (JPY) proved timely as both the ECB and Fed set upon a path to policy normalisation.

Our regrets

Our short exposure cost investors in the Antipodes Global Fund and Antipodes Asia Fund. Given the surge in global equities, navigating markets with an average net exposure of 60% in the Antipodes Global Fund proved challenging. Upon reflection, we should have been more nimble with our short positioning as volatility spiked - something we did more adequately with our longs. We underestimated what a world awash in cheap credit can do for swaggering corporates and "risk on" investors. Lower for longer has been a difficult investor mindset to shake.

Biotech **Gilead Sciences** stood out as an example of where our original investment thesis proved overly sanguine. Our estimates of price and volume decay in the Hepatitis C franchise proved optimistic as regulatory and competitive forces took hold and the pool of addressable patients rapidly declined. Despite this, we believe there is enough value in their HIV franchise and prospective pipeline to support the current position.

Outlook

Socio-Macroeconomic Overview

Following on from the March quarter, the June quarter offered a series of vignettes relevant to the longer-term macro discourse, including:

- The overarching appetite for change, stemming from rising inequality (principally driven by a lack of minority rights, government deficits, regressive tax systems, privatisation of essential services, labour and capital market deregulation) and exacerbated by declining real wages
- Related to this, the continued unpredictability of Western electoral outcomes with Theresa May's unlosable U.K. election resulting in a hung parliament (and the supposedly unelectable Jeremy Corbyn surprising everyone)
- The difficulty leaders such as Trump face in enacting change, e.g. the Republican failure to reach a consensus on the roll-back of Obamacare, which in turn feeds greater electoral polarisation
- An emerging "cold war" like stand-off between China and the U.S. over the management of North Korea's nuclear arms ambitions, with South Korea and Japan somewhat caught in the middle
- A growing rift between post-war alliances, with the E.U., U.K. and U.S. looking increasing inwards as China looks to expand its geo-political footprint

Immediate concerns regarding the future of the Eurozone were largely alleviated following the victory of French centrist Emmanuel Macron's *En Marche!* party in both presidential and parliamentary elections leading to a revitalization of Franco-German relations and bolstering belief in the E.U. In contrast, the U.S., U.K. and Australian political systems appear hamstrung by an extreme polarisation of views.

Accordingly, over the quarter European domestic equities reacted positively to a narrowing of Peripheral sovereign bond spreads, Korean equities rose with the prospect of corporate reform following President Moon Jae In's election, whilst U.S. domestic equities underperformed as doubts lingered regarding the implementation of tax reform against a moderately weaker U.S. economy. Ironically, amidst this uncertainty, China appears to be relatively stable, a stark contrast to how markets were positioned just 12-18 months ago when China was arguably priced for a hard landing. Since this time, Chinese growth sensitive equities such as Commodities and Emerging Markets have strongly outperformed, a prescient reminder that, as investors, a discussion regarding any of these matters is only meaningful if it includes some reference to how risk is priced.

Table 3, Figure 1, Charts 1 & 2 apply our proprietary quantitative tools to determine the broad geographic sector and factor exposures that are *most* or *least* prospective for future returns. We use these as a contextual framework (or peripheral vision) rather than a deterministic tool for allocating team resource. Furthermore, if valuation dispersion is high across sectors or factors, as it is today, a competent stock picker will find attractive investment opportunities regardless as to whether the broader group appears expensive. Above all, the analyst will have the benefit of the broader contextual thinking of the CAPE analysis, sector/factor heat-maps and industry/company level screening before commencing any deep dive analysis.

To the extent that we describe a sector or factor as cheap/attractive or expensive/unattractive we're referring to a historical mean reversion relationship. Clearly, there are limitations to such a framework, i.e. this is not a statement regarding absolute value as this can only be made after performing our industry/stock level analysis. However, at a large sample size and in the right hands, such a framework still has merit.

Geographic Sector Valuations

Note: Cyclically Adjusted PE, Sector and Factor definitions can be found in the Glossary

TABLE 3: FUTURE EXPECTED SECTOR AND GEOGRAPHIC RETURNS (2017)

	North America					Western Europe					Developed Asia					Emerging Asia				
	% of ACWI	PE NTM	CAPE Cur.	CAPE median	**EMR ann.**	% of ACWI	PE NTM	CAPE Cur.	CAPE median	**EMR ann.**	% of ACWI	PE NTM	CAPE Cur.	CAPE median	**EMR ann.**	% of ACWI	PE NTM	CAPE Cur.	CAPE median	**EMR ann.**
Global Sectors																				
Global Cyclical	14.2%	20.2x	23.9x	23.1x	**5%**	5.4%	18.9x	22.9x	18.6x	**-3%**	5.7%	14.1x	18.7x	25.3x	**18%**	0.9%	20.2x	18.0x	12.0x	**-16%**
Global Defensive	16.2%	23.3x	29.1x	27.2x	**4%**	6.3%	23.7x	30.1x	22.5x	**-2%**	1.7%	24.2x	32.8x	28.0x	**2%**	0.7%	26.3x	27.2x	28.6x	**2%**
Precious	0.3%	35.2x	79.9x	67.1x	**-8%**	0.1%	24.2x	31.8x	27.7x	**-3%**							31.0x	35.9x	27.3x	**-8%**
Domestic Sectors																				
Domestic Cyclical	8.0%	20.8x	25.4x	25.1x	**6%**	1.9%	18.1x	20.1x	21.6x	**8%**	0.6%	20.4x	24.9x	25.2x	**8%**	0.8%	20.1x	15.2x	15.3x	**-1%**
Domestic Defensive	6.7%	22.0x	29.4x	20.5x	**-2%**	1.8%	16.6x	15.2x	20.0x	**6%**	1.2%	20.4x	22.9x	25.1x	**4%**	0.7%	17.6x	16.2x	16.8x	**1%**
Financials	10.4%	15.1x	19.4x	19.3x	**9%**	4.3%	13.5x	15.5x	21.1x	**17%**	1.5%	11.2x	14.0x	20.0x	**18%**	1.5%	13.7x	13.9x	20.7x	**17%**

See Glossary for CAPE, EMR and Sector definitions. Source: Antipodes Partners

In terms of the broader outlook for equity markets, we find it useful to examine the long-term empirical data in terms of what starting multiples imply for expected future returns. Given broad differences in the timing of earnings cycles across both regions and sectors, we prefer to measure broader expectations for future returns based on "Cyclically Adjusted PE" (CAPE) based valuations. On this basis, the more attractive broad sectors are Developed Asia Global Cyclicals, European Domestics and Financials in all markets outside of North America. The least attractive areas are dominated by the very large Global Defensive sector (25% of global market capitalisation) and North American Domestics (be they Defensives or Cyclicals, in total, another 15% of global market capitalisation).

Our Region-Sector Heat-map (Figure 1) further extends this analysis and we broadly observe:

- Consumer Staples enamored for their perceived Profitability and Growth characteristics (Chart 1), though having underperformed over the past 12 months, still remain one of the most expensive Developed Market sectors
- Healthcare has underperformed to the point now that relative value has appeared
- Interestingly, in a market paying-up for yield (Chart 2) and Global Defensive exposures, Domestic Defensives including traditional yield sectors such as Infrastructure (outside of North America) and Telecommunications have become very cheap, coinciding with the apparent value of Good Yield (funded through cash-flow); within the Global Funds we have taken advantage of this primarily within our European Recovery exposure
- Financials though having significantly outperformed over the past 12 months remain one of the cheapest sectors globally with sentiment and profitability expectations weighed down by macro-concerns, low rates and yield curve compression
- As the broad relief rally in China growth sensitive equities has played out over the past 12-18 months, Materials have outperformed, though Energy has lagged and remains one of the most de-rated sectors by historical standards

Factor Valuations

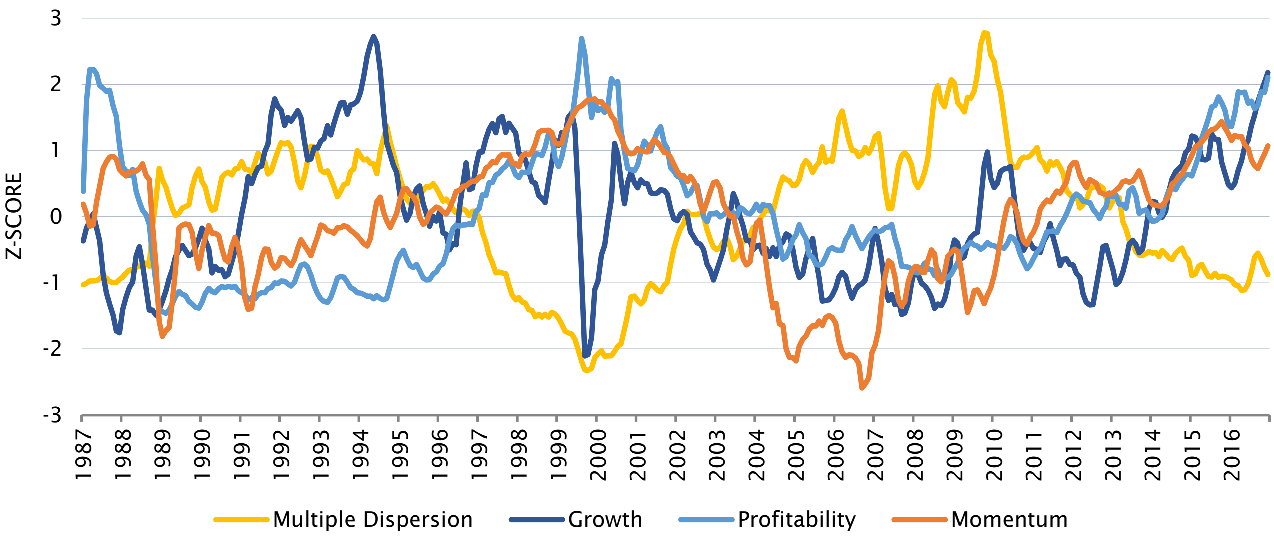
Most quantitative strategies would measure the attraction of a certain "factor" exposure on the basis of its price momentum. These same systematic strategies see Value as a separate factor, by which they mean low multiple stocks, but will only buy Value if it exhibits momentum. At Antipodes Partners, we worry that factors favoured by systematic strategies will eventually become overvalued (a symptom of crowding), offering little margin of safety at the stock level and exposure to "regime change" style draw-down risk at the portfolio level. Hence, we value a range of factors (e.g. Profitability, Growth, Resilience, Multiple Dispersion, Good Yield, Volatility and Momentum, etc., Charts 1 & 2) rather than Value in isolation (we prefer to label Value as Multiple Dispersion to make a clear statement that the starting multiple is meaningless without the context of growth).

Keeping with our philosophy of finding investments with multiple ways of winning, another way we can win is by gaining:

- Cheap exposure to an expensive factor, e.g. Cisco Systems, a very cheap "Profitability" exposure at a PE of 13x where an equivalent exposure would cost on average +20x PE
- An exposure to an out of favour factor based on the view that the market view may change, e.g. "Good Yield" (cash-flow funded) is offered cheaply by many Utility and Telecommunication stocks, as opposed to the expensive "Bad Yield" (capital market funded) offered by many Infrastructure stocks

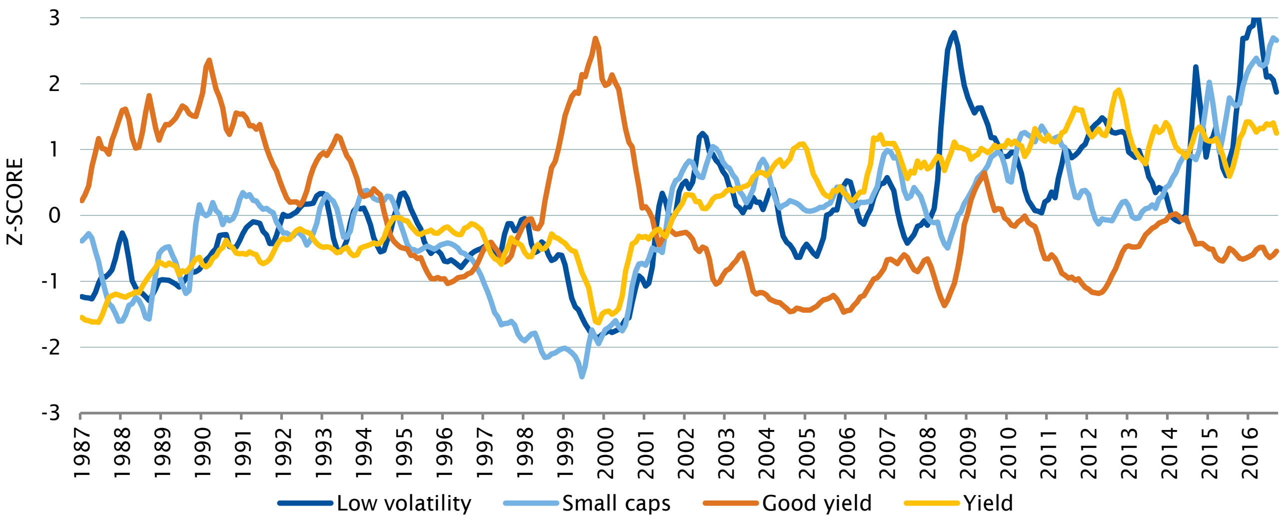
Accordingly, Charts 1 & 2 apply our proprietary quantitative tools to determine how expensive various factors have become relative to the last 30 years (expressed as a Z-Score) by comparing the valuation of the MOST PROFITABLE (HIGHEST GROWTH/MOMENTUM or LOWEST MULTIPLE) stocks to the LEAST PROFITABLE (LOWEST GROWTH/ MOMENTUM or HIGHEST MULTIPLE) stocks.

CHART 1: Z-SCORE (MEDIAN EV/CE OF UPPER QUINTILE RELATIVE TO LOWER QUINTILE 1987 - 2017)



See Glossary for factor definitions. Source: Antipodes Partners

CHART 2: Z-SCORE (MEDIAN EV/CE OF UPPER QUINTILE RELATIVE TO LOWER QUINTILE 1987 - 2017)



See Glossary for factor definitions. Source: Antipodes Partners

With reference to Charts 1 & 2:

- The market is celebrating stocks that display high Profitability, Growth and Momentum independently of starting multiple. Further, it's noteworthy that the market's willingness to pay-up for Growth, Profitability and Momentum is approaching the heady days of the late 1990's tech bubble. One can also observe the subsequent derating that occurred as high Growth and Profitability attracted competition and these stocks lost their allure, a clear example of how a high starting multiple was predictive of future sub-par returns.
- Momentum is simply the outcome of the market's obsession with an ever narrowing group of stocks selected on a systematic preference for high Growth and Profitability. Whilst clearly Growth and Profitability matter, for Antipodes Partners these descriptors only offer real meaning in the context of valuation rather than momentum.
- A global preference for small-mid caps over large caps, especially in North America, with Asia Ex-Japan the major exception; in many ways an extrapolation of the valuation dispersion observed between hyper and mature growth businesses.
- Extreme thirst for equities with bond like characteristics, i.e. Yield and Low Volatility, without concern as to the inherent risk equities represent. Interestingly, the market fails to pay a premium for Good Yield over Bad Yield.
- Encouragingly, Multiple Dispersion is evident across all regions

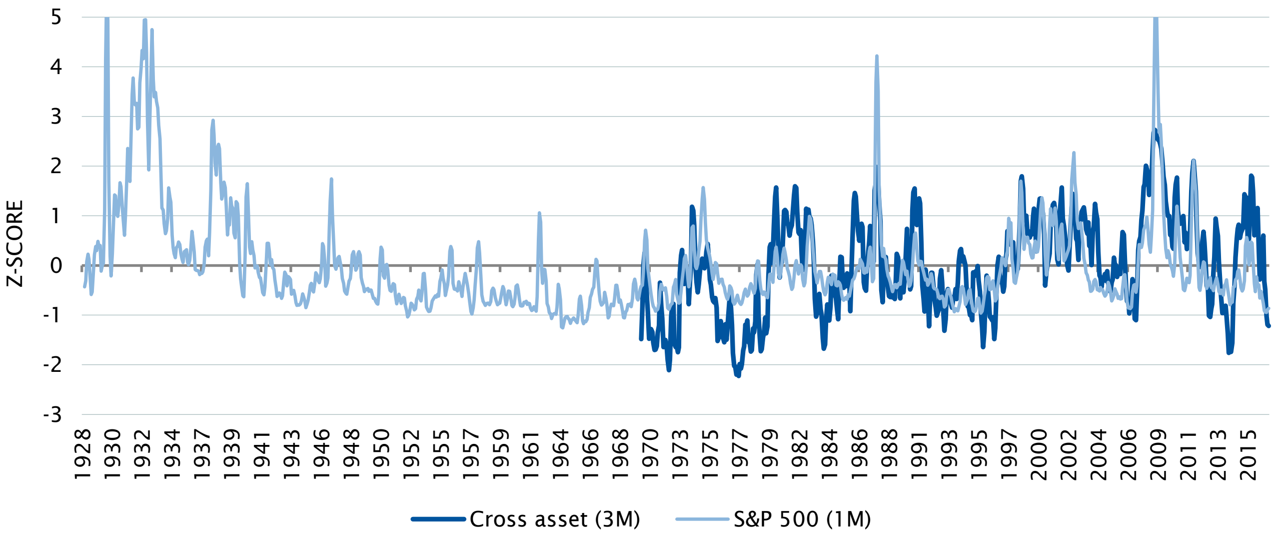
More specifically, extreme policy settings in Europe/Developed Asia have led to severe investor herding, evidenced by the extreme overvaluation of Profitability and Growth in these regions. Ironically, investors have the cheapest opportunity to buy balance sheet Resilience and cash covered dividends (Good Yield), even when macro concerns are heightened!

Volatility: dead or in hibernation?

Stability leads to instability. The more stable things become and the longer things are stable, the more unstable they will be when the crisis hits – Hyman Minsky

Volatility is one of the first concepts that finance students learn to calculate, typically taught with reference to the variability of a stock or stock market's returns, synonymous with risk. At Antipodes Partners, we define risk as the likelihood of a permanent loss of capital and/or an extended period of negative returns. In this sense, whilst we seek to minimise unintended downside volatility, we actively embrace the opportunities that volatility can offer investors. Today, realised and implied volatility has fallen to record lows and buying volatility has been a losing bet for years across all asset classes, not just equities[9] (Chart 3).

CHART 3: REALISED CROSS ASSET AND S&P 500 VOLATILITY (1928-2017)



Source: Goldman Sachs Global Investment Research

Goldman Sachs have provided some useful recent work around the evolution of the current low volatility environment in the context of the long-term experience.

Some of the key observations include:

- S&P500 index volatility is very close to an all-time low (Chart 3) and much lower than other global market indices (Table 4), though Antipodes Partners observes that low single security, as opposed to index volatility, is globally more pervasive, particularly in Developed Markets (Figure 2).
- U.S. Treasury and credit index volatility is low relative to average levels post the 1970's (Table 4), but not as low as the S&P 500. Antipodes Partners connects this outcome directly to central bank QE policies.
- Cross asset index volatility is close to record lows (Chart 3)
- Volatility typically spikes when equity markets fall as markets fall faster than they rise, however this doesn't preclude the coincidence of rising volatility and markets, though this is rare (Chart 4)
- Low volatility regimes are typically a late cycle phenomenon, the ending of which is difficult to predict but typically associated with rising unemployment/recession. However, the longer a low volatility environment persists, the greater the average equity market drawdown when it ends.

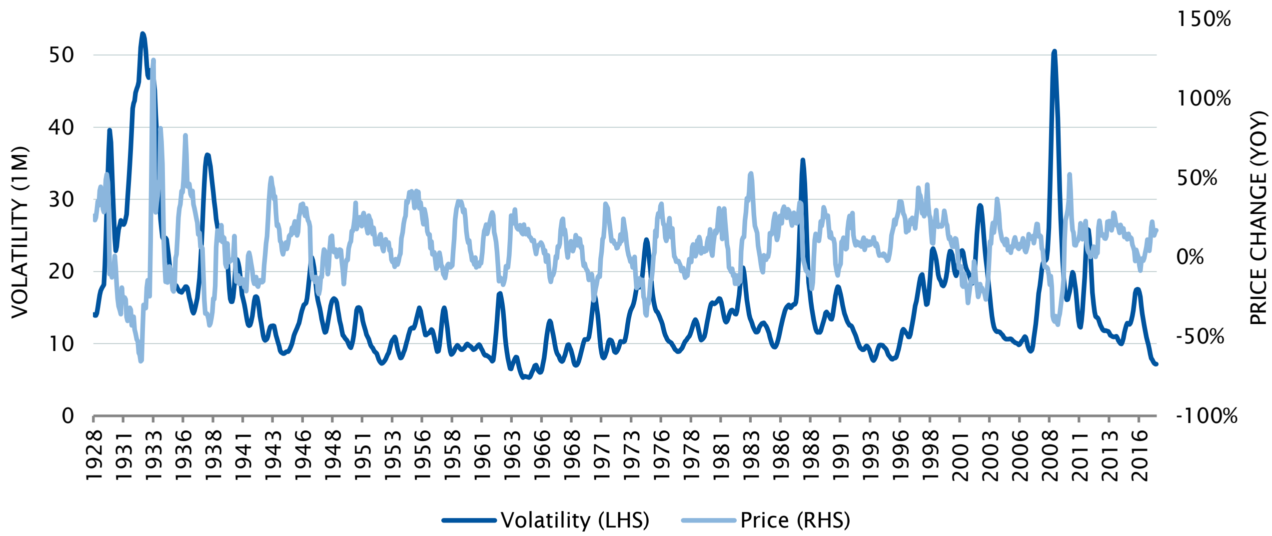
[9] https://www.bloomberg.com/news/articles/2016-06-24/europe-s-top-volatility-hedge-fund-sees-no-model-for-guidance

TABLE 4: S&P 500 VOLATILITY IS CLOSE TO AN ALL-TIME LOW (2017)

3-month Volatility	Equities				Bonds				Credit		Commodities			FX		
	S&P 500	MSCI Europe	TOPIX	MSCI EM	US 10Y	US 30Y	German 10Y	Japan 10Y	DJ Credit	US HY	Gold	Oil	GSCI	EUR	JPY	GBP
Data since:	**Jan-28**	**Dec-71**	**May-49**	**Jan-70**	**Jan-62**	**Feb-77**	**Mar-77**	**Jul-86**	**Jan-16**	**Jan-90**	**Dec-68**	**Jan-83**	**Dec-69**	**Aug-71**	**Sep-71**	**Aug-71**
Current:	7.3	9.2	12.3	9.4	4.9	9.9	4.2	1.2	3.6	1.9	10.8	27.2	14.8	7.3	9.0	7.5
Percentile:	***6%***	***34%***	***41%***	***12%***	***29%***	***32%***	***37%***	***1%***	***62%***	***30%***	***22%***	***34%***	***42%***	***28%***	***41%***	***36%***
Since 1970:	***3%***	***34%***	***37%***	***12%***	***19%***	***32%***	***37%***	***1%***	***37%***	***30%***	***21%***	***34%***	***42%***	***28%***	***41%***	***36%***
Since 1990:	***4%***	***16%***	***11%***	***11%***	***8%***	***29%***	***30%***	***1%***	***26%***	***30%***	***27%***	***27%***	***29%***	***19%***	***36%***	***36%***
Average:	15.9	13.4	15.5	15.4	6.5	12.2	4.9	4.5	3.5	3.3	17.7	34.8	17.6	9.1	10.0	8.9
Median:	12.8	10.9	14.0	13.9	6.2	11.3	4.7	4.2	2.8	2.5	14.9	32.5	16.3	9.1	9.8	8.5
75th:	18.3	16.0	19.6	18.0	7.9	14.5	5.9	5.2	4.6	4.1	21.5	40.0	22.0	11.0	12.0	10.4
25th:	10.0	8.4	9.9	11.1	4.6	9.3	3.8	3.0	1.7	1.8	11.4	23.4	11.8	7.1	7.8	6.8
Max:	73.0	61.6	68.3	71.5	21.1	32.7	11.2	15.9	15.6	20.0	80.5	105.3	61.5	22.9	26.7	25.7
Min:	3.6	4.9	3.7	5.3	0.7	2.6	1.2	1.0	0.6	0.7	1.5	4.8	5.8	1.1	2.5	0.9

Source: Goldman Sachs Global Investment Research

CHART 4: S&P 500: VOLATILITY SPIKES WHEN THE MARKET FALLS (1928-2017)



Source: Robert Shiller, Goldman Sachs Global Investment Research, Antipodes Partners

In summary, there is nothing that unusual about the duration of the current low volatility environment. What is unusual is the low absolute level (and spread across sectors) of equity volatility **AND** cross asset index volatility globally.

As Minsky alluded to, prolonged periods of stability or **low volatility do not necessarily equate with low potential risk**. In fact, today many investment strategies are increasingly betting on stability and low volatility to generate returns[10].

Examining the mid-2000s, a virtuous cycle of cheap funding via surplus EM savings combined with a search for yield, resulted in low volatility which fuelled leverage in the developed world private sector. Today, we have a different issue with the central bankers now the key actors dampening volatility and creating the illusion of stability.

Antipodes Partners argues that **volatility targeting investment strategies**, such as risk parity[11] and minimum variance[12] **are an OUTCOME of large scale bond buying programs, rather than the CAUSE of persistently low volatility.** Hence, asset volatility, especially equity **volatility, is not dead but rather in hibernation.**

Furthermore, Antipodes Partners makes the following observations regarding the underlying nature of the current low volatility environment:

- One of the primary objectives of QE is to cap the range and volatility of long-term government interest rates. Whether the merits for current QE makes sense or not, it's hard not to argue that QE has successfully anchored long-term interest rate expectations and forced government bond holders to take an increasing amount of duration risk, lowering interest rates further and/or increasing allocations to other government

[10] http://www.pionline.com/article/20170615/ONLINE/170619974/low-vol-investing-simple-may-no-longer-be-beautiful

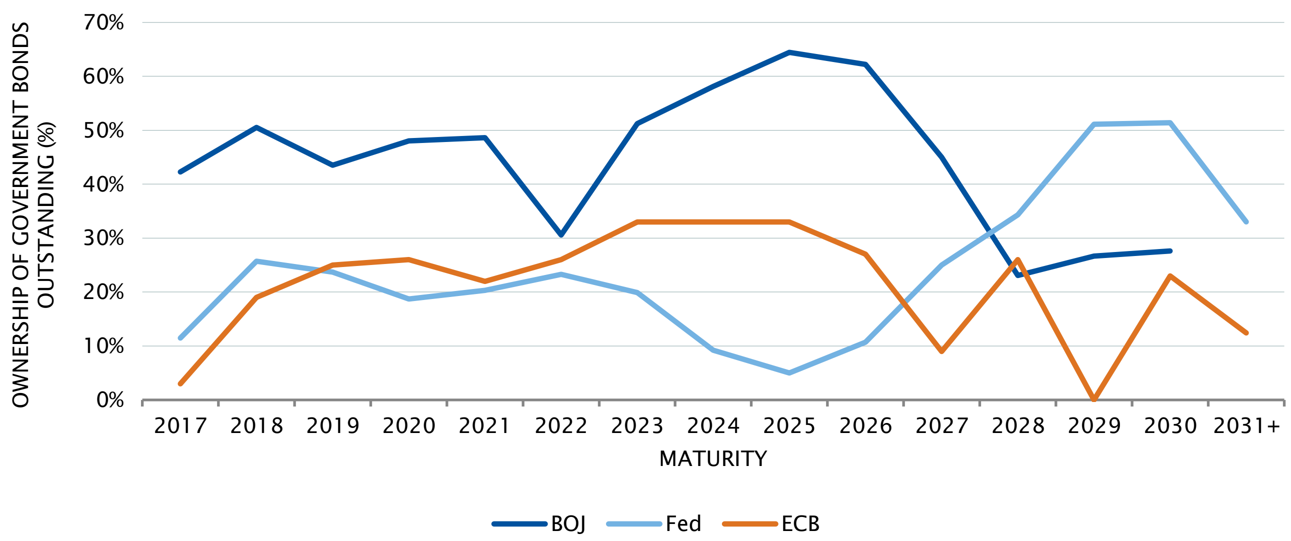
[11] Risk parity, or risk premia parity, is an approach to portfolio management which focusses on the allocation of risk, usually defined as volatility, rather than the allocation of capital

[12] Minimum variance strategies seek to exploit an observation that stocks with low volatility, in the right combinations, produce long-term returns equal to or better that the market at lower levels of risk

bond markets, thereby supressing yields globally. Chart 5 highlights how aggressively certain central banks have targeted the longer end of the yield curve, with the weighted average maturity of central bank government bond holdings at 8-9 years for the Fed, ECB and BOJ

- Whilst equity investors see themselves as central, it's higher up in the corporate capital structure in credit where the impact of QE can be much more meaningful. As central banks have crowded private investors into high yield debt, spreads have compressed across the risk spectrum (Chart 6)
- Now the cycle is in a virtuous period where low yields and low volatility reinforce the greater use of leverage to manufacture returns

CHART 5: SCALE OF QE AT THE LONG END OF THE CURVE (2017)



Source: Bank of Japan, European Central Bank, Federal Reserve, UBS, Antipodes Partners

CHART 6: PERCENTILE RANK OF U.S. HIGH YIELD (EX COMMODITIES) SPREADS VS. HISTORY (2006-2017)

		Tenor (years)							
	HY credit rating	**1..2**	**2..3**	**3..4**	**4..5**	**5..6**	**6..7**	**7..9**	**9..13**
Higher Risk <> Lower Risk	BB1	.01	.00	.03	.05	.05	.02	.39	.00
	BB2	.19	.08	.03	.15	.04	.20		
	BB3	.02	.10	.08	.15	.06	.02		
	B1	.02	.13	.32	.12	.60	.05		
	B2	.04	.12	.01	.11	.15			
	B3	.05	.00	.08	.30	.24			
	CCC	.38	.19	.16	.08				
	Reds are tight spreads, greens are wide								

Source: Deutsche Bank

Awakening from the slumber

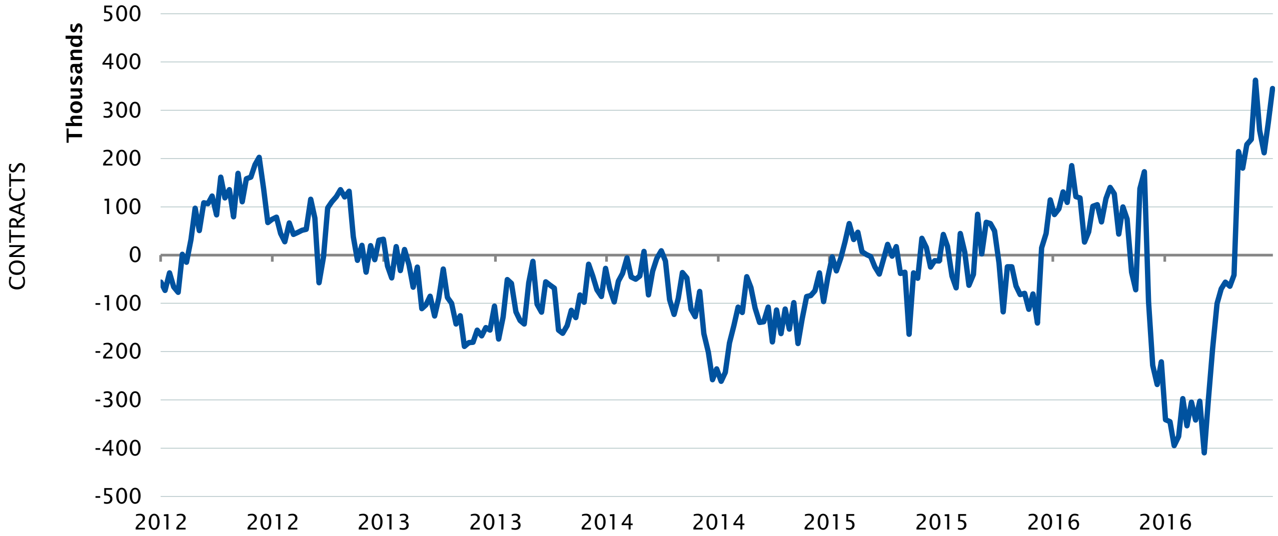
Simplistically, we see two likely scenarios:

- Growth surprises to the upside driving urgency from central banks to normalise policy. To minimise disruption to short-term funding markets, tapering would need to 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 the death of the highly crowded/expensive equity low volatility, bond proxy and growth/quality trade. Conversely, it would be positive for the currently cheaper shorter duration equity exposures such as Banks and other so called cyclical sectors.
- Growth disappoints via the withdrawal of global liquidity. For example, policy tightening in China combined with weak commodity demand has the potential to send a negative growth impulse to EM. 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 equity low volatility, bond proxy and growth/quality trade.

Whilst the recent sell-off in oil has many thinking the latter scenario is upon us, the market is somewhat already positioned for the end of the reflation trade. Crowding into bond proxies and growth/quality exposures remains intense (Charts 1 & 2), whilst speculative positioning in U.S. Treasury futures is at a record long (Chart 7), with the swing since early 2017 being nothing short of violent.

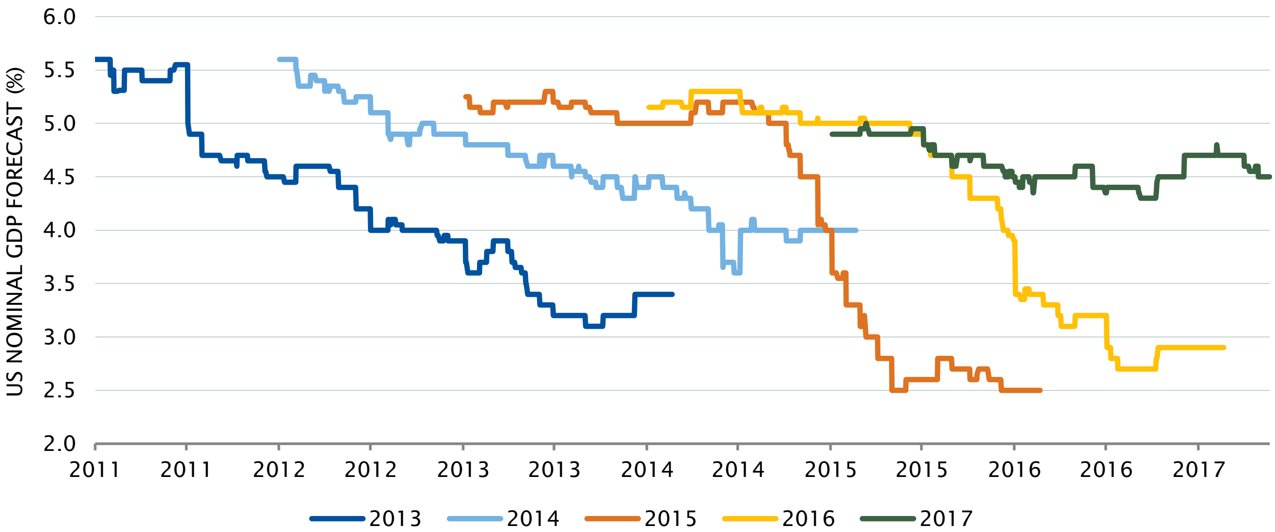
CHART 7: 10Y TREASURY NOTE NET NON-COMMERCIAL FUTURES POSITIONS (2012-2017)



Source: CFTC, Bloomberg

However, if U.S. growth expectations, which have thus far been very sticky continue to hold-up (Chart 8), we could see an equally violent rotation back to reflation exposures.

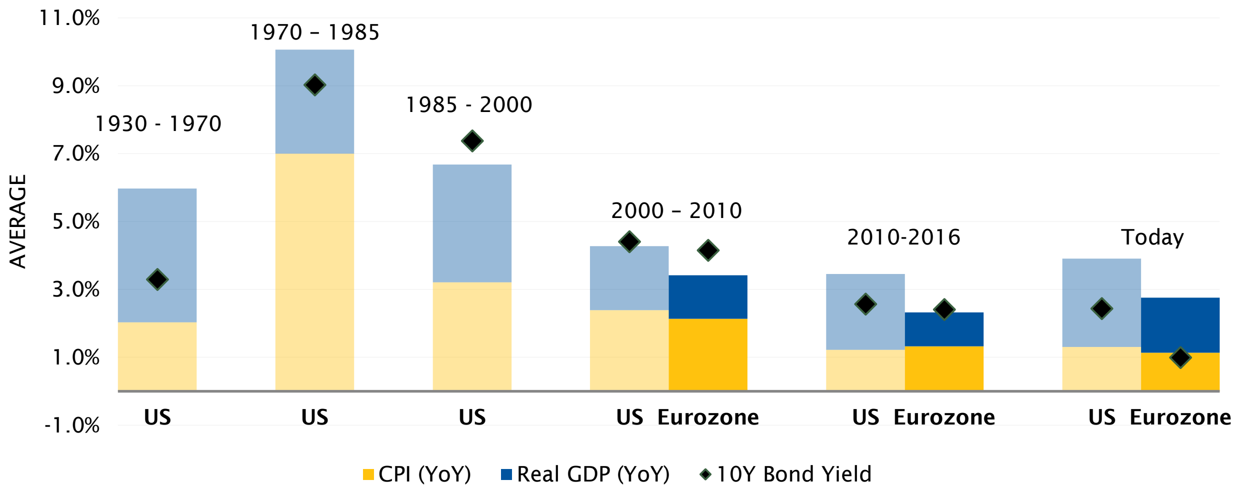
CHART 8: U.S. NOMINAL GDP FORECASTS



Source: Bloomberg

As we highlight in Chart 9, since the 1970's there has been a tight relationship between average nominal 10 year U.S. bond yields and average nominal GDP growth, though we caveat this inference – in the 40 years following the Great Depression, U.S. yields failed to keep pace with nominal growth. In a cyclical sense, global growth has been accelerating for most of the year. Whilst we would hesitate to extrapolate a higher structural rate of long-term global growth, the recent move in rates highlights that global long-term bond yields may have been mispriced, i.e. too low, relative to growth and that this mispricing may be most extreme in the Eurozone.

CHART 9: EUROZONE BONDS ARE DISCOUNTING A STEEP DECELERATION IN GROWTH (2000 – 2017)



Source: Factset, Robert Shiller, Eurostat

Conclusion

Minsky's assertion that *the longer things are stable, the more unstable* they become echoes against the current backdrop of extended low cross-asset volatility, one which we believe has created a false sense of security as investors confuse today's low volatility environment with low risk.

Central bankers have somewhat cornered themselves. Increasingly, political and economic pressure to normalise interest rates **or** withdraw stimulus is likely to **trigger volatility** and **widen credit spreads** (our analysis suggests that U.S. high yield, or junk bond issuers are most vulnerable to this risk - see our research paper titled "The Global Corporate Debt Unwind"[13]**)**. Whilst the low-volatility regime may endure, investors have grown too comfortable with the central bank reaction function, extending the illusion of stability.

At Antipodes Partners, we do not attempt to predict or time regime change. Whilst a poorly constructed building may eventually collapse, the cause, timing and degree is challenging to predict. As investors, we seek to identify where fragility exists and build a resilient portfolio with asymmetric payoffs at the stock, cluster and portfolio level, i.e. a safer building. At the core of our investment philosophy we seek in our long investments 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.

In our last quarterly, we noted that the blind assumption of unendingly low rates made the market vulnerable to a cyclical back-up in yields. Whilst this thesis initially played out and has partially reversed, we believe the risk is still asymmetrically priced. Accordingly, we are avoiding expensive versions of the bond proxies as long investments, accumulating selective opportunities that have suffered the most from yield curve compression whilst increasing our shorts on the beneficiaries of the low rate world, i.e. expensive bond proxies and growth.

In summary, we're encouraged by the growing valuation dispersion within and across markets (region/sector/factor) as we think this is indicative of broadening pragmatic value opportunities, both long and short. Further, investment strategies which are seeking idiosyncratic alpha (rather than passive beta), are flexible and risk-aware should outperform in an environment where volatility awakens from temporary hibernation.

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[13] http://antipodespartners.com/wp-content/uploads/The-corporate-debt-unwind.pdf

FIGURE 1: ANTIPODES PARTNERS REGION-SECTOR VALUATION HEAT-MAP

The Antipodes Partners Region-Sector Valuation Heat-map provides a more granular illustration of valuation clustering across sectors and regions. Cell colouring indicates the degree to which a sectors' enterprise value to sales multiple (price to book for financial sectors) relative to the world is above or below its 21 year relative trend (expressed as a z-score). The warmer the colour, the greater the relative multiple versus history; vice versa for the cooler blues, with extremes highlighted by the boldest of colours.

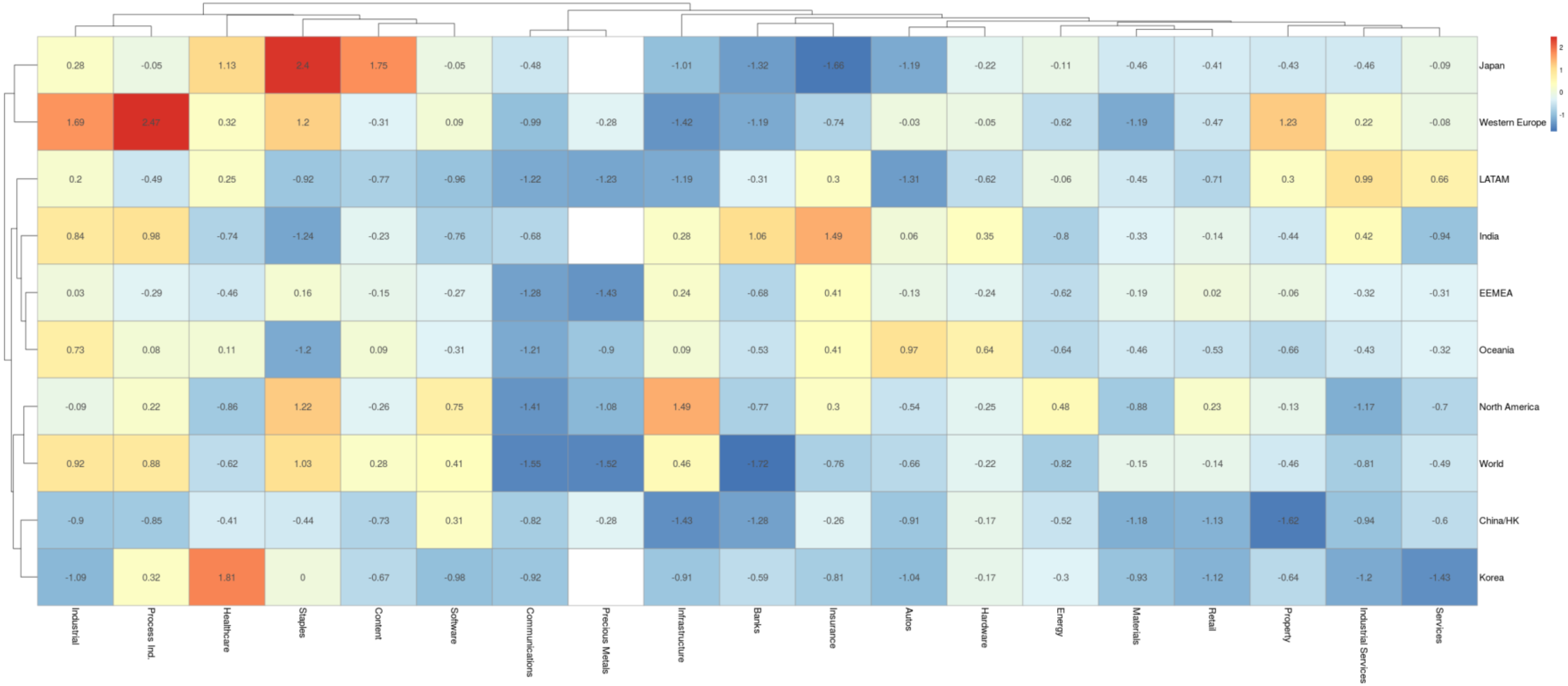
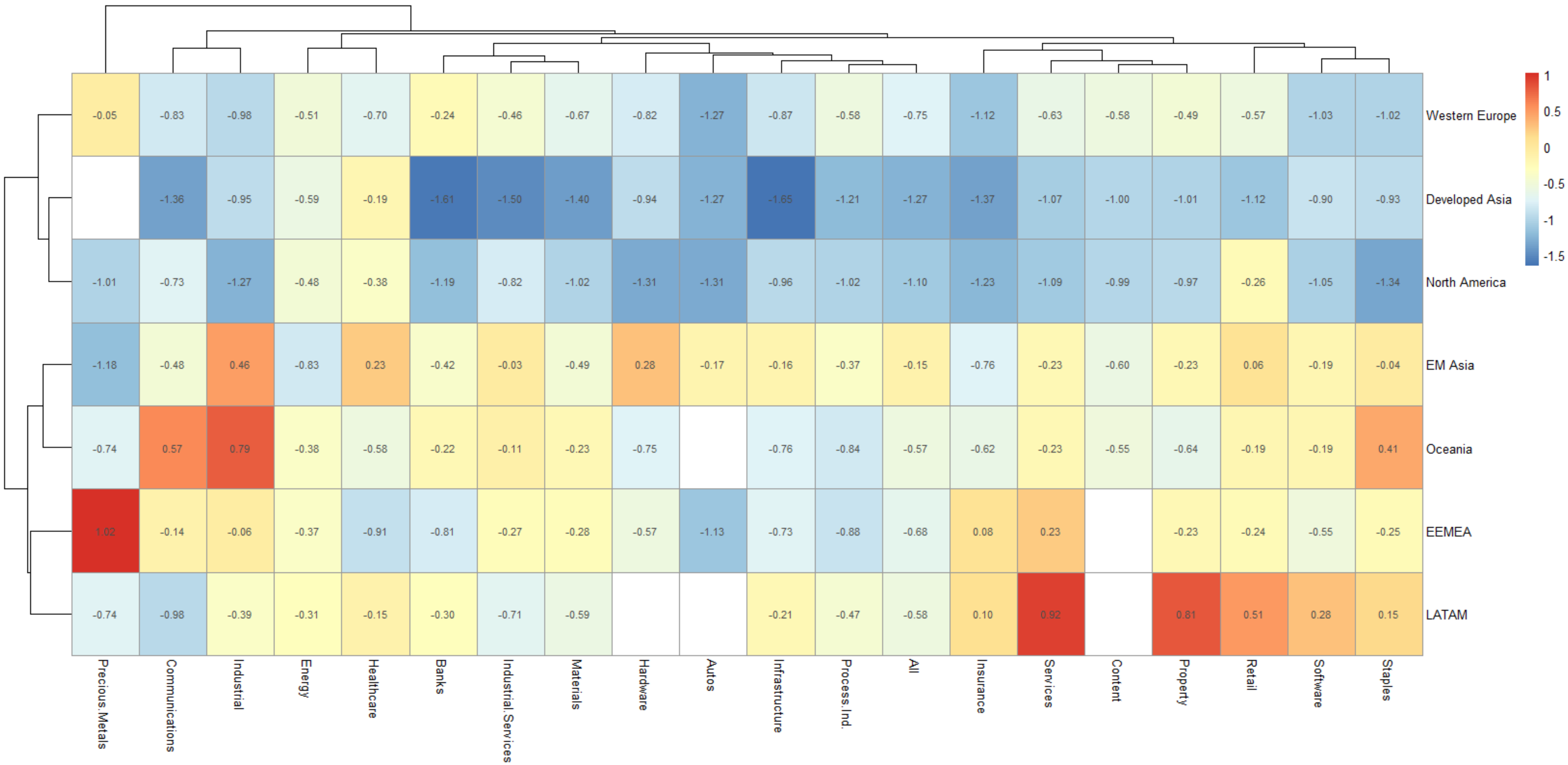


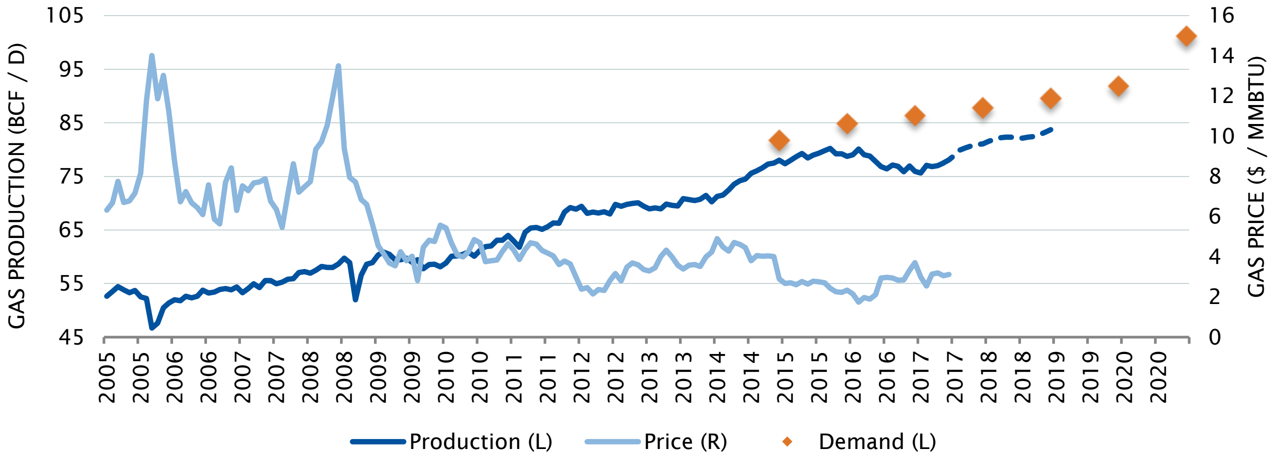
FIGURE 2: ANTIPODES PARTNERS REGION-SECTOR VOLATILITY HEAT-MAP

The Antipodes Partners Region Sector Volatility Heat-map provides a more granular illustration of price volatility across regions and sectors. Cell colouring indicates the degree to which the variability of daily USD stock returns within a region or sector is above or below its available history (expressed as a z-score). The warmer the colour, the greater the volatility versus history; vice versa for the cooler blues, with extremes highlighted by the boldest of colours.



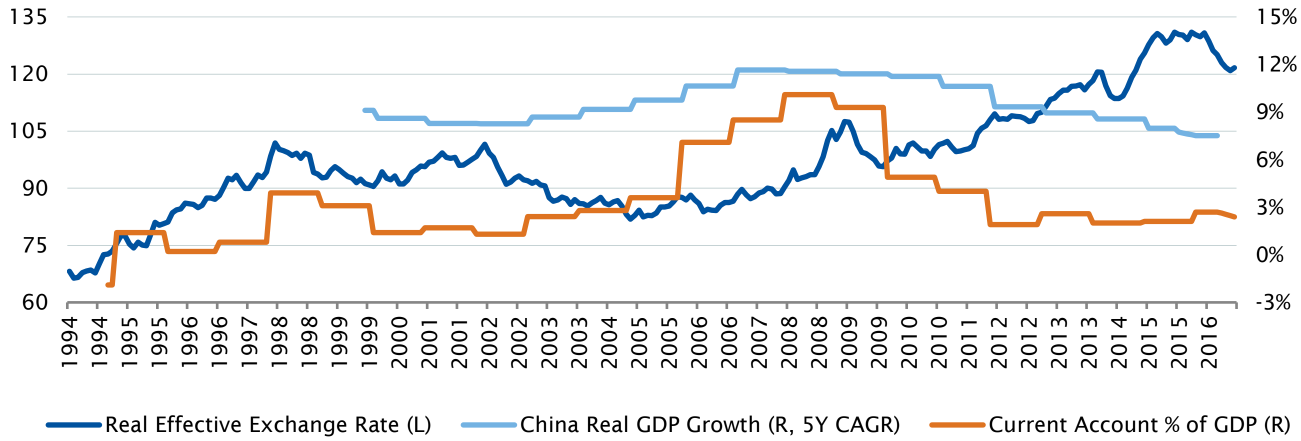
ADDITIONAL CHARTS

CHART 10: U.S. NATURAL GAS PRODUCTION AND DEMAND (2005 - 2020)



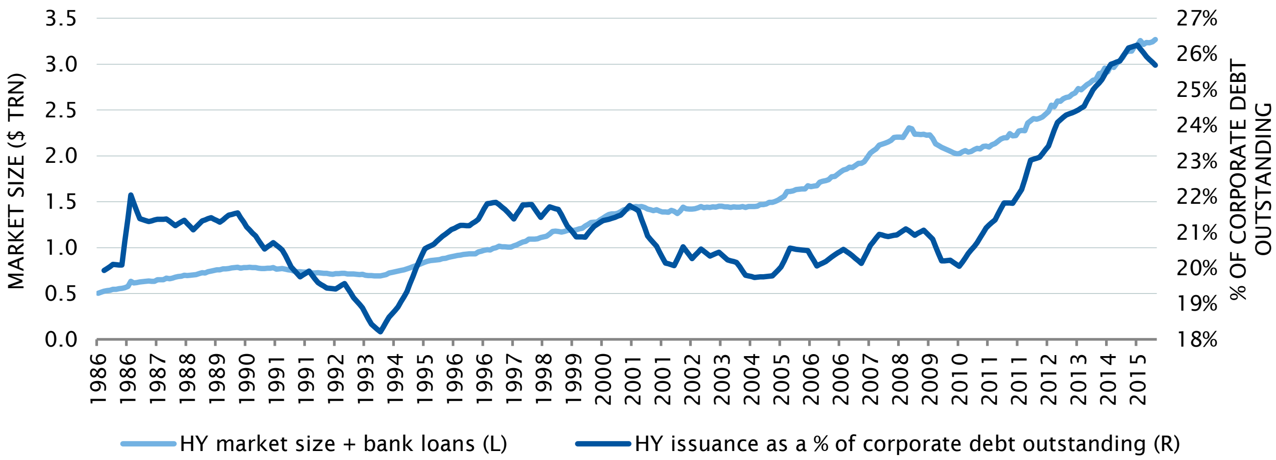
Source: EIA, Antipodes Partners

CHART 11: THE RENMINBI IS THE RELEASE VALVE (1994 – 2017)



Source: Federal Reserve, BIS

CHART 12: HIGH YIELD DEBT OUTSTANDING (1986 - 2017)



Source: Deutsch Bank

Glossary

ACWI

MSCI All Country World Net Index in AUD.

CAPITAL EMPLOYED (CE)

The capital used by a business to earn a return, i.e. net working capital, net property plant and equipment, non-goodwill intangibles (e.g. patents, spectrum licenses) and goodwill.

CLUSTER

A collection of positions which exhibit similarities in their return profile including operational, end-market, style and macro characteristics.

CURRENT ACCOUNT (CA)

The sum of a country's trade balance, income from abroad and net current transfers.

CYCLICALLY ADJUSTED PRICE TO EARNINGS RATIO

Today's price divided by average inflation adjusted earnings (averaged over 7 years to reflect a typical earnings cycle). Median CAPE's uses 25 years of history for developed markets and 20 years for emerging.

ENTERPRISE VALUE

The total cost to acquire a business on market, including all liabilities and obligations.

ENTERPRISE VALUE TO CAPITAL EMPLOYED (EV/CE)

The enterprise value of a company relative to its operating capital employed, including goodwill, but excluding associates and investments.

ENTERPRISE VALUE TO SALES (EV/SALES)

The enterprise value of a company relative to its sales. Sales may be reflect the last 12 months of operations or a future estimate.

EXPECTED MARKET RETURN (EMR)

The annualised expected market return if the 3Y forward CAPE (based on consensus estimates) were to revert to the median through price movements alone (capital gains) plus the long term average total return to shareholder (dividend + buybacks – stock issuance) yield.

EXPOSURE

See *cluster*.

FACTOR

Antipodes Partners defined factors include:

- *Bad Yield*; Yield funded through debt or equity issuance (as opposed to cash-flow), vice versa *Good Yield*
- *Good Yield*; Yield funded through cash-flow (as opposed to debt or equity issuance), vice versa *Bad Yield*
- *Growth*; A composite of short, medium and long term growth rates
- *Momentum*; A composite of short, medium and long term price change in common currency terms
- *Multiple Dispersion* or *"Value"*; A composite of valuation multiples, absolute and vs. world relative history
- *Profitability*; A composite of short, medium and long term profitability ratios
- *Resilience*; A composite of balance sheet quality and earnings stability ratios
- *Size*; Market capitalisation in common currency terms

- *Volatility*; Standard deviation of 180 day local currency price change
- *Yield*; Total yield to shareholders inclusive of net equity issuance

GROSS MERCHANDISING VALUE (GMV)

- Total value of merchandise sold over a period of time on an e-commerce website.

PERIPHERY

- In the context of the Eurozone, countries with a relatively smaller contribution to aggregate GDP than the core (Germany and France).

PRICE TO BOOK (PB)

The share price of a company relative to its book value per share (BPS). BPS may be reflect the last 12 months of operations or a future estimate.

PRICE TO EARNINGS (PE)

The share price of a company relative to its earnings per share (EPS). EPS may be reflect the last 12 months of operations or a future estimate.

REAL EFFECTIVE EXCHANGE RATE (REER)

A weighted average of a country's currency relative to its trading partners, adjusted for the effects of inflation.

SECTOR

Antipodes Partners defined global sectors include:

- *Global Cyclicals*; Energy, Industrial Services, Materials, Process Industries, Industrials, Autos and Hardware
- *Global Defensives*; Software, Healthcare, Staples and Content
- *Precious*; Gold and other Precious Metals

Antipodes Partners defined domestic sectors include:

- *Domestic Cyclicals*; Retail, Services and Property
- *Domestic Defensives*; Communications and Infrastructure
- *Financials*; Banks and Insurance

STYLE

See *factor*.

VOLATILITY

A statistical measure of the dispersion of returns for a given security or market index. Volatility can be measured using the standard deviation or variance between returns from that same security or market index.

Z-SCORE

A quantity expressing the degree to which something differs from the mean, or average. A score greater than 0 suggests a value that is greater than average and vice versa.

Fund Summaries

	Antipodes Global Fund – Long Only	Antipodes Global Fund	Antipodes Asia Fund
Investment Objective	Outperform the benchmark over the investment cycle (typically 3-5 years) at below market levels of risk	Absolute returns in excess of the benchmark over the investment cycle (typically 3-5 years) at below market levels of risk	Absolute returns in excess of the benchmark over the investment cycle (typically 3-5 years) at below market levels of risk
Typical Investment Range	Equity exposure: 75-100% Cash: 0-25%	Net equity exposure: 50-100% Max gross exposure: 150%	Net equity exposure: 50-100% Japan limit: 30%; Oceania & Non-Asian emerging market limit: 15%
Benchmark	MSCI All Country World Net Index in AUD	MSCI All Country World Net Index in AUD	MSCI All Country Asia ex Japan Net Index in AUD
Leverage	Not permitted	Max gross exposure: 150%	Max gross exposure: 150%
Stock Shorting	Not permitted	Permitted	Permitted
Derivatives	Hedging for risk management limited to 10% of NAV[14]	Permitted	Permitted
Currency Management	Hedging for risk management[15]	Permitted	Permitted
Fee Structure	1.20% plus performance fee of 15% of outperformance above benchmark net of base fee	1.20% plus performance fee of 15% of outperformance above benchmark net of base fee	1.20% plus performance fee of 15% of outperformance above benchmark net of base fee
Buy/ sell spread	0.30% / 0.30%	0.30% / 0.30%	0.30% / 0.30%
Distribution frequency	Annual	Annual	Annual
APIR code	WHT0057AU	IOF0045AU	IOF0203AU
ARSN code	118 075 764	087 719 515	096 451 393
Platform availability	Ausmaq First Wrap HUB24 mFund (AGP01)	Aegis AMP Flexible Super AMP North AMP PPS ANZ Grow Wrap Asgard BT Panorama BT Wrap First Wrap HUB24 IOOF – Portfolio Service Macquarie Wrap Macquarie Accumulator MLC Navigator Netwealth PremiumChoice	AMP North BT Panorama BT Wrap HUB24 IOOF – Portfolio Service Linear Macquarie Wrap MLC Navigator Netwealth PremiumChoice

14 By using exchange trade derivatives; currency hedges excluded

15 Hedges would reference underlying stock exposures and a net short position would not be permitted

Antipodes Global Fund

ARSN 087 719 515 APIR IOF0045AU

FUND UPDATE AS AT 30 JUNE 2017

FUND FACTS

Portfolio manager	Jacob Mitchell
Inception date[1]	1 July 2015
Benchmark	MSCI All Country World Net Index in AUD
Management fee	1.20% p.a.
Performance fee	15% of net return in excess of benchmark
Buy/Sell spread	±0.30%
Minimum investment	AUD $25,000
Distribution	Annual, 30 June
Net Asset Value	$1,926m
Strategy FUM	$2,754m
Unit redemption price	$1.6250
Changes to key service providers	Nil
Risk profile	High (refer to PDS)

[1] Investment strategy adopted 1 July 2015

SECTOR ALLOCATION[2]

[2] Antipodes Partners classification. Long portfolio only

TOP 10 HOLDINGS

Name	Country	% of Fund
Hyundai Motor Co.	Korea	3.9
Baidu	China/HK	3.1
Gilead Sciences	United States	3.0
KB Financial Group	Korea	2.8
ING Groep	Netherlands	2.6
Inpex Corporation	Japan	2.6
Samsung Electronics	Korea	2.5
Microsoft Corporation	United States	2.5
Office Depot	United States	2.4
Telecom Italia	Italy	2.4

GEOGRAPHIC ALLOCATION (%)

Region/Country[3]	Long	Net	Currency
United States	**23.0**	**3.4**	**31.3**
Developed Asia	**22.7**	**19.7**	**17.2**
Korea	10.9	10.9	6.1
Japan	11.9	8.9	11.1
Developing Asia	**18.8**	**17.9**	**12.6**
China/Hong Kong	17.2	16.3	11.0
India	1.6	1.6	1.6
Western Europe	**24.0**	**17.7**	**29.9**
Eurozone	20.9	18.0	21.6
United Kingdom	2.5	1.7	2.9
Other	0.5	-2.0	5.4[4]
Australia	**1.1**	**-2.5**	**6.9**
Other	2.0	2.0	2.1
Total Equities	**91.7**	**58.2**	-
Cash	**8.3**	-	-
Total	**100.0**	-	**100.0**

[3] Includes depositary receipts [4] 4.9% exposure to Norwegian Krone

Antipodes Global Fund – Long Only

ARSN 118 075 764 APIR WHT0057AU

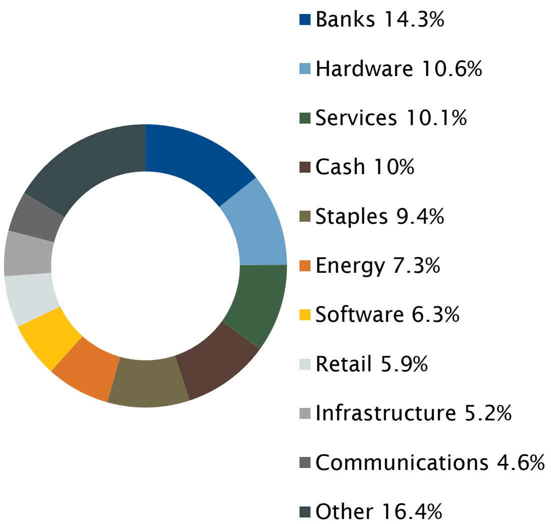
FUND UPDATE AS AT 30 JUNE 2017

FUND FACTS

Portfolio manager	Jacob Mitchell
Inception date[1]	1 July 2015
Benchmark	MSCI All Country World Net Index in AUD
Management fee	1.20% p.a.
Performance fee	15% of net return in excess of benchmark
Buy/Sell spread	±0.30%
Minimum investment	AUD $25,000
Distribution	Annual, 30 June
Net Asset Value	$595m
Strategy FUM	$1,019m
Unit redemption price	$1.1321

[1] Investment strategy adopted 1 July 2015

SECTOR ALLOCATION[2]



[2] Antipodes Partners classification

TOP 10 HOLDINGS

Name	Country	% of Fund
Hyundai Motor Co.	Korea	4.0
Gilead Sciences	United States	3.0
Baidu	China/HK	2.9
KB Financial Group	Korea	2.8
Inpex Corporation	Japan	2.6
ING Groep	Netherlands	2.6
Telecom Italia	Italy	2.5
Microsoft Corporation	United States	2.5
Office Depot	United States	2.4
Cisco Systems	United States	2.4

GEOGRAPHIC ALLOCATION (%)

Region/Country[3]	Long	Currency
United States	**21.8**	**28.3**
Developed Asia	**23.1**	**18.4**
Korea	11.7	6.8
Japan	11.5	11.5
Developing Asia	**19.5**	**16.0**
China/Hong Kong	17.9	14.4
India	1.6	1.6
Western Europe	**22.3**	**28.7**
Eurozone	19.9	20.4
United Kingdom	2.4	2.6
Other	-	5.7[4]
Australia	**1.2**	**6.5**
Other	2.1	2.2
Total Equities	**90.0**	-
Cash	**10.0**	-
Total	**100.0**	**100.0**

[3] Includes depositary receipts [4] 4.8% exposure to Norwegian Krone

Antipodes Asia Fund

ARSN 096 451 393 APIR IOF0203AU

FUND UPDATE AS AT 30 JUNE 2017

FUND FACTS

Portfolio manager	Jacob Mitchell
Inception date[1]	1 July 2015
Benchmark	MSCI All Country Asia ex Japan Net Index in AUD
Management fee	1.20% p.a.
Performance fee	15% of net return in excess of benchmark
Buy/Sell spread	±0.30%
Minimum investment	AUD $25,000
Distribution	Annual, 30 June
Net Asset Value	$64m
Unit redemption price	$1.2927
Changes to key service providers	Nil
Risk profile	High (refer to PDS)

[1] Investment strategy adopted 1 July 2015

SECTOR ALLOCATION[2]

[2] Antipodes Partners classification. Long portfolio only

TOP 10 HOLDINGS

Name	Country	% of Fund
Hyundai Motor Co.	Korea	4.7
KB Financial Group	Korea	4.6
Baidu	China/HK	3.9
Samsung Electronics	Korea	3.9
Inpex Corporation	Japan	3.4
China Mobile	China/HK	3.0
ICICI Bank	India	2.9
Jiangsu Yanghe Brewery	China/HK	2.9
JD.com	China/HK	2.5
Hyundai Department Store	Korea	2.5

GEOGRAPHIC ALLOCATION (%)

Region/Country[3]	Long	Net	Currency
United States	-	-	**25.9**
Developed Asia	**38.6**	**32.1**	**28.6**
Korea	21.5	21.5	13.9
Japan	17.0	10.6	14.7
Developing Asia	**45.8**	**39.9**	**29.9**
China/Hong Kong	37.2	33.7	21.2
India	8.0	5.6	8.0
Other	0.6	0.6	0.6
Australia	**1.8**	**-4.6**	**9.6**
Other	4.9	4.9	6.1
Total Equities	**91.1**	**72.4**	-
Cash	**8.9**	-	-
Total	**100.0**	-	**100.0**

[3] Includes depositary receipts

DISCLAIMER

Pinnacle Fund Services Limited (ABN 29 082 494 362, AFSL 238371) is the product issuer of the Antipodes Global Fund – Long Only (ARSN 118 075 764); Antipodes Global Fund (ARSN 087 719 515); and Antipodes Asia Fund (ARSN 096 451 393), collectively "the Funds". The Product Disclosure Statement ("PDS") of the Funds are available at www.antipodespartners.com/funds. Any potential investor should consider the relevant PDS before deciding whether to acquire, or continue to hold units in a fund. The issuer is not licensed to provide financial product advice. Please consult your financial adviser before making a decision. Past performance is not a reliable indicator of future performance.

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