29 October 2020

By Electronic Lodgement

Market Announcements Office
ASX Ltd
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam,

Antipodes Global Investment Company Limited (ASX: APL) – Quarterly Shareholder Update

Please find attached a copy of the quarterly shareholder update for the quarter ending 30 September 2020.

For further information, please contact 1300 010 311.

Authorised by:

Calvin Kwok
Company Secretary

Antipodes

Quarterly shareholder update 30 September 2020

Antipodes Global Investment Company Limited (ASX:APL)

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Further information

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Disclaimer

Letter from the chairman

Dear fellow shareholders,

Welcome to the latest quarterly update, a comprehensive review of the Company's performance, portfolio and outlook by Antipodes Partners Limited (Antipodes), the Manager of the Company's portfolio of assets.

Inside you will find a number of important sections that should bring the Company's portfolio to life. 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. Next we provide a comprehensive review of the Company's portfolio performance, NTA movement since IPO and dividend history as well as an overview of the Conditional Tender Offer (CTO)[1] that the Company announced on 31st August 2020 as part of the year-end financial results. The CTO is a major new initiative by the Company intended to assist the Company's share price to more closely track its NTA. The Company concluded its financial year-end process during the quarter under review (FY20 to 30 June 2020) and as part of that, the Company paid a final dividend of 2.5c per share on 30th September 2020, bringing the full year FY20 dividend to 4.5c per share, equivalent to a 4.6% yield (5.6% grossed up for franking) based on the 30th September 2020 share price of $0.975 per share.

Finally, Antipodes provides a comprehensive update on the drivers of the Company's portfolio performance during the quarter as well as the current portfolio positioning and market outlook. In their feature article for this update, Antipodes focuses on US retail bank Capital One, which is now a top 10 holding in the Company's portfolio.

We hope you enjoy the update, part of the Company's drive to improve communication with shareholders. For more information on the Company and additional portfolio updates from Antipodes, please visit the Company website at antipodespartners.com/apl/. Finally, we are very focused on trying to ensure our shareholders receive electronic communication from us, the most timely and cost-efficient manner for us to communicate with you. If you have not done so, please click on this link to see a short video on the benefits of doing so and instruction on how to do so APL Go Paperless[2].

Yours sincerely,

Jonathan Trollip

Chairman

1 https://antipodespartners.com/wp-content/uploads/2020/09/APL-FY20-Results-and-announcement-of-Conditional-Tender-Offer.pdf

2 https://antipodespartners.com/wp-content/uploads/2020/06/Antipodes-Final-2.mp4

Market commentary

Global equities continued to rebound during the third quarter of 2020 (+8.1% in USD, +3.9% in AUD) as the focus remained on the early recovery phase of the cycle following the COVID-19 induced recession. A general easing in lock-down restrictions, progress in vaccine trials and continued fiscal and monetary support from governments and central banks were supportive for market sentiment.

Against this backdrop, investors exhibited a bias towards cyclical stocks as economically sensitive sectors such as Consumer Discretionary, Materials and Industrials performed well for a second consecutive quarter. Energy was the major laggard and the only sector to move lower, underperforming the broader market alongside Financials and Healthcare. Consequently, 'value' lagged whilst 'momentum' and 'growth' styles outperformed with Information Technology the second best performing sector on continued leadership from the mega-cap technology stocks.

US equities outperformed (+9.5% in USD), benefitting from a large weighting in technology stocks as investors increasingly view the sector as a COVID safe-haven despite lofty valuations. The Fed remained highly accommodative, shifting to an average inflation targeting regime, giving scope for inflation to run above target before the Fed would be required to act. The key implication is that interest rates are likely to remain low for even longer. US markets retraced late in the quarter on political concerns ahead of the presidential election in November and after negotiations on a new fiscal relief bill stalled. Since the first presidential debate Biden has strengthened his lead over Trump and the market has begun to incorporate the possibility of a "blue wave" result.

Asian equities (+9.2% in USD) performed well, led by EM Asia (+11.9% in USD) and supported by a weaker US dollar. Chinese equities (+13.1%) benefitted from China's success in containing the virus as economic data continued to show signs of normalisation. However, tensions with the US escalated, including new restrictions on Huawei and as President Trump signed an executive order to prevent US companies from engaging with TikTok and WeChat. Japan (+6.9% in AUD) lagged as the Yen strengthened. Prime Minister Shinzo Abe announced his resignation due to a long-standing health problem and was replaced by Yoshihide Suga. Existing economic policies are expected to be maintained with potential for further structural reform.

European equities underperformed (+4.5% in USD) as a sharp rise in COVID-19 cases led to the reintroduction of new local restrictions which added to concerns over a stalling economic recovery. Renewed fears around a disorderly Brexit also weighed on sentiment. The EU approved a €750 billion fund to help member states recover from the pandemic, made up of €390 billion of grants and €360 billion of loans. The funds will be borrowed by the European Commission and guaranteed by all EU member states and were seen as a significant step towards potential fiscal integration. Various European countries, including Germany, extended their furlough schemes which are designed to support jobs through the crisis.

Elsewhere, the US dollar weakened (DXY -3.6%) for a second consecutive quarter, supporting the strength in Gold (+6.7%) which gained for an eighth consecutive quarter as investors looked for an inflation hedge as central banks continued to print their way out of a global slowdown.

Figure 1: Region-sector valuation heat-map[3] - Composite multiple vs world – Z-score (Sep 1995 – Sep 2020)

	All	Energy	Materials and Industrials	Hardware	Software and Internet	Pharma	Devices/ Life Sciences	Staples	Domestic cyclical	Communi-cations	Property and Infrastru-cture	Financials
World	0.0	-1.9	-0.7	0.2	3.4	-0.1	3.6	0.7	-0.1	-1.5	-0.9	-2.7
North America	1.6	-3.9	-0.2	0.2	3.2	-0.5	2.6	0.6	0.7	-0.8	0.3	-2.0
Western Europe	-1.3	-1.8	-0.1	0.6	0.2	0.3	2.7	0.1	-0.7	-1.2	-0.4	-2.2
Japan/ Korea/ Taiwan	-1.2	-1.4	-1.7	-0.3	0.3	2.4	3.1	-0.4	-0.5	-0.7	-2.0	-1.5
Emerging Markets	-0.4	-0.4	-0.2	1.8	2.4	0.3	2.0	1.0	-1.0	-1.6	-1.4	-1.7

Source: Antipodes, FactSet

3 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.

Performance analysis

Summary

Periodic Performance[4] as at 30 September 2020

	Company	MSCI AC World Net Index	Difference
3 months	1.0%	3.9%	-2.9%
1 year	-2.5%	3.9%	-6.4%
3 years p.a.	2.9%	10.4%	-7.5%
Inception[5] p.a.	6.1%	11.7%	-5.6%
Inception[5]	26.5%	55.2%	-28.7%

Calendar Year Performance[4] as at 30 September 2020

	Company	MSCI AC World Net Index	Difference
Year to date	-5.2%	-0.6%	-4.6%
2019	9.1%	26.8%	-17.7%
2018	1.6%	0.6%	0.9%
2017	11.8%	14.8%	-2.9%
2016[5]	7.7%	6.6%	1.1%

Performance & risk summary[6] as at 30 September 2020

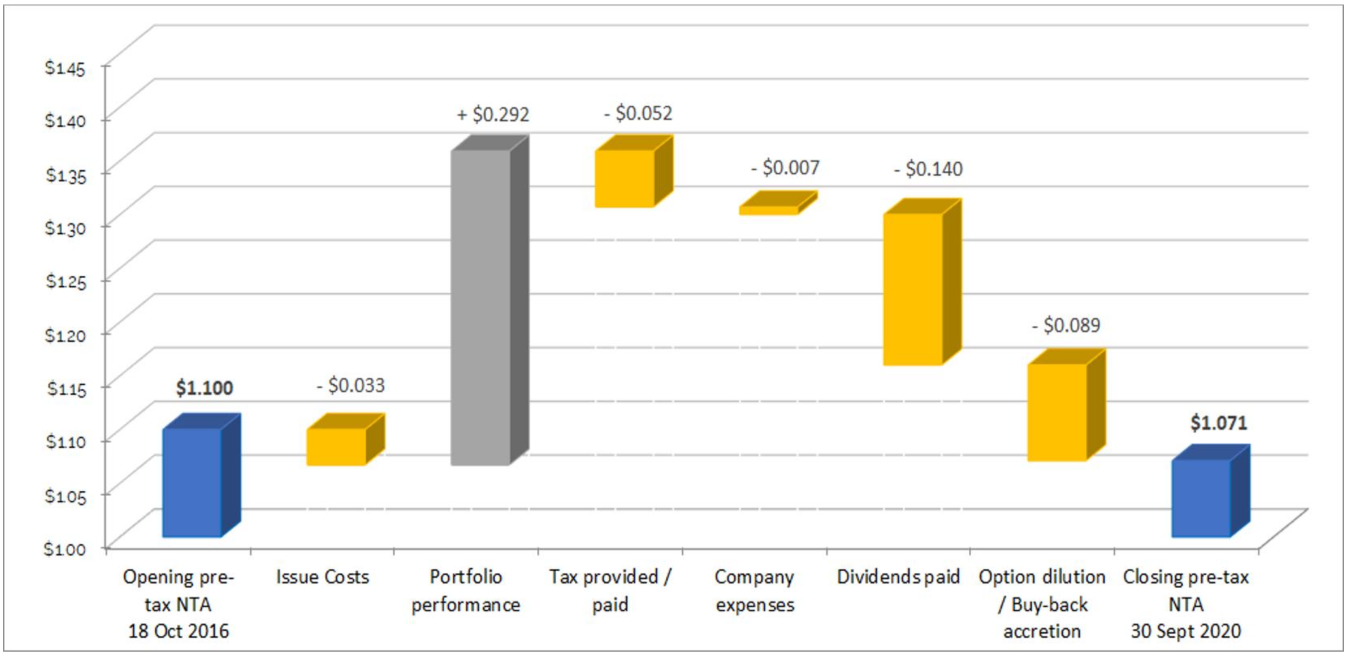
	Company
Average Net Exposure	63.1%
Upside Capture Ratio	67
Downside Capture Ratio	71
Portfolio Standard Deviation	8.2%
Benchmark Standard Deviation	10.5%
Sharpe Ratio	0.68

4 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. Movement in NTA before tax for the period, adjusted for dividends and income taxes paid and the dilutionary effect of share capital transactions. This figure incorporates underlying portfolio performance net of portfolio related fees and costs, less administration costs of the Company.

5 Inception date is 11 October 2016.

6 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.

Pre-Tax Net Tangible Assets (NTA) per share movement since IPO to 30 September 2020[7,8]



Dividend history as at 30 September 2020

Type	Dividend per share	Ex date	Record date	Payable	Franked
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[9]	5c	19/10/18	22/10/18	31/10/18	50%

7 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.

8 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.

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

Company commentary

The Company announced a major new initiative on 31st August 2020 aimed at closing the discount to NTA that the Company's shares trade at. A first in the Australian market, but successfully used in the UK listed company (IC) market, the Board announced that APL will undertake a Conditional Tender Offer (CTO) in October/November 2021 (the five year anniversary of the Company) that will allow shareholders to tender their shares for sale to the Company. The Company will purchase up to 25% of its shares via an off market buy-back at a buy-back price based on post-tax NTA less 2%. The CTO will be triggered if the daily average closing share price is at a discount of larger than 7.5% compared to the daily average pre-tax NTA for the 12 months leading up to the 18th October 2021. The Board intends to undertake CTOs on similar terms every three years.

In addition, as part of the Company's annual results announcement, the Board declared a final dividend of 2.5c per share, 50% franked, taking the full year FY2020 dividend to 4.5c, equivalent to a 4.6% yield (5.6% grossed up for franking) based on the 30th September share price of $0.975.

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:

- **Online Services Asia/Emerging Markets (EM)**, including Alibaba and JD.com, as China consumption rebounded with retail sales now higher than pre-COVID levels. Alibaba continues to take market share in online sales, as new users and engagement continue to grow at a fast clip due to, amongst other things, membership programmes, expanded recommendation feed and short form videos. JD.com similarly continues to report material increase in customers, revenue and profitability following cost control. Tencent, however, detracted as its share price consolidated following a period of material outperformance.
- **Consumer Defensive EM** cluster, including Wuliangye, as demand for premium bajiu continues to build amongst China's high-income cohort, and Yili, which continues to take share in yoghurt as well as milk, which is a premium category.
- **Online Services Developed Markets (DM)**, notably Facebook and Roku. Facebook continues to announce new product initiatives including social commerce product launches on the core Facebook and Instagram platforms, and Roku (leading US TV operating system) reached a deal with Comcast's NBC Universal to include their broadcast and cable apps on Roku's platform.
- **Connectivity/Compute** cluster including TSMC and Samsung Electronics, as investors appreciate demand for TSMC's leading edge solutions while Samsung benefited from a rebound in handset sales. Both leading incumbent semiconductor companies are benefiting from the escalation in US-China tech tensions, with the US restricting China's access to chips designed or manufactured using US tools, curtailing China's tech independence and necessitating dependence on the Taiwanese/Koreans. Further, both are likely to benefit from any transition Intel may make from in-house production of its core CPU chips to contract manufacturing.
- **Industrials** cluster, notably Siemens, which reported another solid result driven by Digital Industries (Siemens' automation business which includes hardware and software solutions), where profitability improved thanks to a mix shift toward software. Pleasingly orders and market share continue to rise. Siemens Energy was spun out at the end of the quarter, with Digital Industries and Smart Infrastructure (low/medium voltage products for buildings and cities) now accounting for the bulk of core profit as the company continues to slim down its portfolio.

Key detractors to performance over the quarter included:

- **Oil/Natural Gas** cluster, notably TechnipFMC and CNOOC which weakened with the oil price, while the market overlooks Technip's c. $3b in contract wins over the September quarter.
- **Healthcare** cluster including Roche and Sanofi as pharma stocks were broadly impacted by the potential of adverse drug pricing policies in the event of a Democratic clean sweep in the upcoming US elections. Gilead Sciences weakened as a key pipeline drug failed to secure approval from the FDA (US regulator).
- UniCredit, **Consumer Cyclical DM** cluster, which, along with other banks, was affected by potential money laundering claims over 2000 – 2017, with the bulk of these cases backward looking. The transactions attributed to UniCredit are immaterial.
- Shorts, which can act as a headwind in upward moving markets. The portfolio is short businesses that are expensive, vulnerable to competition and in many cases have highly geared balance sheets.

Top 5 contributors & detractors

Top 5 contributors	
Alibaba	0.8%
Wuliangye	0.4%
Siemens	0.4%
Roku	0.3%
TSMC	0.3%

Top 5 detractors	
Short (Software)	(0.4%)
CNOOC	(0.2%)
Gilead Sciences	(0.2%)
UniCredit	(0.2%)
VMware	(0.2%)

Portfolio positioning

Key changes over the quarter included:

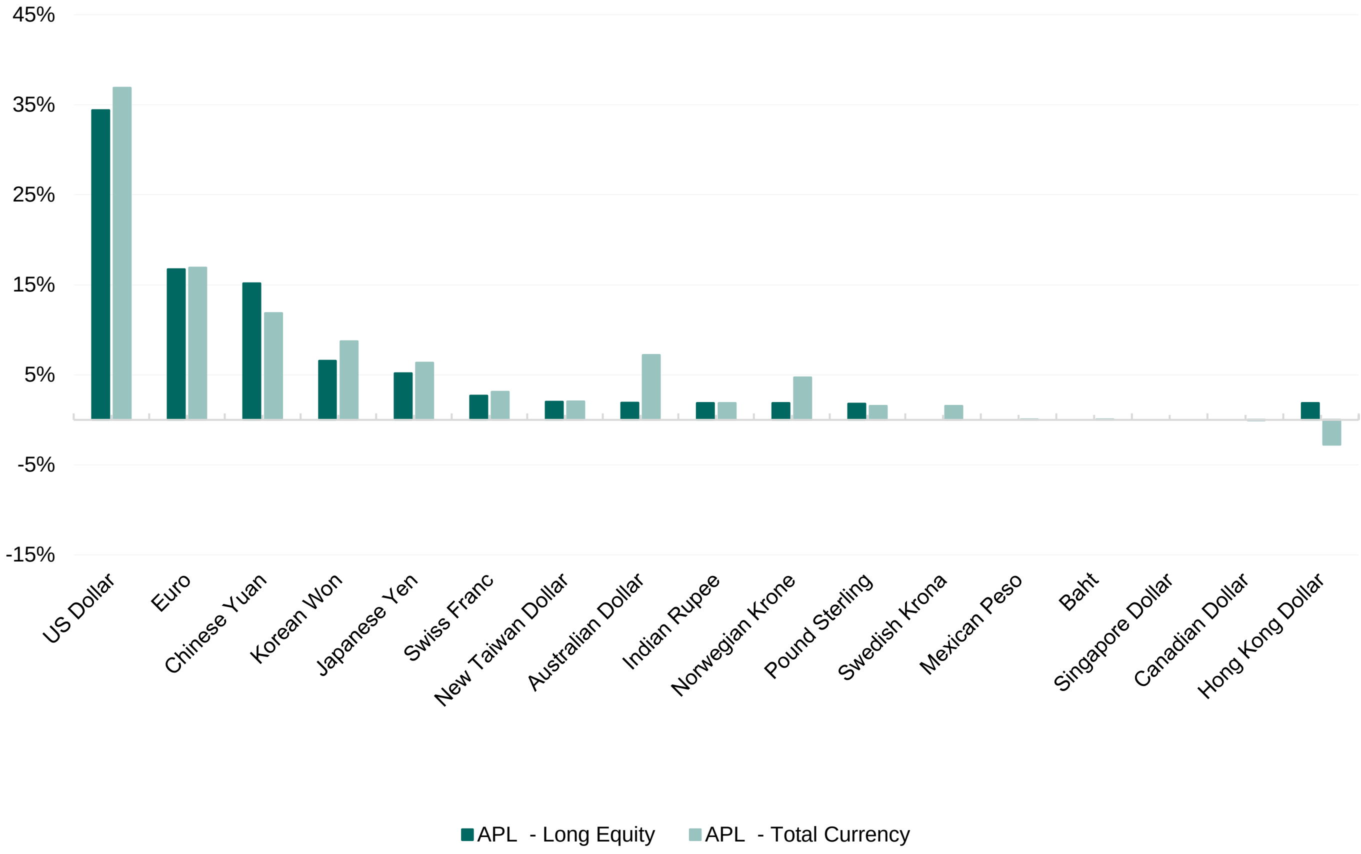
- Adding to **Consumer Defensive Developed Markets (DM)** cluster via Tesco, which has accelerated its online presence to help combat the hard discounters (Aldi, Lidl). Additionally, the sale of its Thai assets will pay down pension liabilities and fund a material cash payout to shareholders.
- Rotating exposure in **Oil/Natural Gas** cluster via exiting traditional fossil fuel exposures, such as Inpex and Eni, in favour of companies with a lower carbon generation base, including RWE, where renewables currently account for 40% of earnings and are growing as a percentage of earnings and the company’s total generation mix.
- Rotating exposure in **Consumer Defensive Asia/Emerging Markets (EM)** cluster via reducing exposure to Wuliangye following material outperformance and adding to Yili Industrial Group, a dominant competitor in China's dairy industry which also benefits from premiumisation trends.
- Adding to **Industrials** cluster via travel related reopening plays and Shinetsu, where core end markets are bolstered by improving fundamentals, and reducing exposure to Honda Motor in favour of Volkswagen, which is better positioned for the coming wave of vehicle electrification.
- Reducing exposure to **Gold** via trimming Barrick Gold, following an extended period of material outperformance.
- Reducing exposure to **Healthcare** cluster as concern around the potential of adverse drug pricing policies under a Democratic clean sweep is likely to persist in the lead up to the US election in November. Additionally, we exited Gilead Sciences due to disappointing news around a key pipeline drug and as progress around COVID-19 vaccines reduces the attractiveness of Gilead's Remdesivir, which is used to manage the virus.
- Rotating exposure to **Connectivity/Compute** cluster via exiting STMicro, in favour of adding to TSMC which is exposed to key structural trends in the semiconductor industry.

Cluster exposure & quarterly change[10]

Sector/cluster	Long	Short	Net	Quarterly net change	Long cluster examples	Short cluster examples
Global	**42.1%**	**(7.3%)**	**34.8%**	**0.9%**		
Industrials	12.6%	(2.3%)	10.3%	1.2%	GE, Siemens, Continental	Aerospace & automation roll-ups
Oil/Natural gas	5.1%	(1.2%)	3.9%	0.4%	CNOOC, TechnipFMC	Expensive oil
Healthcare	10.3%	(2.0%)	8.3%	(1.0%)	Merck, Roche, Gilead	Weaker competitors
Connectivity/Compute	9.4%	(0.8%)	8.6%	0.5%	Qualcomm, Samsung Electronics	Weaker competitors
Software	4.7%	(1.0%)	3.7%	(0.1%)	Microsoft, VMware	Narrow feature-sets vulnerable to platform competition
NA/Europe domestic	**24.9%**	**(4.8%)**	**20.1%**	**1.7%**		
Online services	5.9%	(0.8%)	5.0%	0.2%	Facebook, Amazon	Narrow feature sets vulnerable to increasing competition
Consumer defensive	4.8%	(1.5%)	3.4%	1.2%	Coca-Cola, Pepsi	Under investing brands
Consumer cyclical	9.1%	(1.9%)	7.2%	0.9%	ING, UniCredit, Capital One	US domestic exposures vulnerable to disruption
Infrastructure/Property	5.0%	(0.6%)	4.5%	(0.6%)	EDF	Infrastructure assets under competitive pressure
Asia/EM domestic	**22.5%**	**(1.1%)**	**21.4%**	**3.1%**		
Online services	8.7%	-	8.7%	1.3%	Alibaba, Sony	
Consumer defensive	7.3%	-	7.3%	0.5%	Ping An, Yum China	
Consumer cyclical	4.4%	(0.3%)	4.2%	0.4%	KB Financial, HDFC Bank	Hong Kong banks with weak balance sheets
Infrastructure/Property	2.2%	(0.9%)	1.3%	0.9%	KT Corp	Gas utilities facing competitive and/or regulatory headwinds
Tail risk hedge	**2.4%**	**(6.0%)**	**(3.6%)**	**(0.1%)**	Barrick Gold, Newcrest	Indices
Total	**92.0%**	**(19.2%)**	**72.8%**	**5.6%**		

10 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.

Currency exposure



Feature: Capital One

Over the last six months, policymakers have rewritten the playbook for tackling an economic crisis. Unprecedented income and job retention stimulus, in conjunction with loan forbearance measures, have bought banks time to build meaningful buffers against impending credit losses. This has mitigated the risk of government funded bailouts and permanent capital destruction as witnessed in 2008-09.

Nonetheless, concerns around net interest margins and profitability arising from 'lower for longer' interest rates has driven a 30% decline in bank indices on both sides of the Atlantic. Adding insult to injury, regulators have imposed moratoriums on dividends and buybacks to ensure banks maintain 'fortress balance sheets' and protect depositors.

The current environment presents a unique opportunity to buy select banks that can defend profitability at highly discounted valuations. One such US retail bank with significant embedded value is Capital One.

With a more balanced mix of floating rate assets and liabilities and a structurally lower fixed cost base than its peers, Capital One has limited interest rate sensitivity and greater flexibility to manage profitability in the current environment. Currently trading on 6x Antipodes' estimate of FY22 earnings (a 25% discount versus peers), the market is overly pessimistic about the outlook for credit losses. Any pathway to a faster and sustained reopening of the economy would force the market to reappraise loan loss and capital return expectations. Today's share price also discounts any optionality for Capital One to deploy its digital disruptor blueprint and become a bigger force in the fragmented US retail banking marketplace.

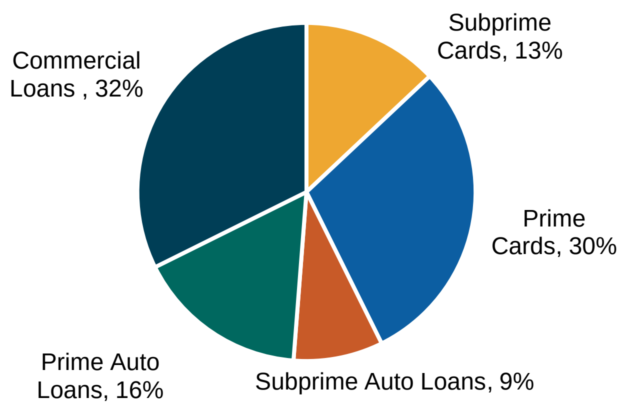
Irrational extrapolation

Unlike larger banking peers, Capital One is not a household name outside the US. Hence, it is worth exploring its journey in becoming the 4th largest US bank by retail deposits (~3% share) and the largest credit card issuer by active accounts (50 million in 2019).

Capital One's roots can be traced back to early 1990s when current CEO and co-founder, Richard Fairbank, sought to meticulously mine customer transactional data and seek out lending verticals offering excess risk adjusted returns. The high degree of information asymmetry inherent in the subprime market (individuals with less than pristine credit scores) and a lack of competition from established players made this space an obvious target. Capital One pioneered balance transfers and stuck to disciplined risk-based pricing and a contrarian underwriting mentality to build a niche as the largest subprime credit card monoline over the next decade.

Capital One navigated the 2008 financial crisis profitably and capitalised on emerging in a relatively stronger capital position to acquire ING Direct USA and HSBC USA's store card portfolios in 2011. This gave it a digital, pan-American deposit customer base and greater stability and diversity in earnings. Profits were subsequently reinvested in branding, marketing and more competitive reward offerings[11], resulting in share gains across transactors and prime cardholders. Over the last 10 years, Capital One has doubled its national share of credit card volumes to 10%, on par with Citigroup and Bank of America. What is remarkable is that this growth and customer acquisition has not impacted returns. It has also replicated a similar strategy in auto lending and is currently the third largest US bank auto lender.

Figure 2: Capital One Loan Mix (Q2 2020)



Source: Capital One

ING Direct USA was rebranded as Capital One 360, a disruptive fee-free digital bank offering superior deposit rates. It currently has over 22m active mobile users and a higher level of engagement than Bank of America and Wells Fargo.

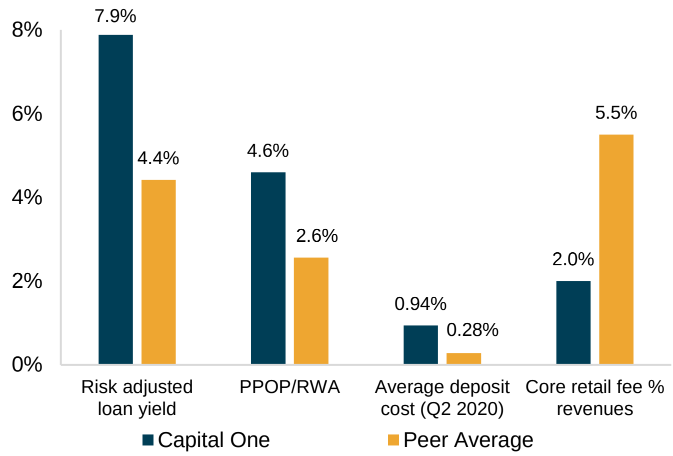
Notwithstanding its consistent track record of profitability since listing in 1994 and history of double digit returns since the financial crisis, Capital One remains unfairly stigmatised by the market for its subprime lending exposure. As

11 Such as travel miles rewards that never expire and superior cash back rewards.

discussed further, it is this deliberate product mix that gives us comfort over the durability of Capital One's moat.

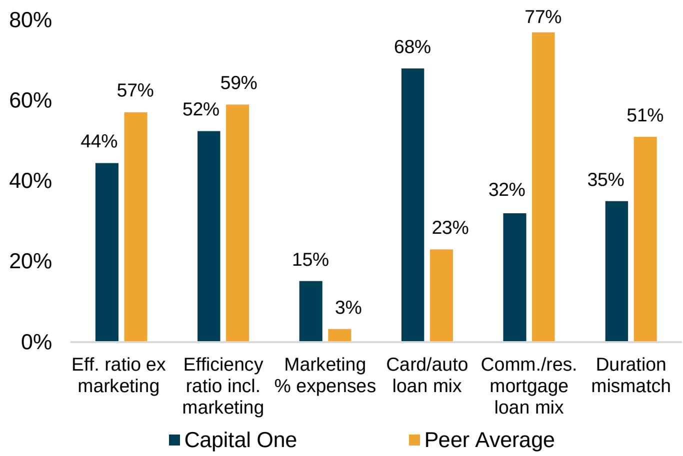
Multiple Ways of Winning

Figure 3: Key operating metrics



Source: Capital One, peer group regulatory filings

Figure 4: Efficiency and loan exposures



Source: Capital One, peer group regulatory filings

Competitive dynamics & product cycle

- **Lower exposure to commoditized verticals sustains pricing power**: As seen above, Capital One is less exposed to US commercial and residential mortgage loans which face stiff competition from deep, liquid and yield-hungry capital markets and government policy intervention. By contrast, it has a dominant 25% share of subprime credit cards and 10% share of prime cards. Legacy M&A, brand and scale advantages in customer acquisition and rewards pricing has uniquely left credit cards as the most concentrated product category in US retail banking (top 10 players > 80% share). Competitors' troubles during the financial crisis also confirm that this segment, particularly subprime, has meaningful barriers to entry as scale and diversification is required to underwrite profitability and manage adverse selection risks. These attributes underpin Capital One's superior risk adjusted loan yields and pre-provision operating profits (PPOP) to risk-weighted assets (RWA). Further, Capital One is less exposed to core retail fees (overdrafts, account keeping charges) that face disruptive threats from fintechs deploying leaner core banking infrastructure.

- **Greater resilience to low interest-rates**: With 60% of net interest revenues tied to floating-rate credit cards, Capital One has less interest rate sensitivity than peers. This is best captured by its lower duration mismatch, being the total mix of floating-rate and non-interest-bearing checking deposits over fixed rate assets. A greater mismatch is a challenge in a lower rate environment as deposits cannot be repriced lower to offset falling yields on new and maturing fixed-rate assets. Further, Capital One has more room to cut deposit costs and defend net interest margins given its higher starting point.

- **Structurally lower efficiency ratio** (operating costs to revenues), courtesy of its digital distribution focus, allows Capital One to outspend peers on marketing expenses, a playbook it has used to take share in prime cards. Importantly, a bigger proportion of variable marketing expenses versus peers also provides flexibility to manage profitability in a downturn.

- **Bipartisan support for ongoing household stimulus means the consumer card and auto credit cycle could outperform commercial and commercial real estate loans.** With flexibility to make the bare minimum credit card repayment, only 3% of Capital One's cardholders have ever requested for a loan deferral since March 2020. This on par with JP Morgan, but below American Express (4% peak deferral), Citigroup (6%) and Bank of America (9%) and highlights greater resilience as well as more conservatism and selection skill in Capital One's underwriting, especially considering its theoretically riskier customer profile.

- **A forward-thinking approach to technology provides optionality to grow beyond existing card and auto finance verticals**: Capital One is the only large US bank transitioning the majority of its IT infrastructure to the cloud (AWS), a six-year project that will culminate in 2021. Tangible benefits include lower maintenance overheads and the agility to innovate and tweak offerings to outcompete newly minted fintechs and other banks. Simple solutions include the ability to offer personalised cards, real-time rewards and a fully digital car buying experience[12]. Risk management is also enhanced; AWS uses Capital One as a case study for using machine learning to better assess credit risk. Over the last three years, management have also divested subscale, commoditised offerings like residential mortgage lending and retail brokerage. Once on the cloud, Capital One is likely to integrate with best-in-class digital disruptors to offer additional products to a large customer base with minimal acquisition costs. This will enable it to capture annuity-style distribution fees and additional yield on deposits, both of which should warrant a premium valuation multiple. Overall, the company is positioned well as a technology leader to lower costs, increase agility, better assess risk and grow revenues faster than most incumbent banks. Subject to successful execution of the Walmart omnichannel store card partnership (onboarded in 2019 and currently 10% of total card loans), there is also embedded optionality to grow additional revenue streams.

Regulatory

The most significantly regulatory development is the US Federal Reserve's implementation of a constructive and pragmatic approach for returning capital. Known as the Stress Capital Buffer framework, it allows US banks to distribute all capital exceeding pre-defined minimums without further regulatory approval and stress test hurdles. This gives us a lot of confidence and clarity around Capital One's ability to return a high proportion of profits as we exit the Covid-19 pandemic.

Management and Financial

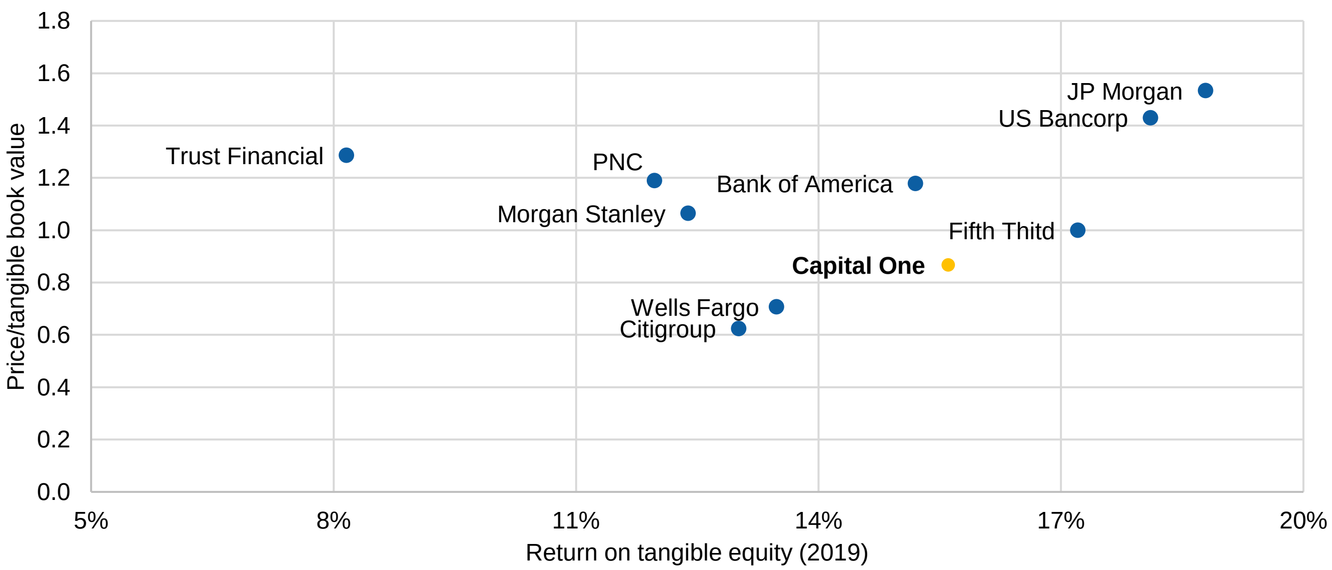
As discussed, Capital One's limited interest rate sensitivity and greater flexibility to manage expenses allows it to defend core operating profitability (i.e. excluding credit loss provisions) under a range of economic scenarios. The management team, led by founder-CEO Richard Fairbank, is very experienced and have been strong advocates of using data to manage and assess risk. With a clear framework for returning capital, their interests are well aligned with shareholders.

Style *and Macro*

Globally the banking sector has structurally underperformed the market for over a decade, but with periodic, cyclical rebounds, one of which we seemed to be setting up for in late 2019 prior to the onset of COVID. COVID-19 accelerated the collapse in real yields that started in late 2018, resulting in an already very deep banking sector de-rating becoming even more extreme. As outlined above, we see Capital One as a pragmatic value opportunity; a long-term idiosyncratic winner in our cluster of dominant (albeit cyclical) franchises that will benefit from a sustained reopening of the economy, an exposure that is looking increasingly timely.

Margin of safety

Figure 5: Valuations of largest 10 retail banks in US

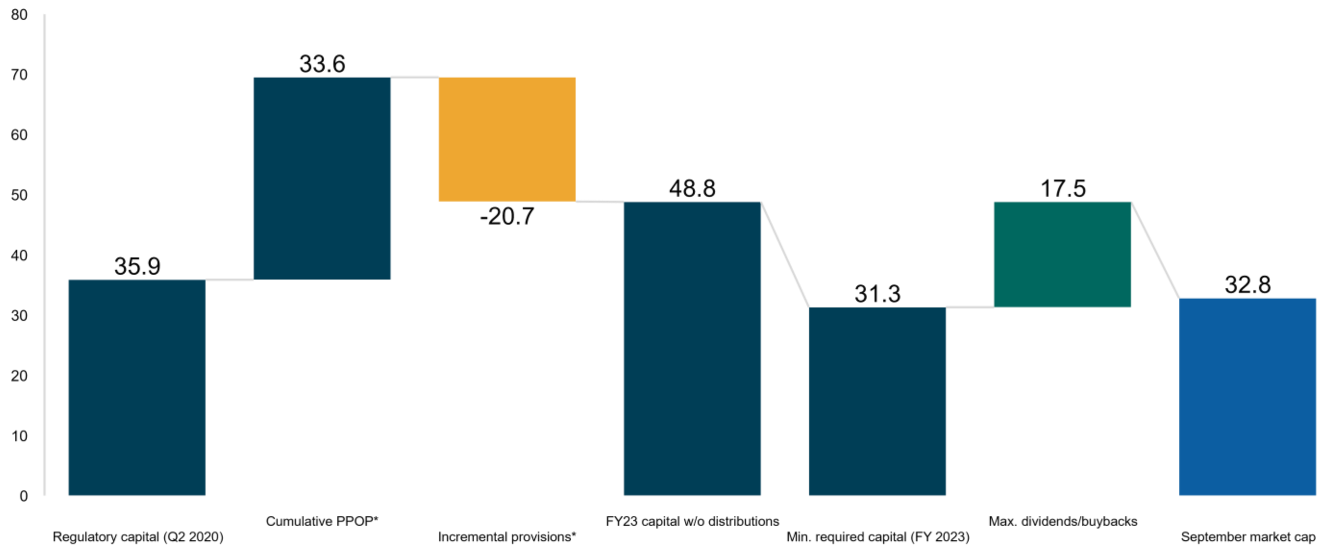


Source Factset

12 Capital One has already launched a beta version called Auto Navigator.

Despite holding excess capital, Capital One trades at 0.9x tangible book value today, a steep 33% discount to its post-crisis average of 1.35x and versus peers with lower profitability. The market is implicitly pricing in the risk of shareholders being diluted via an adverse credit scenario. As of Q2 2020, Capital One had already provided for 6.7% of its loan book to be written off (2.5x 2019 levels). Even in a scenario involving cumulative losses in line with the 2008 financial crisis (i.e. 15% of loans written-off from 2008 – 2010), Capital One can remain above regulatory capital minimums and distribute over half its current market cap over the next 3 years while still trading on 6x FY23 earnings.

Figure 6: Potential distributions (FY 2021-23, USD, Billions)



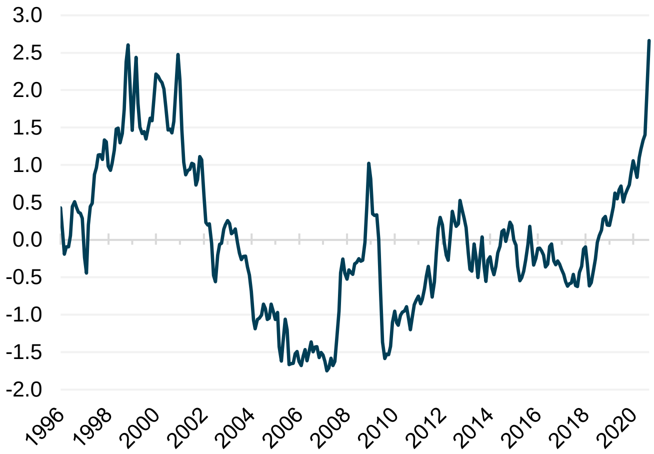
Source Capital One

Outlook

The thirst for growth continued unabated in July and August, with the NASDAQ recording forty-five record closes this calendar year to date. Volatility picked up in September as the market digested positive news flow around COVID-19 vaccines against a surge in cases and increased restrictions in Europe. Pleasingly our portfolio outperformed the value index over the quarter.

The outperformance of high multiple (growth) stocks relative to low multiple (value) has accelerated since 2018 with COVID-19 adding more fuel to the fire. Multiple dispersion has reached extraordinary levels across every sector, exceeding the levels reached in the dot.com bubble.

Figure 7: Global sector neutral composite valuation of expensive relative to cheap (z-score)



Source: FactSet

Figure 7 depicts the valuation of the most expensive stocks relative to the cheapest on a sector neutral basis using a composite valuation methodology[13]. Here, the median valuation ratio is taken over each sector and is equally weighted to remove any distortion tech may have on expensive stocks and energy/financials may have on cheap stocks. Composite valuation treats asset heavy and asset light businesses on a more equal footing. The conclusion of this analysis is that investors are prepared to pay substantially more for stocks they like - perceived winners - relative to stocks they don't like - perceived losers - across every sector. With this extreme degree of multiple dispersion there are likely to be just as many 'growth traps' as there are 'value traps'. Growth traps are great businesses which will not be great investments because of elevated starting multiples, just like Microsoft and Cisco in the dot.com bubble.

A rotation into 'value', or compression in extreme multiple dispersion, typically occurs around a cyclical rebound in economic activity (as last seen in 2016-17) or on a much longer duration basis due to a fundamental shift in the underlying investment composition of the economy. This latter type of 'value' outperformance started post the tech wreck and lasted in various forms for more than a decade; the combination of a US housing/financials super-cycle that ended in 2008 and the emergence of China into the world trading system that triggered a resources super-cycle that ended in 2012.

Since the 2008 Financial Crisis, governments have relied on Central Bank QE for policy heavy lifting. This has intensified wealth differentials which, when combined with the echo-chamber of social media and political polarisation, has fed into greater social instability. Against this backdrop, the COVID-19 health crisis has accelerated what was becoming an inevitable shift towards fiscal activism. We believe we are at the beginning of a similar fundamental regime shift which will ultimately lead to higher real rates, greater volatility in goods and services inflation and a long-term shift in investment preferences/compression in extreme multiple dispersion. Governments will increasingly look towards directed investment spending (decarbonisation / health / social / technological infrastructure) as a tool of economic policy and lean on central banks to monetise this spending.

For a cyclical rebound to occur we need a continued re-opening of the global economy and in that vein the US, Europe and China appear reluctant to go back into lockdown. The Chinese economy has rapidly normalised without a vaccine, with the fiscal position and government debt intact[14], as strict measures regarding social distancing from the outset of the virus have remained in place. Hotel occupancy is running at 70% utilisation, higher than pre-COVID levels. Domestic air passenger movements, at around 10m per week, are only slightly below pre-COVID. Retail, property and auto sales have normalised and 2Q GDP rose 3.2% yoy. Europe and the US are following a similar pathway towards reopening, which is different to what is being experienced in Australia where many domestic borders remain closed.

Regardless of the pathway towards a formal full reopening, a vaccine will be key for Western consumers to fully 'normalise' behaviour. Experts predict that the likelihood of vaccine success is relatively high given COVID-19 mutates slowly and one mutated strain accounts for the vast majority

13 EV/Capital Employed, EV/Sales, P/E, EV/cyclically adjusted EBITDA

14 Fiscal deficit and government debt around 7% and 70% of GDP respectively. Source: UBS.

of cases[15], has a well-defined susceptible target for vaccines (the "spike protein") and is similar to SARS-1[16]. Vaccines are likely to come in two waves. Results from Phase 3 clinical trials of first generation vaccines (Moderna, Pfizer, Astra Zeneca) are expected from late October, with early approval possible for Pfizer's vaccine close to the US election. Assuming success, distribution to priority recipients is expected in 1Q21 including front-line workers, the most vulnerable and super-spreaders (e.g. college students). Broader availability is expected from 2Q21.

Second generation vaccines (Sanofi/GSK, Novavax) use more traditional protein-based approaches. Importantly both are adding adjuvants[17] to increase the potency of the vaccines. Sanofi (a portfolio holding) and GSK are two of the largest vaccine manufacturers globally, and GSK is the largest producer of vaccine adjuvants. Early data suggests protein-based vaccines may have superior durability relative to first generation (longer-term immunity reducing the need for regular boosting), are typically easier to scale than mRNA approaches (Moderna, Pfizer)[18] and should achieve mass availability by the second half of 2021.

Unprecedented investment by governments and the private sector could result in as many as 6b vaccine doses becoming available through 2021, and the US has pre-ordered more than 800m doses across manufacturers. Multiple therapeutics ('antibody cocktail' therapies) are also under development which should meaningfully reduce spread and virus severity and are likely to be available in late 2020/early 2021.

Even with the absence of a vaccine, mortality rates have fallen to under 2% from mid-single digits in the early stages of the outbreak thanks to treatments reducing virus duration and severity (e.g. Gilead's Remdesivir), improved clinical management (e.g. use of steroids), and communities likely developing some immunity. As the northern hemisphere winter approaches infection rates on a detected basis are expected to rise due to seasonality and increased testing capacity. Whilst the next outbreak is not expected to be as severe, it will pay to closely track hospitalisation and mortality rates.

Until a vaccine arrives, and while the pathway toward reopening is unpredictable, income stimulus will remain important. However, all else equal, evidence of a stronger shift away from income stimulus to government sponsored investment stimulus will likely lead to a more sustained outperformance of lower multiple, more cyclical stocks.

A good example is Europe's New Green Deal, a commitment to make the EU carbon neutral by 2050, which will include a legally binding target to cut emissions by at least 55% by 2030[19]. The New Green Deal is anchored by Europe's Emission Trading Scheme (ETS) which is designed to reduce carbon emissions in the most intensive sectors, notably power. Certificates are auctioned to emitters, and the number of certificates available each year falls in line with decarbonisation goals. EU national governments could raise €500b - 800b p.a. from certificate sales which can be used to subsidise a reduction in emissions elsewhere by replacing fossil fuels, e.g. the transport sector via subsidising EV adoption, in buildings by replacing gas with green electricity for all heating and cooling, developing a hydrogen economy and electrification in industry. The approval of Europe's €750b Recovery Fund supplements the ETS to support these investment goals, as well as acting as a first step toward fiscal integration within Europe.

Importantly, European power prices need only increase 8% (on average) to fund the investment required to build a fully green grid[20].

As Europe's dependence on fossil fuels falls electricity demand is expected to increase by around 40% from current levels, which will necessitate even more investment in renewables and the grid. This infrastructure super-cycle is estimated to require around €4t over the next decade, or incremental investment worth 2% of GDP p.a. for the next 10 years. In this sense we question whether we have permanently entered a low growth environment. The need for investment stimulus thanks to COVID-19 may lead to a switch from a 'virtual' to a real asset investment cycle.

Renewables investment/decarbonisation is both capital and labour intensive, so a perfect job creation program. Decarbonisation represents an enormous global electricity/power sector investment super-cycle – if we scale this by measuring the impact of Europe's 2030 55% emissions cut target (noting Europe only accounts for 9% of global emissions), it implies:

15 Mutation is not uncommon in viruses and COVID-19 mutates at a slower pace than the flu. Various studies indicate one mutated strain of SARS-CoV-2 is responsible for likely >90% of cases in the US (and ~99% of cases in Texas), which vaccines in development are targeting. Source: medrxiv.org

16 Significant progress was made towards developing a vaccine to the SARS-1 virus prior to its rapid eradication

17 An ingredient added to some vaccines that generates a stronger immune response

18 Protein-based manufacturing is a well-established, inexpensive bioprocessing method which can make significant volume of protein required for the vaccine. Vaccines can be refrigerated with years of shelf life versus mRNA vaccines which require -20˚C to -80˚C cold chain logistics/storage and shelf life of one week.

19 Versus 1990

20 A move to baseload renewables requires investment in strengthening the grid and storing/securing supply

- The annual rollout of European variable renewables (wind and solar) would need to increase 3.5x on average p.a. relative to current pace
- The global battery supply chain would need to scale by a factor of 3x to take EVs to 30% of European car sales by 2030
- European annual grid investment would need to increase by 120%
- All this would result in 3.4%/0.6% and 9.2%/1.9% annual uplift in European/Global copper and nickel demand

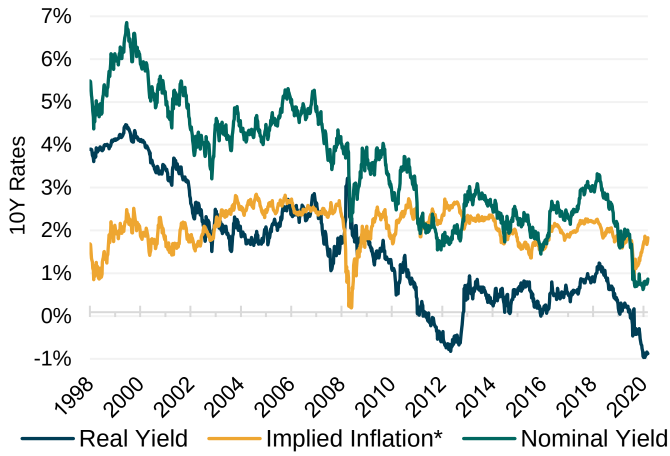
We see China pursuing a similar path of aggressive decarbonisation, while the speed of cuts in the US is somewhat dependent upon the election outcome. Even if political uncertainty were to persist in the US, renewables are gaining traction at the State level with or without direct policy support. While we will never underestimate the ability of European politicians to vacillate, the risks around the global timing of this cycle are largely mitigated by the growing competitiveness of renewables and China's desire to lead the world in deploying cutting edge technologies of any kind.

It's also worth recalling that the US went into COVID-19 with a fiscal deficit around 4% of GDP in what were robust economic times and may exit the year with a record deficit in excess of 20% of GDP. Further, government debt is forecast to increase from 80% to 100% of GDP over 2020, a substantial increase in any one year.

Prior to the first Presidential debate and Trump's COVID-19 infection, a tight election outcome was looking likely. However, the situation has now tilted more in favour of a 'blue sweep'. If the Democrats achieve control of both the House and the Senate, the USD will potentially weaken and nominal yields rise as the market starts to price in both income and investment stimulus, and a potentially higher minimum wage. This would be positive for regime change; higher levels of real growth/yields and compression in valuation dispersion. That is, positive for the sustained outperformance of 'value'.

The move in yields has been extraordinary, as the yield on the US 10-year Government Bond has moved in a tight range of 60-70bp since the COVID-induced sell-off and real rates have fallen to -1%. Whilst the recent move in the 10Y above the 65bp support level should be taken in the context that yields were 1.5 - 2% only a year ago, the range has recently widened which may be the market starting to price in more stimulus.

Figure 8: 10-year US government bond yields[21]



Source: FactSet

Even though rates have been anchored at the short end, with the US Federal Reserve indicating the Fed funds rate may remain near zero until inflation is closer to 2%, this does not mean rates cannot rise at the long end. Between February and July 2020 the US Treasury issued $2.4t, or 80% of the $3.1t increase in the fiscal deficit, in short-dated Treasury Bills. Presumably this was to place less pressure on funding markets, but the Bills need to be rolled over in less than 12 months. By contrast, the $1t of bonds purchased by the Fed since February focused on maturities greater than five years. Here we have a duration mismatch; supply of government debt concentrated at the short-end whilst demand from the Fed has been at the long-end. This has resulted in a flattening of the yield curve. The Treasury has indicated an intention to increase the duration of debt to lock in long-term funding at an incredibly attractive 70bp. It's predicted the Treasury will issue a further $1.8t in 2H20 with the Fed expected to buy only around one-third of this.

Pulling all of this together: an increase in issuance at the long-end, coupled with greater confidence around reopening/vaccines, employment, excess savings[22] and pent-up demand from lockdown, combined with the possibility of more aggressive income and investment stimulus under a Democratic clean sweep, increases the odds of a regime change. Against this, the rubber band on falling real rates and the melt-up in growth appears very stretched and any sustained move higher in real rates would represent a painful headwind for the weaker businesses within the growth complex.

Note the market is already beginning to price in some reflation, seen in rising breakeven inflation rates (Figure 8), commodities (e.g. precious and base metals, agriculture) and

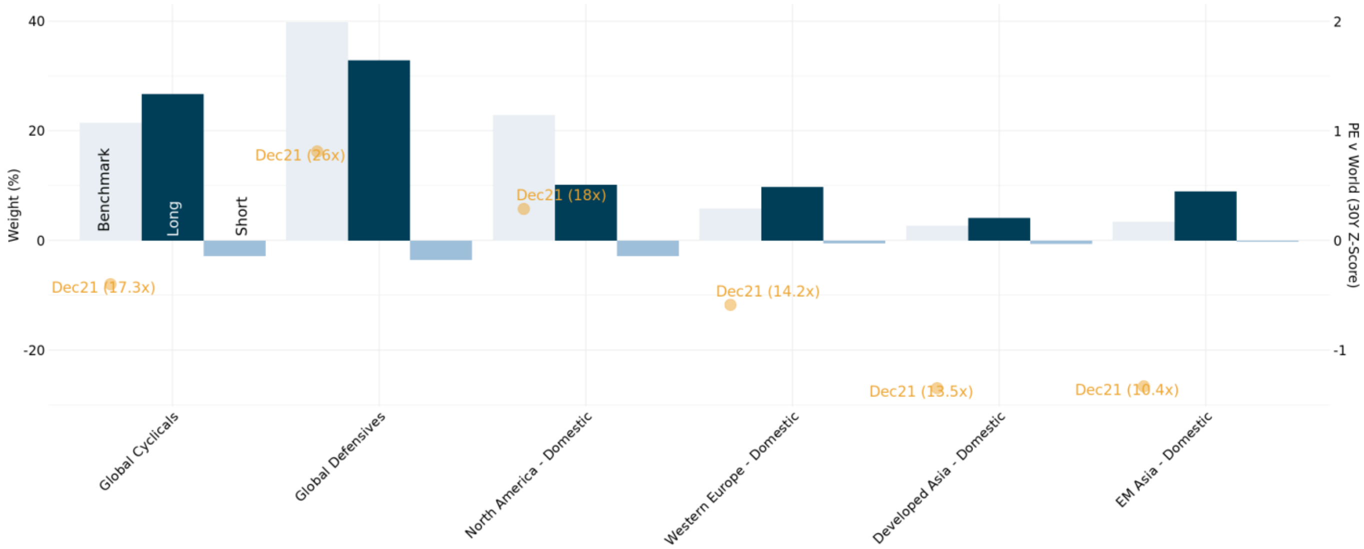
21 Implied inflation is 10Yr average inflation rate expected by the bond market.

22 US households have built $1t in savings in 1H20 thanks to generous unemployment benefits, equivalent to household savings over the entire 2019.

cyclical currencies (e.g. the AUD). It is the yield on long bonds that is the anomaly thanks to central bank intervention.

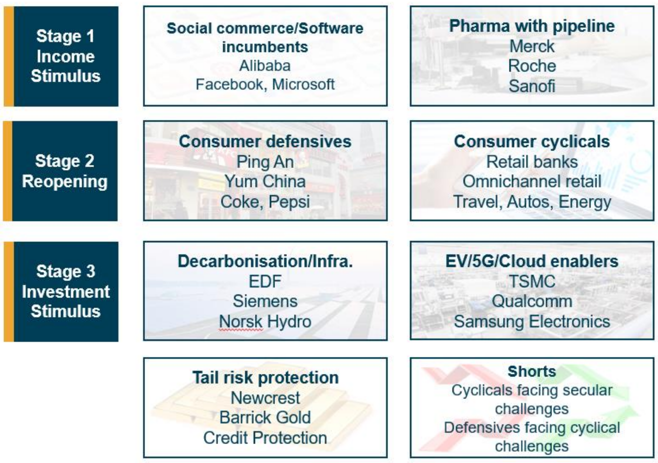
Last quarter we questioned at what point the USD and bond market would react to seemingly open-ended fiscal deficit. The recent weakness in the USD is notable, and the question is whether this is the start of a longer-term weakening trend. Is the market starting to perceive Europe as the relative winner from reopening/vaccines (greater dependence on tourism), or that longer-term growth differentials of the rest of the world are improving relative to the US (stabilisation in China, investment in Europe). That said, the USD may witness a cyclical rebound if real rates drifted higher per the arguments above, and we would view this as an opportunity to sell the currency. The USD is slowly losing its reserve currency attraction as politically the US further embraces exceptionalism and Fed policy making now seems fully captured by both asset markets and the US political process, given its willingness to bail-out private credit and actively monetise government debt. The real issue for asset markets will be timing the potential acceleration in this trend, and whether or not the pace of USD devaluation becomes destabilising.

Figure 9: Global fund v MSCI ACWI weights &valuations (September 2020) [23,24]



Source: iShares, FactSet, Antipodes

Figure 10: Global fund positioning (September 2020)



Source: Antipodes

The two major tilts we have had in the portfolio for some time are a tilt towards Chinese/EM and quality cyclicals, and a tilt away from the expensive component of the growth/defensive complex.

As China emerges from COVID-19 in exceedingly good shape (real GDP growth is forecast to increase 2.5% this year[25]), the risk/reward of these tilts is looking even more attractive. Chinese economic growth was slowing through 2018-19 and hence there is a case for pent-up demand and a significant overshoot in the current Chinese rebound which will likely feed back into global growth via the export channel. Europe has a lot more sensitivity to this than the US. Notwithstanding this, we still have significant exposure to the US, focused on Stage 2 'Reopening beneficiaries' and multinationals that are part of our Stage 3 'Investment Stimulus' post-COVID roadmap (Figure 10).

23 Portfolio weights, benchmark weights and prices used in the PE multiples are as of 30th September 2020.

24 Global Cyclicals includes Commodities, Chemicals, Industrials, Autos/other durables, Hardware; Global Defensive includes Internet, Software, Staples, Pharmaceuticals; Domestic includes Retail, Housing & Construction, Media, Transport, Consumer/commercial services, Health services, Financials, Communications, Infrastructure, REITS.

25 Versus -4% for the US and -7.7% for Europe. Source: UBS

As we have gained confidence around re-opening, we have pivoted our portfolio away from our Stage 1 ‘COVID beneficiaries’ and into our Stage 2 ‘Reopening’ and Stage 3 ‘Investment’-led stimulus beneficiaries. As we gain further evidence around reopening, vaccines and/or government sponsored investment, our portfolio will continue to lean into good quality cyclicals with embedded growth opportunities. Extraordinary multiple dispersion leaves us confident that the long-term future market leaders are most likely to be today’s misunderstood lower multiple stocks.

Appendix

Market returns to 30 September 2020 (USD, p.a.)

Absolute performance (%)	3m	1y	3y	5y	10y
Regional equities (MSCI)					
AC World	8.1%	10.4%	7.1%	10.3%	8.5%
USA	9.5%	16.4%	12.2%	13.7%	13.2%
Europe	4.5%	(0.8%)	(0.6%)	4.2%	4.3%
Japan	6.9%	6.9%	3.9%	7.5%	6.2%
Korea	12.8%	18.6%	1.2%	9.5%	4.5%
AC Asia ex Japan	10.7%	17.8%	4.9%	10.6%	5.4%
All China	13.1%	33.1%	6.8%	10.1%	6.2%
EM ex Asia	0.6%	(19.5%)	(7.7%)	1.7%	(4.0%)
Global sectors (MSCI)					
Consumer Discretionary	17.9%	29.2%	14.6%	13.6%	13.0%
Consumer Staples	7.2%	3.3%	5.1%	6.7%	8.4%
Energy	(12.8%)	(39.0%)	(15.6%)	(5.3%)	(3.8%)
Financials	1.4%	(15.5%)	(5.1%)	3.1%	3.9%
Health Care	4.6%	21.6%	10.6%	9.8%	12.9%
Industrials	11.2%	3.3%	3.1%	9.1%	7.8%
Information Technology	12.7%	44.8%	23.7%	24.7%	17.8%
Materials	11.7%	11.7%	3.6%	11.3%	2.6%
Communication Services	7.3%	16.5%	6.8%	7.0%	6.0%
Utilities	4.0%	(3.7%)	4.9%	7.1%	4.8%
Commodities					
Crude Oil Brent	2.5%	(28.6%)	(9.4%)	(2.9%)	(6.4%)
Gold	6.7%	27.0%	13.7%	11.1%	3.7%
Bloomberg Commodity Index	9.0%	(8.9%)	(5.7%)	(4.2%)	(6.6%)
Bonds (BAML)					
Global Government	2.6%	6.1%	4.3%	3.8%	1.9%
Global Large Cap Corporate	3.2%	7.8%	4.9%	5.1%	4.0%
Global High Yield	4.9%	3.9%	3.6%	6.6%	6.1%
Currency					
AUD	4.1%	6.3%	(3.0%)	0.4%	(3.0%)
EUR	4.4%	7.6%	(0.3%)	1.0%	(1.5%)
JPY	2.2%	2.4%	2.2%	2.6%	(2.3%)
CNY	3.9%	4.8%	(0.8%)	(1.4%)	(0.2%)

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

Further information

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Glossary

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