Antipodes

Quarterly shareholder update 30 September 2021

Antipodes Global Investment Company Limited (ASX:APL)

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Disclaimer

Letter from the chairman

Dear fellow shareholders,

Welcome to the latest Company quarterly update, a comprehensive review of the Company's quarterly investment performance to 30 September 2021, together with a portfolio update and market outlook by Antipodes Partners Limited (Antipodes), the Manager of the Company's portfolio of assets.

The update starts with commentary from Antipodes on the overall market during the past quarter in order to provide shareholders with context about the performance of the Company's portfolio.

The Company commentary section follows and is important this quarter as it provides an important update on the scheme of arrangement (Scheme) that, if implemented, will result in APL Shareholders exchanging their shares in APL for units in Antipodes Global Shares (Quoted Managed Fund) (AGX1), an existing open-ended active ETF quoted on the ASX, for which Antipodes Partners Limited is investment manager. The number of units received for each APL Share will be based on APL's net tangible assets relative to AGX1's net asset value immediately prior to implementation. APL Shareholders are encouraged to read the Scheme Booklet available on the Scheme website.

Pleasingly during the quarter and off the back of strong FY21 Company results, the Company paid a final dividend of $0.04 per share (100% franked) on 30 September 2021. This resulted in the full year FY21 dividend of $0.06 per share, up 33% on the $0.045 per share in FY20.

This is followed by a summary of the Company's portfolio performance and portfolio positioning. The feature article for the quarter is on Frontier Communications Corporation. Antipodes see Frontier as a rare find in the telco space in the US. The opportunity represents a blend of special situation pricing (post-bankruptcy), an attractive fiber-to-the-home ("FTTH") business and growth opportunity matched with a world-class management team.

Finally, the Outlook section provides insights into the recent rise in bond yields globally off the back of increased concerns about inflation, an update on China and a reminder of the reasons for the portfolio's underweight in the US and overweight in Europe.

We hope you enjoy the update, part of the Company's drive to improve communication with our shareholders. We also hope that you are enjoying the new fortnightly newsletter called 'The Good Value Briefing' that provides a timely update to shareholders from Antipodes on the portfolio and markets. These should be in your email inbox and the latest version of which can also be found on the Company website.

Yours sincerely,

Jonathan Trollip
Chairman

Market commentary

The third quarter saw global equities up (+1.1% in USD, +2.8% in AUD). Increased volatility in September saw most of the gains from earlier in the quarter wiped out. During the quarter the market's focus shifted towards the impact of continued inflationary pressures, spiking oil and gas prices, the outlook for Fed tapering, and China's growth trajectory following recent events impacting its regulatory landscape, property sector and power prices.

Central banks globally sounded a more cautious note over the management of inflationary pressures than in previous quarters as more muted growth coupled with continued supply chain pressures and disruption drove up prices. Higher energy costs also contributed to these price rises. Moves to tighten monetary policy were sounded by the US Federal Reserve and the Bank of England, while the European Central Bank issued a mixed message around its tapering plans.

During this period investors exhibited a bias for Energy and Financials, with surging oil prices and with sovereign yields increasing, whilst Materials and Consumer Discretionary underperformed.

US equities (+0.3% in USD) reacted to news out of the Fed that interest rate rises will be likely in 2024, earlier than the market had been pricing in. Over the quarter, US Energy and Financial sectors outperformed whilst the Communication Services sector underperformed. Confidence increased as the $1t bipartisan infrastructure bill passed the Senate in August, which includes about $550b in new federal spending over the next five years. In a further reopening of the economy, the US announced the November removal of the travel ban for fully vaccinated passengers from over 30 countries including China, India, Brazil and most European states.

Asian equities (-4.6% in USD) were impacted by several events over the quarter. In Japan (+4.6% in USD) the newly elected prime minister, regarded as an uncontroversial choice, promised more government stimulus to counter the economic effects of the COVID-19 pandemic, while recognising concerns over rising country debt. Meanwhile China (-13.3% in USD) was rarely out of the headlines with events there weighing heavily on Chinese equities. In August China announced a five-year plan to tighten regulation for much of its economy with multiple industries facing a regulatory crackdown. Private tutoring for profit was banned; under 18's had access to computer games severely limited; large technology companies had tighter regulations and fines imposed. In addition, as part of China's focus on reducing debt levels, it allowed property company Evergrande to be on the brink of collapse. Naturally, there have been some worries of contagion.

In the Eurozone (-1.6% in USD), inflation continued to dominate headlines and drive market sentiment as supply chain bottlenecks and shortages continued to put pressure on prices across the bloc. German inflation in September hit the highest level for nearly 30 years, with levels in Spain and France also breaking records. The UK is bracing itself for possible interest rate rises at the end of this year following an announcement by the Bank of England. As anticipated by the markets, the German election outcome was less than clear cut. It is likely that the centre-left SPD will form a three-way collation government that includes the Green Party, resulting in a slight leftward shift in policies.

Elsewhere, the USD strengthened (DXY +1.9%) and Gold (-0.7%) was a little weaker. Brent Crude (+8.2%) continued its rally supported by OPEC+ keeping their supply control and economies re-opening.

Figure 1: Region-sector valuation heat-map[1] - Composite multiple vs world – Z-score (Sep 1996 – Sep 2021)

	All	Energy	Materials and Industrials	Hardware	Software and Internet	Pharma	Devices/ Life Sciences	Staples	Domestic cyclical	Comm-unications	Property and Infra-structure	Financials
World	0.0	(0.8)	0.3	0.2	1.6	(1.0)	2.6	0.3	(0.6)	(1.8)	(0.9)	(2.0)
North America	2.1	(0.2)	1.9	0.6	2.2	(0.9)	2.5	0.0	1.2	(1.4)	0.3	(1.3)
Western Europe	(0.8)	(0.2)	0.4	0.4	(0.3)	(0.8)	2.6	0.1	0.3	(1.5)	(0.9)	(1.6)
Japan/ Korea/ Taiwan	(2.0)	0.7	(1.7)	(0.1)	(0.5)	(0.1)	2.3	(1.1)	(2.2)	(0.8)	(2.3)	(1.4)
Emerging Markets	(0.8)	(0.0)	0.2	0.9	(0.5)	(0.3)	1.0	0.8	(1.2)	(1.7)	(1.2)	(1.6)

Expensive — Cheap

Source: Antipodes, FactSet

1 The Antipodes 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 sector's composite multiple relative to the world is above or below its 25-year relative trend (expressed as a Z-Score, the number of standard deviations from the mean). The warmer the colour, the greater the relative composite multiple versus history; vice versa for the cooler blues, with extremes highlighted by the boldest of colours. Composite of forward PE, EV/Sales, EV/Operating Capital Employed (including goodwill) and cyclically adjusted PE and EV/EBIT for industrials, with EV based measures replaced with PB and cyclically adjusted P/Pre-provision profits for financials.

Company commentary

The Company's portfolio returned 1.4% for the quarter, underperforming its benchmark which returned 2.8% over the same period.

On 22 October 2021, the Company provided an important update on the scheme of arrangement (Scheme) by way of an ASX announcement and Scheme Booklet which is also available on the Scheme website.

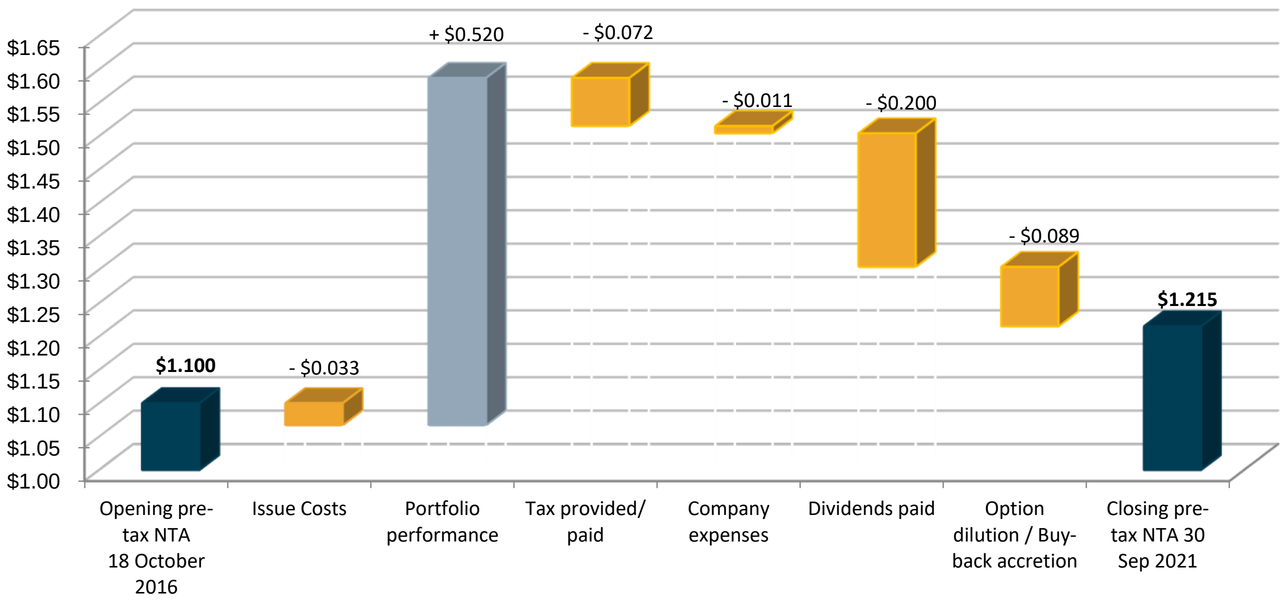
The Scheme will enable shareholders to exchange their shares in the Company for units in the Antipodes Global Shares (Quoted Managed Fund) (ASX:AGX1), an existing actively managed ETF for which Antipodes Partners Limited is investment manager.

Shareholders are able to vote on the Scheme by proxy ahead of the Scheme meeting via the Boardroom online voting website or via the virtual Scheme meeting that will take place on 24 November 2021. You will need your personalised voter access code (VAC) in order to access both websites. This was provided to shareholders via an email from the Company on 22 October 2021 or via post.

The exchange value of APL shares under the Scheme will be calculated off the post-tax NTA of APL (less a Retention Amount estimate to be $0.0006 per share) on the Calculation Date, expected to be 15 December 2021. Shareholders will receive their AGX1 units on the Implementation Date, expected to be 17 December 2021, if the Scheme is approved.

As indicated in the table on the following page, during the quarter and off the back of strong FY21 Company results, the Company paid a final dividend of $0.04 per share (100% franked) on 30 September 2021. This resulted in the full year FY21 dividend of $0.06 per share, up 33% on the $0.045 per share in FY20.

Pre-Tax Net Tangible Assets (NTA) per share movement since IPO to 30 September 2021[2,3]



Source: Antipodes

2 Values represented are the estimated cents per share impacts calculated using aggregated yearly values for each financial year since inception. Portfolio performance is after management and performance fees.

3 Pre-tax NTA includes provision for tax on realised gains / losses and other earnings, but excludes any provision for tax on unrealised gains / losses and deferred tax assets relating to capitalised issue costs and income tax losses.

Performance analysis

Dividend history as at 30 September 2021

Type	Dividend per share	Ex date	Record date	Payable	Franked
Final	4.0c	08/09/21	09/09/21	30/09/21	100%
Interim	2c	09/03/21	10/03/21	31/03/21	50%
Final	2.5c	08/09/20	09/09/20	30/09/20	50%
Interim	2c	05/03/20	06/03/20	27/03/20	50%
Final	2.5c	06/09/19	09/09/19	14/10/19	50%
Interim	2c	07/03/19	08/03/19	22/03/19	50%
Maiden[4]	5c	19/10/18	22/10/18	31/10/18	50%

Summary

Performance[5] as at 30 September 2021

	3 months	1 year	3 years p.a.	Inception[6] p.a.
Company	1.4%	21.7%	5.4%	9.2%
MSCI AC World Net Index	2.8%	26.4%	12.6%	14.5%
Difference	(1.5%)	(4.7%)	(7.2%)	(5.3%)

Performance & risk summary[7] as at 30 September 2021

	Company
Average Net Exposure	65.5%
Upside Capture Ratio	68
Downside Capture Ratio	61
Portfolio Standard Deviation	8.5%
Benchmark Standard Deviation	10.3%
Sharpe Ratio	1.05

4 The maiden dividend covered the 20 month period from IPO to June 2018.

5 All returns are in AUD terms since inception. Movement in NTA before tax for the period, adjusted for dividends and income taxes paid and the dilutionary effect of options granted to shareholders upon the Company's initial listing. This figure incorporates underlying portfolio performance net of portfolio related fees and costs, less administration costs of the Company.

6 Inception date is 11 October 2016.

7 All metrics are based on gross of fee returns of the underlying portfolio in AUD terms since inception. The upside/downside capture ratio is the percentage of benchmark performance captured by the fund during months that the benchmark is up/down. Standard deviation is a measure of risk with a smaller figure indicating lower return volatility. The Sharpe ratio measures returns on a risk adjusted basis with a figure > 1 indicating a higher return than the benchmark for the respective levels of return volatility.

Portfolio commentary

Note: The term “cluster” or “exposure” is used herein to reference a collection of positions which exhibit similarities in their risk profile including an irrational extrapolation around change, end-market, style and macro characteristics.

Key contributors to performance over the quarter included:

- **Consumer Cyclicals - Developed Markets (DM)** cluster, notably European financials ING and UniCredit, due to ongoing economy recovery and as the regulator removed restrictions on payout ratios introduced during the pandemic. We see both companies attractively valued on sustainable payout ratios in excess of 10%.
- **Oil/Natural Gas** cluster, notably Cabot Oil and Gas (renamed Coterra Energy, following a successful merger with Cimarex) due to strong US natural gas prices and increasing recognition that the merger will provide the potential for significant capital returns to shareholders. Further, natural gas prices remain robust heading into the peak winter demand season paving the way for strong earnings in 2022.
- **Industrials** cluster, notably Siemens and Teck Resources. Siemens continues to report strong order flow across its segments, but particularly in Digital Industries (the automation business which includes hardware and software solutions), which is positive for revenue and earnings growth in the coming quarters. Teck Resources benefited from a tight coking coal market while the company makes the transition to a copper-led business.
- **Internet/Software - DM** cluster notably Sony and Microsoft. Sony's share price responded to Apple's new iPhone launch which will drive demand for Sony's high end image sensors for cameras and Universal Music Group's successful IPO during the quarter, which attracted a premium valuation. Along with Universal, Sony is one of three dominant music labels with music accounting for almost 20% of Sony's earnings. Microsoft continues to perform on continued strong growth from its cloud infrastructure (Azure) and productivity (Office) segments.
- **Shorts**, notably Internet/Software DM and Consumer Cyclical DM short clusters as the market rotated away from growth/high multiple stocks into quarter end. This rotation was driven by a relatively more hawkish narrative from the US Federal Reserve (and central banks broadly) which led to a sell-off in bonds and a rise in yields.

Key detractors to performance over the quarter included:

- **Internet/Software - Asia/Emerging Markets (EM)** cluster including Tencent and Meituan as uncertainty around regulatory reform in China weighed on the internet/platform companies broadly in the first half of the quarter. Changes in the regulatory backdrop are now well progressed and we expect investors will start to re-focus on long-term opportunities.
- **Consumer Cyclical - Asia/EM** cluster, notably Ping An over concerns around its property exposure, which appear manageable, and that growth in new business will remain slow in the near term as the company restructures its agency force. On a longer-term view this restructure will improve the quality of the company's agency team and create a stronger business.
- **Consumer Defensive - Asia/EM** cluster, notably Wuliangye which, along with the other baijiu companies, was impacted by concerns around potential pricing regulation of high end liquor. Wuliangye's pricing has historically been more stable due to professional management of the distribution network, and they have invested to grow volume in line with demand.

Top 5 contributors & detractors

Top 5 contributors	
UniCredit	0.6%
Sony	0.4%
Tesco	0.3%
ING Groep	0.3%
Coterra Energy	0.3%

Top 5 detractors	
Ping An Insurance	(0.7%)
Tencent	(0.5%)
Meituan Dianping	(0.4%)
Wuliangye	(0.2%)
Roku	(0.2%)

Portfolio positioning

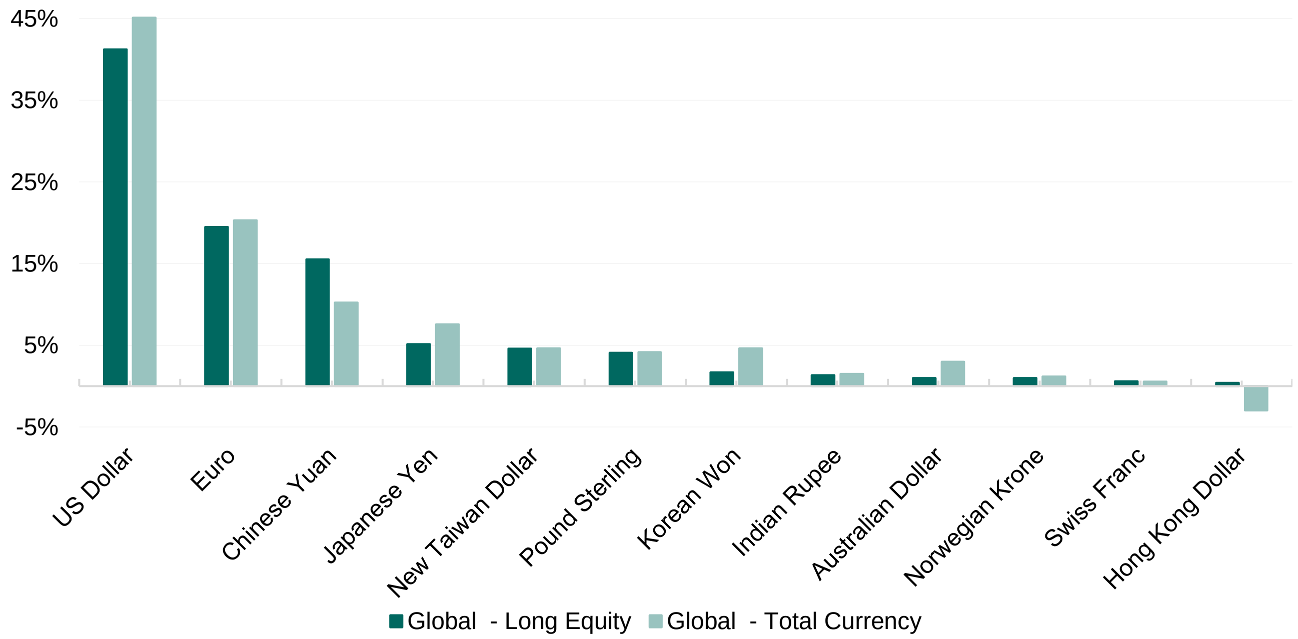
Key changes over the quarter included:

- Added to **Oil/Natural gas** cluster via leading US natural gas producers which will benefit from improving supply and demand dynamics in the US natural gas market. We expect US gas production to increase over time and US gas prices to trend higher as the market globalises through increased exports, compounded by greater global demand for gas as a transition fuel.
- Increased our exposure to sensibly priced quality exposures by adding to our **Healthcare** cluster, including adding to existing holding Sanofi where the valuation gap relative to peers has widened despite Sanofi offering a more attractive growth profile and superior patent cliff profile.
- Added to **Online Services - Asia/Emerging Markets (EM)** cluster including Tencent as changes in the regulatory backdrop are now well-progressed and we expect investors to start to re-focus on long-term opportunities.
- Added to **Consumer Defensive - Asia/EM** cluster via Wuliangye, as concerns around potential pricing regulation of high end liquor provided the opportunity to add to this company, which will be a beneficiary of premium consumption trends in China, at very attractive valuations.
- With the backdrop in China still stabilising, we reduced exposure to the **Industrials** cluster to manage the cyclical tilt in the portfolio. The risk remains that a sustained slowdown/contraction in activity in China spills over into the rest of the world, which has passed the peak of stimulus-led growth.
- Reduced exposure to **Consumer Cyclical - Asia/EM** via reducing exposure to KB Financial Group following a period of good performance and a valuation re-rating. We also rotated our exposure to Indian banks from HDFC Bank to ICICI Bank given its relatively more attractive valuation.
- Rotated exposure in **Connectivity/Compute** cluster via exiting Samsung Electronics given evidence of a memory downcycle, and re-initiating exposure to Synopsys, a world leader in design tools, and Seagate, a leading provider of hard disk drives which are an under-appreciated element of the connected economy.
- Rotated exposure in **Consumer Cyclical - DM** via increasing exposure to European Banks through UniCredit and reducing exposure to Lowe's as strong performance in the home improvement segment has been recognised by the market.
- Reduced exposure to **Software** via exiting VMWare, as Microsoft looks relatively better positioned to benefit from opportunities in hybrid cloud, and multi-cloud opportunities appear smaller than initially expected.
- Added to **Shorts** via a Cyclical Basket (custom collection of weak cyclical businesses) to moderate the portfolio's tilt toward cyclicality in a broadly regional and sector neutral fashion, and via a non-profitable Tech Basket which will likely perform poorly in an environment where yields rise and multiple dispersion contracts.

Cluster exposure & quarterly change[8]

Sector/cluster	Long	Short	Net	Bench mark	3 month net change	12 month net change	Long examples
Global	**40.3%**	**(7.2%)**	**33.0%**	**33.6%**	**(1.9%)**	**3.0%**	
Industrials/Materials	16.1%	(6.1%)	10.1%	13.8%	(5.9%)	(0.3%)	Siemens,Teck Resources
Oil/Natural gas	7.6%	(0.4%)	7.1%	2.8%	3.3%	3.9%	Coterra Energy, Exxon
Hardware	8.1%	(0.7%)	7.4%	7.1%	(1.4%)	(1.4%)	TSMC, MediaTek
Healthcare	8.5%	-	8.5%	9.9%	2.1%	0.9%	Sanofi, Merck
NA/Europe Domestic	**39.3%**	**(6.9%)**	**32.5%**	**53.3%**	**(2.5%)**	**5.8%**	
Software/Internet	14.2%	(3.6%)	10.6%	18.5%	(3.1%)	0.7%	Facebook, Microsoft, Amazon
Consumer defensive	7.4%	(0.7%)	6.7%	7.4%	0.1%	2.6%	Walgreens, Coca-Cola
Consumer cyclical	11.1%	(2.2%)	8.9%	20.5%	1.0%	1.8%	UniCredit, ING, Lowe's
Telco/Infrastructure	6.6%	(0.3%)	6.3%	7.0%	(0.5%)	0.7%	Frontier Communications, EDF
Asia/EM Domestic	**15.5%**	**(0.5%)**	**14.9%**	**12.7%**	**(1.7%)**	**(5.8%)**	
Software/Internet	6.9%	(0.2%)	6.7%	3.0%	0.4%	(0.7%)	Tencent, JD.com
Consumer defensive	2.6%	-	2.6%	1.2%	0.5%	(1.7%)	Wuliangye, Yum China
Consumer cyclical	5.9%	-	5.9%	6.3%	(2.0%)	(1.3%)	Trip.com, ICICI Bank
Telco/Infrastructure	-	(0.3%)	(0.3%)	2.1%	(0.6%)	(2.1%)	
Tail risk hedge (equity)	**1.0%**	**(5.7%)**	**(4.7%)**	**0.4%**	**(0.8%)**	**(5.3%)**	Newcrest
Total equity	**96.1%**	**(20.3%)**	**75.8%**	**100.0%**	**(6.7%)**	**(2.3%)**	
Tail risk hedge (other)	**-**	**(9.4%)**	**(9.4%)**	**-**	**(1.0%)**	**(4.2%)**	

Currency exposure



8 Options exposure represents the market downside. For put options (typically used to limit potential downside) delta-adjusted exposure is used and for call options (typically used to capture potential upside) exposure is calculated using the current option value.

Feature: Frontier Communications Corporation

Frontier is a rare find in the telco space in the US. The opportunity represents a blend of special situation pricing (post-bankruptcy), an attractive fiber-to-the-home ("FTTH") business and growth opportunity matched with a world-class management team.

Irrational extrapolation

The COVID19 pandemic highlighted the mission-critical nature of digital infrastructure and connectivity. In the US, fixed line broadband networks are responsible for doing the heavy lifting, processing about 95% of household internet traffic, yet account for less than a third of service revenues.

Figure 2: Fixed line networks vs mobile networks, US

USA, 2020	Unit	Fixed line networks	Mobile networks
Household internet consumption	GB/ month	325	18
Household service revenue	$bn/ year	71	171
Service revenue per GB	**$/GB**	**0.17**	**6.18**

Sources: Cisco, Kagan, Antipodes estimates

While representing the most cost-efficient and reliable way of delivering data to nearly 85% of the US population, as of June 2020 about half of those households have only one choice of fast internet[9] (typically a coax cable). With few exceptions, the other half face a duopoly choice represented by a local coax cable operator and an incumbent local exchange operator ("ILEC"), i.e. a subsidiary of a former Bell Co operating an upgraded FTTH network. Despite deregulation in the mid-90s, the industry has generally seen a lack of competition and investment. The duopoly environment worked well for both ILECs and cable companies until the persistent strong growth in internet traffic started to expose inability of DSL technology to handle the growing loads of data. While coax cable has fared well so far in dealing with growing traffic, it's ability to do so in future is not looking promising.

The structural trend of shifting away from cable broadcasting to video-on-demand over IP will continue to put pressure on cable networks to deliver incremental IP traffic capacity. Delivering incremental capacity over a coax cable is limited by the laws of physics and, unlike FTTH, comes at a substantial cost. At some stage this shall cause the composition of the industry's market cap to shift from coax cable networks to those operators who future proofed their networks with FTTH.

Since 2014, ILECs have faced a choice of either investing to upgrade their networks from DSL to FTTH or rapidly losing market share to cable. Frontier's prior management had missed the opportunity to do the former, and due to high leverage, the company eventually lost too many subscribers and ended up in Chapter 11. Previous equity was wiped out and new common stock was issued pro-rata to holders of the original unsecured notes of Frontier[10] and the new management team. Frontier emerged from bankruptcy on 30th April 2021 with two-thirds of the debt extinguished, a solid balance sheet, a sensible growth strategy and listed on NASDAQ in May. The new shares started trading without the usual IPO fanfare and with virtually no marketing and sell-side coverage.

The company plans to invest aggressively in the rollout of FTTH throughout their legacy copper footprint. As an incumbent ILEC, they possess a unique cost and speed-to-market advantage. This ensures that once Frontier launches the FTTH overbuild, the rapidly diminishing returns for a potential 3rd FTTH player make it very likely that this area will remain a duopoly with a comfortably low level of competition. Accordingly, we estimate that Frontier will generate a defensible 15-20% unlevered IRR on its incremental investment into FTTH.

While industry specialists would share our view on the intrinsic superiority of FTTH over coax cable, the prevailing market view still largely ignores this. Most of the sector's market cap is still concentrated in two large cable operators, and both have so far chosen to downplay the FTTH threat. FTTH coverage is currently sitting at 43% of US households, and there are nearly 17% incremental households in areas with announced FTTH rollout plans by ILECs (Frontier representing a quarter of that pipeline). With typical FTTH subscriber penetration of 40%[11], that equates to 13m cable subscribers under threat (~18% of all US cable subs) over the next 5 years.

9 Speeds >100mbps down and 10mbps up, as per FCC data and definitions

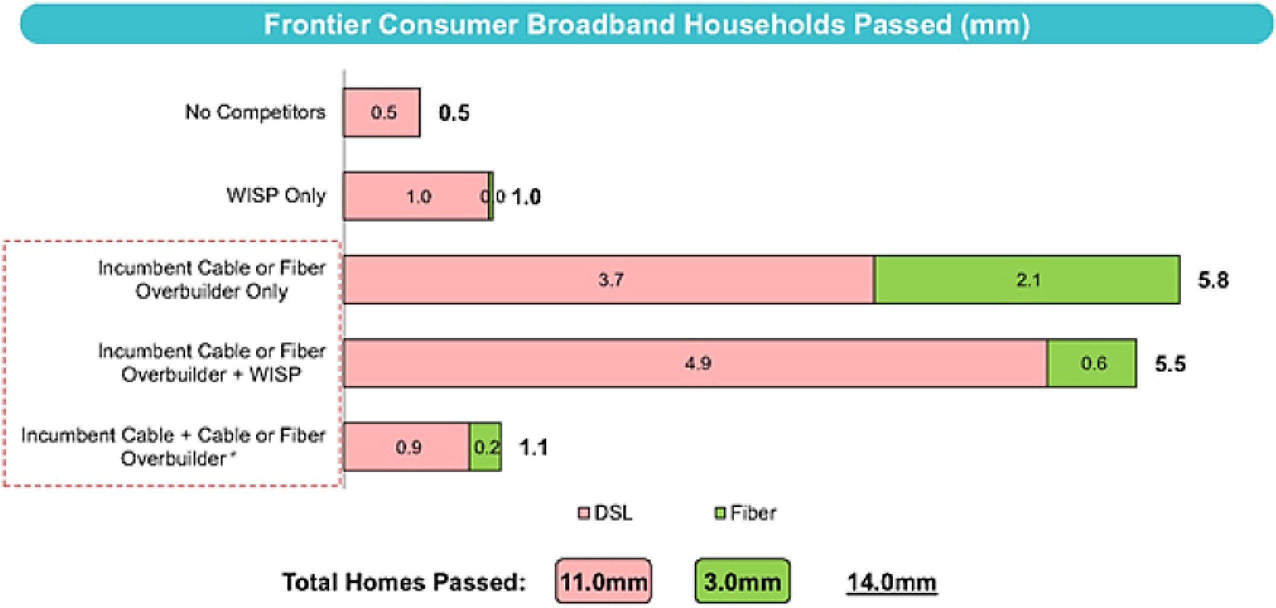
10 The face value of unsecured debt at the time of restructuring was 11bn or about $42.11 per new Frontier share (ticker FYBR on NASDAQ) on fully diluted basis

11 Passing 100 homes with FTTH results in 40 homes taking up broadband subscription. Generally speaking, in areas where cable and FTTH are available, they tend to have 50/50 market share

Business resilience/Multiple ways of winning

Competitive dynamics & product cycle

Figure 3: Frontier Consumer Broadband Households Passed



Sources: FCC Form 144 (compression overlay)
**With or without a WISP*

<u>Copper network:</u>

Based on FCC data, out of 11m homes that are passed by Frontier's DSL, it faces either none or just one cable competitor for 92% of the footprint. Using a set of income/demographic and FCC datasets, we have identified a sub-segment of about 4m "prime" homes[12] which we assess to be particularly attractive from an income and population density perspective. Rolling out FTTH into these areas represents an opportunity to capture net present value of about $9.5bn[13] or $37/share (>130% of current market cap).

In addition, due to its ongoing financial stress, the old Frontier largely ignored SME customers in its footprint. It's a shorter duration business (up to 5-year cycle) but the market is underserved so SME FTTH rollout projects offer attractive returns north of 20% on an unlevered IRR basis.

<u>Fibre network:</u>

Frontier's existing FTTH asset[14] has had well-documented operational and integration issues which led to deteriorating subscriber numbers, with penetration rates falling from about 50% upon acquisition in 2016 to 40% presently. The current management has put forward a capex and operational plan that is expected to return Frontier's market share back to prior levels. These assets alone justify most of the company's current enterprise value.

Regulatory

The industry was deregulated in 1996. Prices have generally been rising at a steady 4-5% p.a. over the last decade, driven by a lack of competition. At the same time, the absolute level of broadband pricing has not been of concern (e.g. $70/month cable broadband versus typical $90/month cost of cable subscription) and the relative utility of broadband connection far exceeds the price paid (which we have all learnt via our collective Netflix lockdown addiction).

12 Prime homes within Frontier's DSL footprint that currently have only 1 cable provider and have demographics with >50k income and population density of >500 pops/km2

13 Assuming $60ARPU, 40% penetration rate, $1350/passing all-in capex, $3730/passing Enterprise Value => $3730 – $1350 = $2380 NPV per new passing *4m passings = $9.5bn

14 In 2016 Frontier acquired from FTTH business in Texas/California/Florida from Verizon FiOS for 10.5bn EV. Current chairman, John Stratton, knows this asset well, having overseen its construction while at Verizon FiOS.

There is a fair chance that the next democratic FCC Chair will take a tougher stance on the industry. However, based on our assessment of an overwhelming consensus of experts in this field, introducing price regulation is not a feasible scenario for the current administration. The current priorities will likely be limited to improving transparency of price and other operating data reported to FCC.

Management and Financial

The new Frontier has a world-class management team who have 6% stake in the company. The team covers all key areas of required expertise: turnaround expertise, track record of FTTH rollout at scale in the US, marketing skillset and knowledge of Frontier's existing assets. The company had been mismanaged for an extended period so there is a long laundry list of low hanging fruit in terms of cost outs[15] and basic common-sense business decisions. Upon emergence, the balance sheet had comfortable low net leverage at 2.2x EBITDA, which positions the company well on its path towards restructuring for growth at attractive rates of return.

Style and Macro

Frontier's business offers Domestic US exposure that is defensive in nature and also offers protection against inflation. While there is no explicit linkage of broadband prices to CPI, under the current unregulated duopoly regime providers have been able to price "ahead of inflation".

As the 4th largest ILEC by coverage area, it's a mid-cap that offers plenty of growth via organic opportunities and potential industry consolidation through M&A. At present, Frontier is nimble enough to be able to make meaningful acquisitions of other regional ILECs, and large enough to be considered a national fibre broadband platform.

Margin of error

On top of the well-understood structural issues with the legacy copper network, the key risks of the Frontier investment case revolve around the company's FTTH business. This includes external factors like tighter regulation and potential entry of greenfield FTTH overbuilders into Frontier's territory. In addition, there is execution risk related to maximising the residual value of the copper network, timely and cost-efficiently overbuilding it with fibre, and successfully taking market share from well-resourced cable operators. While it will take time for the new management team to prove their strategic and execution skills, the collective risks are within a manageable range relative to the sizable return opportunity**.**

Margin of safety

Roughly 40% of Frontier's EBITDA is coming from stable and growing FTTH assets. Putting those earnings on a multiple of relevant private transactions would justify value of some \$20/share[16], assuming all other assets are worthless. If we put the residual copper network business on a peer multiple of 5.5x EV/EBITDA and add that to valuation, this gives us a price target of \$57/share (104% upside). Then, if we consider the substantial NPV expected from redeploying the cashflows of the business into FTTH rollout, we see another \$55/share of upside, of which \$37/share is the high visibility "prime" areas for the rollout highlighted earlier. Clearly, this is an undiscovered gem.

15 Incoming CEO comments: 7-8 training teams outside of HR, Multiple shadow IT organisations, vendors : 11,000 at Frontier versus Vodafone UK had 877 vendors, top 100 execs are in 60 separate locations, 80-200 people offices, more than 25 call centers.

16 Multiple of 13x EV/EBITDA => Equivalent to 46cents in a dollar of unsecured notes

Outlook

Over the quarter, economic activity in Western economies continued to moderate while employment data further improved and inflation trended higher. The narrative from the US Federal Reserve turned relatively more hawkish in the latter part of the quarter, with tapering in the US on the cards before the end of 2021. This led to a sell-off in bonds, with the yield on US 10Y back around 1.5%. Higher yields fed into equity market preferences with value/low multiple stocks leading growth/high multiple stocks into quarter end. While the performance of the global portfolios lagged the index for the quarter overall, the portfolios pleasingly generated material outperformance as the market rotated.

With real yields anchored at historic lows around -100bp there is a disconnect between the bond market and the real economy. In the face of growing economic activity, albeit at a slower pace, and elevated inflation expectations we see the potential for yields to move higher. This will provide further impetus to the recent market rotation.

Whilst the rate of economic expansion has peaked, it must be remembered that activity is slowing from an unsustainably high base. The sharp rebound in economic activity was driven by extraordinary stimulus and now activity is slowing because stimulus has faded. It's also worth bearing in mind that activity in the services sector is yet to fully normalise and manufacturing activity may be impacted by supply constraints evidenced by most industries reporting record low inventories.

As we look towards 2022, our base case remains that the strength of household balance sheets can support the cycle in the near-term. Personal incomes in the US are 4% above pre-COVID levels excluding stimulus, and within this wages are 7% higher. Household consumption is 7% higher even though spending in services has only caught up to pre-COVID levels. Excess savings from stimulus and underspending is c. $2.7t, or almost 17% of current household spending. This is material firepower that can be deployed to prevent a hard landing.

Given Europe has a higher weighting to the services sector it could soon hit a sweet spot in reopening as cross border travel starts to return. Tourism accounts for 10% of GDP in Europe, and closer to 15% in Southern Europe versus 3% in the US.

Turning East, China is slowing at a faster pace relative to the West with activity showing the first signs of contraction. China emerged from COVID-19 stronger than Western economies and used the rebound to tighten policy and accelerate regulatory reform. There's no question Chinese regulators have acted in a blunt fashion, but recent policies, particularly around anti-competitive behaviour and data security, are relatively rational and consistent with policies elsewhere in the world.

Recent actions taken by China include:

- Slowing credit growth to prevent the economy overheating
- Tightening the property sector, including hiking mortgage rates and deposits required for non-first time home buyers to discourage speculation and moderate house price inflation
- Regulatory reform targeting the education sector and internet/platform companies to prevent anti-competitive behaviour
- Pollution and emission controls targeting peak carbon intensity in 2030 and carbon neutrality by 2060.

Policy makers in China appreciate that accelerating the transition to a consumption and services driven economy - and lift the quality of economic growth – will require a vibrant private sector and the high-profile internet businesses are an essential part of this. It also requires household spending to grow at a faster pace than incomes. China's extra-ordinarily high gross savings rate – nearly 45% of disposable income, more than double that of the Western world – needs to be run down. The broad goal of policy makers is to incentivise consumption over savings by improving the social safety net via affordable housing, education and healthcare.

Changes in the regulatory backdrop are now well-progressed, and Chinese equities are now valued at a 35% discount to US equities[17]. This is the largest valuation discount since the Asian crisis unfolded in the late nineties. We expect investors will start to re-focus on long-term opportunities.

On our analysis, by the end of this decade China will have around 100m "premium" type consumer households with a developed world average income of more than $80,000/household[18], and another 300m "aspirational" households[19] that will be trading up. Concerns around

17 Based on cyclically adjusted EV/EBITDA. Source: Factset, Antipodes

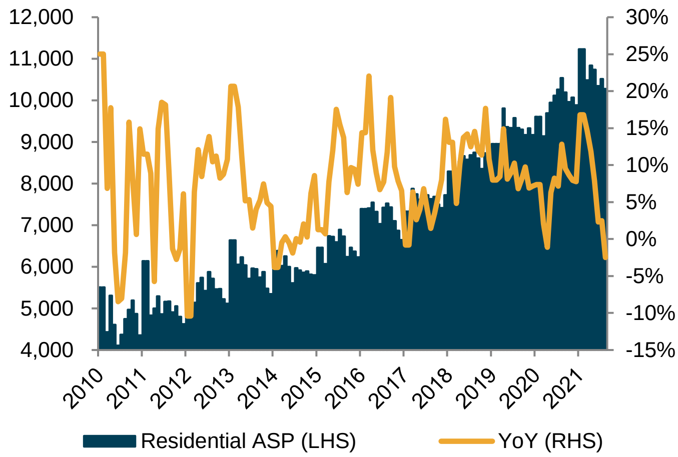
18 Source: Antipodes forecasts based on Euromonitor, UN estimates

19 Average household income of $26,000. Source: Antipodes forecasts based on Euromonitor, UN estimates regulation have provided an opportunity to position for this mega-trend at very attractive valuations. We favour high quality, structural growth opportunities in consumption (Trip.com, Wuliangye), digital advertising/services (Tencent), penetration of e-commerce into lower tier cities (JD.com), and modernisation of the fresh food and restaurant channel (Meituan and Yum China).

The question remains as to when China will re-stimulate given its substantial capacity to do so. In that vein, events unfolding in the property market need to be closely monitored. Property development is a material contributor to the Chinese economy and hence the risk to cyclical economic growth from lower activity is real.

The Chinese government has tightened property policies on and off over the last five years to curb speculation. Growth became unsustainably high once again in 1H21, with residential volumes 20% and prices 15% higher than 2019 levels, resulting in recent tightening.

Figure 4: Primary residential monthly average selling price (RMB/sqm)



Source: NBS, UBS

New starts August year to date are now 6% lower than 2019 levels and prices have begun to contract. This slowdown has exposed weak property developers – with China Evergrande in the headlines. The Chinese banking system can handle an Evergrande default, if it even comes to that. Even if all the company's liabilities became non-performing loans (NPLs) it would push system NPLs from 1.8% to 3%, which is manageable given provisions in the banking system are already high. Further, Evergrande's debt combined with the debt of all risky property developers still only accounts for c. 2% of system loans. Under an extreme stress test, banks' CET1 capital ratio would fall from 10.5% to 9.3%, still well above the minimum 7.5%.

Given Evergrande's contracted sales are equivalent to around 1m apartments, a collapse does pose a social issue. While a large-scale bailout for Evergrande is unlikely, we can envisage a scenario where the government takes control of its projects and allows delivery via other developers.

The more important tail risk is whether an Evergrande default seizes up financing for other property developers, which spills over into weaker housing prices and a broader economic slowdown. Residential real estate development represents roughly 10% of Chinese GDP. A 20% fall in housing starts would normalise supply to our estimate of underlying demand[20] and, all else equal, could shave up to 2% from GDP growth. Weaker housing prices can also impact consumption via the wealth effect, although households have a significant equity buffer given loan to value ratios average 50% with no ability to withdraw home equity. Slower activity can also have implications for commodities where China is a major consumer but immaterial producer. Copper and iron ore appear the most vulnerable.

China and the US are at very different points in their economic cycles. China is slowing but has a material monetary and fiscal toolkit to stimulate, while the US (and Western economies more broadly) are past the peak rate of stimulus.

China's goal of reforming the property sector needs to be complete before major stimulus can be released. As property prices weaken, the need for stimulus increases and accelerates the urgency with which the government deals with Evergrande/weaker property developers. We are at the tipping point now.

The People's Bank of China (PBoC) has begun to inject some liquidity into the banking system to loosen conditions; increasing the pace of this can drive interest rates lower. The PBoC cut the reserve requirement ratio in July and we expect to see further cuts to encourage banks to lend[21].

On the fiscal front, special local government bond issuance has recently accelerated. These bonds typically fund infrastructure projects, and it's a lever that's routinely pulled or dialled back depending upon underlying economic activity.

20 We estimate underlying demand from urbanisation, new household formation and rebuilding old stock equates to 1.1-1.3b sqm p.a., or 25% lower than current levels. Investor demand has likely soaked up excess supply and it's difficult to ascertain the degree to which investor-owned stock remains unoccupied.

21 China's reserve requirement ratio (RRR) stipulates the percentage of deposits banks must hold with the PBoC.

$370b has been issued over 9M21, or 65% of 2021's $566b quota (3.8% of GDP), with $210b issued during the last quarter alone [22].

With government debt less than 70% of GDP there's significant fiscal firepower to offset a slowdown from the property sector. We expect fiscal stimulus to focus on consumption, reinforcing the social safety net and enabling the country's decarbonisation goals.

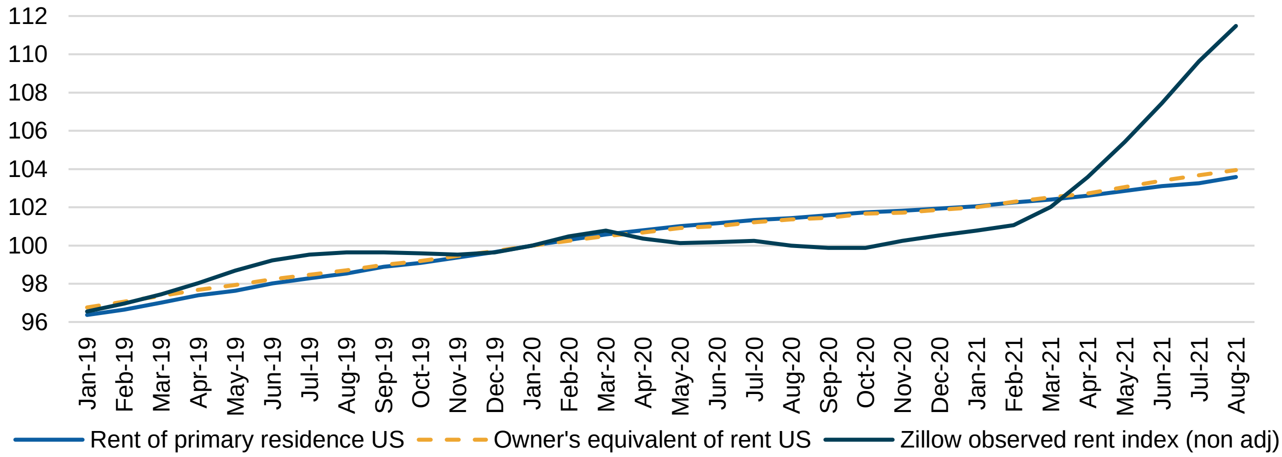
Whilst China is set to loosen (having achieved reform along the way), the Fed is about to embark on tapering against a backdrop of slowing activity, higher inflation and an impending Congressional battle over the debt-ceiling. Arguably this heightens the risk of Fed policy error.

Whilst the Fed et al maintain the view that rising inflation is transient, our analysis suggests core inflation in the US won't peak until the end of next year. Pandemic related pressures will subside as economies reopen and supply chains normalise but this can be offset by pent up wage pressures and rents, and now rising energy prices.

Wages are currently rising at 5% p.a. versus pre-COVID levels compared to 3% p.a. historically, and this is despite the current slack in the labour market. 4.3m private sector workers are yet to find jobs relative to pre-COVID, the majority in the services sector.

Additionally, house prices in the US are accelerating at the fastest pace in 15 years which feeds into rents with a lag. Data indicates leases signed today are growing at a materially faster pace than rent inflation captured in the official CPI data, which is based on new and existing leases (+7% yoy v the official c. 2% yoy). Replacing the official backward-looking measure with current inflation takes August CPI from 5.3% to 6.8%. This gives a sense of the pressure building in rents which will materialise next year.

Figure 5: National rent indexes: Zillow and CPI



Sources: Zillow, BLS, J.P. Morgan

22 Ministry of Finance of the People's Republic of China and UBS forecasts

Recent moves in energy prices are becoming another pressure point. As we head into northern hemisphere winter, Europe is facing an alarming gas shortage due to a rebound in economic activity, supply issues and an underinvestment in power infrastructure. At over $25/mmbtu, Europe's gas price is at a record high, having risen over 300% year to date, while US gas has more than doubled.

Despite abundant resource, the US is still a relatively small supplier into global gas markets with limited LNG export capacity and until recently little incentive to invest (subdued gas price, weak balance sheets). However, US gas production and exports will increase over time given greater global demand for gas as a transition fuel (gas produces less than half the CO_2 emissions of thermal coal per unit of electricity) and low US gas prices at ~$5/mmbtu. We are well positioned for this.

Even with Russia's announcement that it will seek to supply some additional gas, Europe is unlikely to find sufficient volumes from traditional suppliers to completely fill the deficit. With LNG and European gas prices equivalent to $150 per barrel of oil – compared to an oil price closer to $75/bbl – there's an uncomfortable shift to burning oil in Asia which we estimate at up to 2mbpd increase in demand into winter. This is unpalatable in Europe. This creates another conundrum in energy markets - that the gas rally is fuelling an oil rally. Time will tell if OPEC steps in.

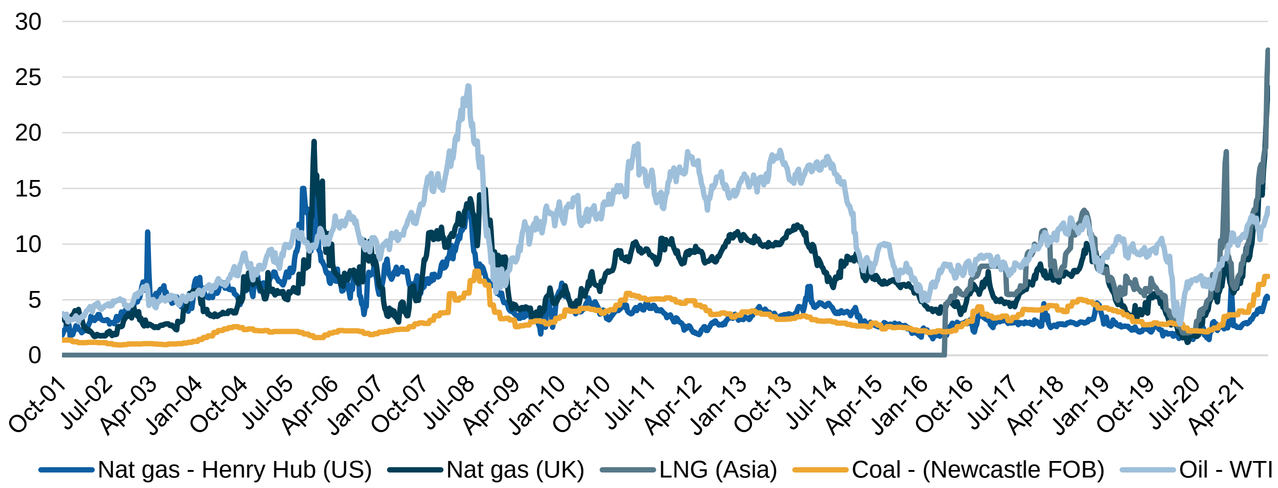
Using the US as an example of what is going on around the world, half its power is derived from gas, the move in today's gas and oil prices implies a 40% increase in the cost of filling the tank and a doubling of fuel costs for gas power generators and household heating. All else equal, this equates to a headwind of c. $200bn to the US economy, or around $1,600 per household, if passed through to the consumer. This additional cost is 2% of average household disposable income and could take total energy bills (electricity and fuel) to c. 7% of income.

China is also facing its own power issues.

Growth in Chinese power demand has been strong due to domestic and global economic recovery. Hydro power (18% of total power), however, has remained flat due to low rainfall and muted growth in coal production due to capacity controls and tightening policies around mine safety and emissions. Coal based generation still accounts for 70% of power supply.

Coal shortages have driven the coal price higher while power prices remain heavily regulated. Coal fired plants have begun to make significant losses. High energy intensive sectors such as steel, aluminium and chemicals are experiencing shutdowns in some provinces, leading to downstream pressure on raw material prices. Shutdowns may accelerate in the industrial sector as residential power and heating is prioritised which will have implications for domestic and global economic growth. The valve can be released via state relief or adjusting tariffs to incentivise power production, the latter of which will add to the global inflationary pulse. Longer-term, we expect investment in renewables to accelerate and a greater emphasis on importing LNG.

Figure 6: Global energy prices in gas equivalent terms ($/mmbtu)



Source: FactSet

Our longer-term view remains that global policy makers will be reluctant to shift to austerity too quickly and that attitudes towards fiscal stimulus have fundamentally shifted. Investment cycles around decarbonisation, 5G adoption, infrastructure, catch-up spending in the health system and a capex cycle around unbundling global supply chains can lead to a shift away from viewing the world as a permanently low growth, low rate environment. There will be low multiple stocks that can transition to secular growth winners, and this can further fuel the rotation in equity preferences.

New investment cycles can also tighten the extreme valuation dispersion between US equities and the rest of the world; US equities are valued at a 65% premium despite very similar earnings growth through time. This premium has been driven by outsized stimulus in the US and exposure to secular trends around software and the internet, given the US is home to large cap tech, but it's unlikely to be sustainable. Emerging investment cycles benefit companies *globally* and the rest of the world is not being priced for success. Indeed, the global benchmark – with a 60% exposure to US equities – is unlikely to reflect the best opportunities.

We maintain our underweight to the US and overweight to Europe on valuation grounds. Whilst Europe has historically exhibited a high degree of correlation to China via the export connection, it has the potential to decouple due to re-opening. Further, Europe has a strong desire to decarbonise which should be brought forward by today's high energy prices, and material capacity to stimulate in order to cushion any slowdown. The recent elections in Germany (likely leading to a coalition including Greens) may accelerate this outcome. Meanwhile the line of sight around the next round of stimulus in the US remains unclear given challenges securing support from moderate Democrats and Republicans.

As we approach the peak of stimulus-led growth, the key risks are that China over-tightens and excess savings in the West remain unspent. The global economy may materially slow before any investment-led recovery gains traction, and this would occur against a backdrop of higher inflation - the dreaded stagflation outcome. Thus, it is prudent to monitor the cyclical tilt in the portfolio. Whilst this would be a difficult environment for equities in general, US equities would be particularly vulnerable given their elevated starting multiples.

To protect against these risks, we focus on resilient businesses that are market leaders which can protect profitability against a backdrop of higher inflation. We are also disciplined around valuations.

Given the range of outcomes is wide, a barbell approach to investment remains appropriate. We are overweight European cyclicals that will perform well in reopening (financials, travel), natural gas exposures in the US and beneficiaries of emerging investment cycles. At the other end of the barbell we have exposure to long-term secular growth opportunities in online advertising, social commerce and cloud infrastructure in developed and emerging markets. These companies are cheap relative to both their growth profile and smaller, single feature peers. APL, with its additional emphasis on capital protection, has further downside protection via shorting a basket of weak/highly geared cyclicals in a region and sector neutral fashion.

The personal trading scandals at the Fed have weakened Powell's authority, and with his term expiring in February 2022 he's increasingly viewed as a lame-duck Chairman. This may have reduced his willingness to work with the Democrats and Yellen. Should the Democrats cement their majority in the November 2022 mid-term elections, combined with a dovish replacement at the Fed, we could see the fiscal channel unleashed if policy makers are concerned about the downside risks of slowing activity and rising inflation. Whilst this would require a greater alignment in Congress it is the tail risk that is not priced into bonds or equities. Negative real yields would unwind, and multiple dispersion could aggressively contract. In this scenario it will pay to have a hedge against growth traps. It will also raise issues around the longer-term implications of fiscal sustainability and inflation, and the USD.

Appendix

Market returns to 30 September 2021 (USD, p.a.)

Absolute performance (%)	1m	3m	1y	3y p.a.	5y p.a.	10y p.a.
Regional equities (MSCI)						
AC World	(4.1%)	(1.1%)	27.4%	12.6%	13.2%	11.9%
USA	(4.8%)	0.3%	29.9%	16.1%	16.7%	16.1%
Europe	(4.8%)	(1.6%)	27.3%	7.8%	8.8%	8.2%
Japan	2.8%	4.6%	22.1%	7.5%	9.4%	8.4%
Korea	(6.6%)	(13.2%)	27.8%	9.3%	10.6%	7.7%
AC Asia ex Japan	(4.2%)	(9.3%)	14.4%	9.2%	10.1%	8.5%
All China	(2.7%)	(13.3%)	1.3%	10.6%	9.4%	8.5%
EM ex Asia	(3.4%)	(2.5%)	36.0%	4.2%	4.9%	1.1%
Global sectors (MSCI)						
Consumer Discretionary	(3.3%)	(5.2%)	17.6%	15.3%	15.7%	15.1%
Consumer Staples	(3.7%)	(2.1%)	10.2%	8.0%	6.0%	8.9%
Energy	9.0%	2.8%	63.9%	(5.2%)	1.2%	1.3%
Financials	(1.4%)	1.9%	49.6%	8.0%	10.9%	10.4%
Health Care	(5.1%)	0.2%	18.3%	11.9%	12.4%	14.3%
Industrials	(4.6%)	(2.1%)	27.3%	9.3%	11.0%	11.5%
Information Technology	(5.7%)	0.5%	30.3%	26.1%	26.2%	21.0%
Materials	(7.1%)	(5.0%)	26.8%	10.5%	11.8%	6.5%
Communication Services	(5.8%)	(2.6%)	28.9%	17.5%	10.1%	8.8%
Utilities	(6.3%)	(0.2%)	10.1%	8.2%	7.0%	6.4%
Commodities						
Crude Oil Brent	9.3%	4.9%	85.1%	(1.8%)	9.3%	(2.7%)
Gold	(4.0%)	(1.2%)	(7.6%)	13.6%	5.7%	0.7%
Bloomberg Commodity Index	5.0%	6.6%	42.2%	5.7%	3.4%	(3.2%)
Bonds (BAML)						
Global Government	(2.2%)	(1.1%)	(3.8%)	3.5%	1.0%	1.1%
Global Large Cap Corporate	(1.6%)	(0.8%)	1.6%	5.9%	3.9%	4.0%
Global High Yield	(0.9%)	(0.3%)	9.8%	6.5%	6.1%	7.1%
Currency						
AUD	(1.2%)	(3.8%)	0.8%	(0.1%)	(1.1%)	(2.9%)
USD	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
EUR	(1.8%)	(2.3%)	(1.2%)	(0.1%)	0.6%	(1.5%)
JPY	(1.5%)	(0.5%)	(5.4%)	0.6%	(1.9%)	(3.6%)
CNY	0.0%	(0.0%)	5.4%	2.1%	0.6%	(0.1%)
SGD	(0.9%)	(1.0%)	0.6%	0.2%	0.1%	(0.4%)

Source: MSCI, BAML, Bloomberg, FactSet antipodespartners.com/apl

Further information

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