30 July 2021

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 June 2021.

For further information, please contact 1300 010 311.

Authorised by:

Calvin Kwok
Company Secretary

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Antipodes

Quarterly shareholder update 30 June 2021

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 Company quarterly update, a comprehensive review of the Company's quarterly investment performance to 30 June 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. This is followed by a summary of the Company's portfolio performance during the quarter. After this is a Company update highlighting the update provided to shareholders during the quarter on the Company's major discount management initiative, the Conditional Tender Offer (CTO).

Antipodes then provide an update on the drivers of the Company's performance during the quarter, with it being up 2.0%, underperforming its benchmark which returned 9.0% for the quarter. Value as a style underperformed growth over the quarter and the selloff in Chinese internet stocks during the quarter due to heightened regulatory oversight both contributed to this underperformance. Given how topical Chinese internet stocks are currently, as a result of the ongoing tensions between the US and China, the feature article for this update on Tencent is well timed as Antipodes details why this continues to be a high conviction position in the Company's portfolio.

Finally, the Outlook section gives a good overview of some of the market extremes that Antipodes sees in the market today and how the Company's portfolio is positioned for this, notably the preference for stocks outside the US as the rest of the world outside the US plays economic catch-up and where valuations are materially more attractive.

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 (antipodespartners.com/apl).

Yours sincerely,

Jonathan Trollip
Chairman

Market commentary

Global equities were strong in the second quarter (+7.7% in USD, +9.3% in AUD), buoyed by continued monetary support and improving COVID-19 vaccination rates worldwide. The European vaccination drive caught up with the US and the UK during the period, although emerging economies continue to lag with their rollouts. The more recent spread globally of the Delta variant will challenge those countries where vaccination rates are still lagging, which could compound the uneven recovery seen so far.

Against this backdrop, overall growth over the last three months has been strong due to a significant rebound in activity as economies gradually reopened. This has fuelled inflation in some countries due to underlying factors such as supply bottlenecks and strength in commodity prices. Whilst many central banks regard this as transitory, policy makers will closely watch for any persistence in inflation as activity continues to revert to pre-pandemic levels.

During this period investors exhibited a bias for Technology and Energy with surging oil prices, while Utilities and Industrials underperformed.

US equities (+8.8% in USD) were driven by a rebound in high multiple/growth stocks, strong first-quarter earnings growth, and the possibility of further stimulus driven by President Biden's additional $600b infrastructure spending announcement. Retail sales and pending home sales also rebounded over the quarter. There were, however, signs of inflationary pressures. The Federal Reserve regards the inflation increase as transitory and has publicly stated it is considering tapering. Two rate hikes are now expected in 2023.

Asia (+2.2% in USD) was a laggard over the quarter, particularly Japan (-0.3% in USD) which saw retail sales fall in April and May, weak industrial production and a slow vaccine rollout. Meanwhile China (+4.7% in USD) was strong despite performance being closely pinned to the recovery of its close trading partners, as well as continued regulatory worries. Factory activity expanded at a fast pace with the Caixin PMIs in expansionary territory, and industrial profits rose for the first time in six months.

European equities (+7.4% in USD) were strong as the rollout of COVID-19 vaccination programmes boosted optimism around a sustainable reopening of the region's economies. With the rebound across Europe defying initial expectations, European equities enjoyed the best quarter in five years. There were also signs of a consensus being reached to further stimulate growth. Firstly, the ECB increased the size of its PEPP program to €1.35t with an extension until June 2022. Secondly, Germany cut its value-added tax (VAT) to the end of the year with the UK government considering a similar approach.

Elsewhere, the USD weakened (DXY -0.85%) and Gold gained (+3.7%) with a weaker Dollar and lower yields. Brent Crude (+21.3%) saw strong gains in the second quarter on further demand optimism and supply control by OPEC+.

Figure 1: Region-sector valuation heat-map[1] - Composite multiple vs world – Z-score (Mar 1996 – June 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	(1.3)	0.1	0.3	1.9	(0.8)	2.5	0.8	(0.3)	(2.0)	(1.2)	(2.1)
North America	2.1	(0.3)	1.9	0.6	2.3	(1.0)	2.1	0.3	1.2	(1.5)	0.3	(1.6)
Western Europe	(0.3)	(0.5)	0.7	0.5	(0.2)	(0.6)	2.1	0.8	0.0	(1.3)	(0.7)	(1.8)
Japan/ Korea/ Taiwan	(1.2)	(0.3)	(1.5)	0.0	(0.5)	(0.2)	2.2	(1.1)	(1.0)	(1.0)	(1.8)	(1.2)
Emerging Markets	(0.7)	(0.0)	0.0	1.1	0.4	0.4	1.5	1.3	(1.1)	(1.5)	(1.4)	(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 2.0% for the quarter, underperforming its benchmark which returned 9.0% over the same period.

More detail on the portfolio's performance over the quarter is outlined in the sections entitled Portfolio Commentary and at the start of the Outlook section.

During the quarter, on 17 May 2021, the Company provided an update on the Conditional Tender Offer (CTO) via an [ASX announcement] and via an email to shareholders for whom we have an email address. Please contact us with any queries at invest@antipodespartners.com. Please note that no action is required by shareholders at this stage as the measurement period for assessing the discount condition is still underway (see below).

Under the CTO, the Company intends to implement an off-market share buy-back for up to 25% of its shares in issue if the average daily pre-tax NTA discount is wider than 7.5% for the 12-month period ending 18 October 2021 (discount condition). If triggered, this will enable shareholders to sell shares to the Company via the buy-back at a share price based on the average post-tax NTA per share less 2%.

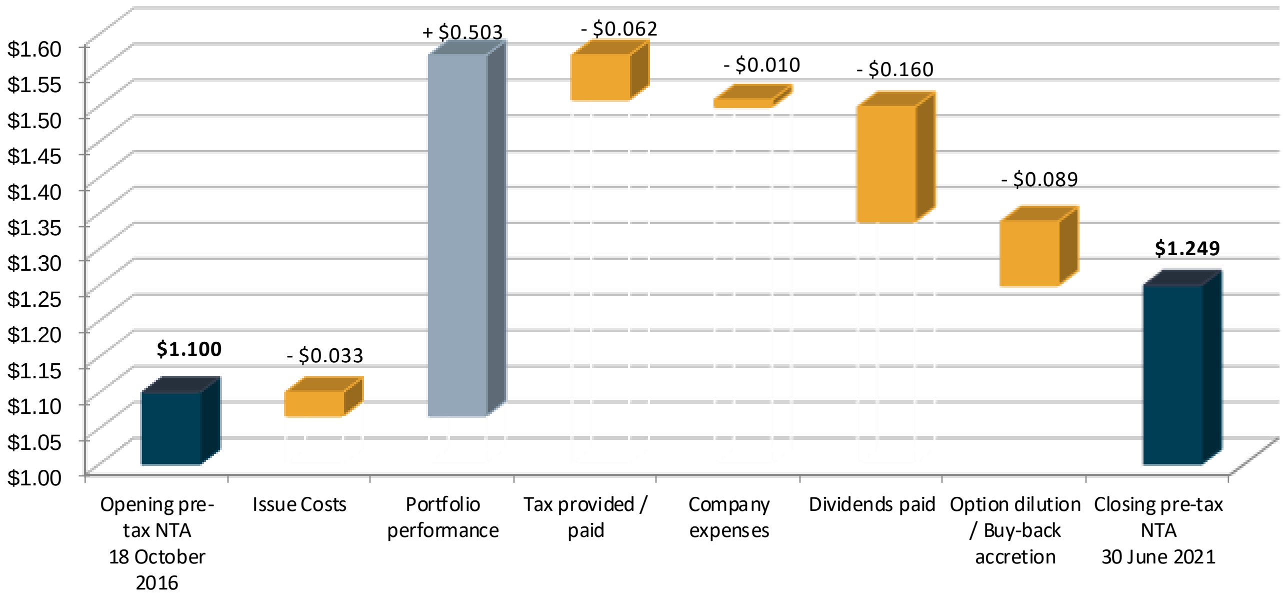
As at 19 July 2021, the average daily pre-tax NTA discount over the measurement period has been 11.5%.

The Company's remaining authority for the on-market share buy-back was not utilised during the quarter as the NTA discount narrowed, making on market share buy-backs less attractive.

During the quarter, the Manager, Antipodes Partners, started writing a fortnightly newsletter to shareholders called "The Good Value Briefing" which captures how the team is thinking about the latest news and market events impacting the APL portfolio. These are a quick three minute read and should be in your email inbox every couple of weeks (if you've chosen electronic communication as your preferred method). If not, you can also find the latest version on the Company website antipodespartners.com/apl or contact us if you would like to be subscribed. The feedback on it is overwhelmingly positive

The Board of the Company remains committed to reducing the NTA discount.

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



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 June 2021

Type	Dividend per share	Ex date	Record date	Payable	Franked
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 June 2021

	3 months	1 year	3 years p.a.	Inception[6] p.a.
Company	2.0%	21.2%	6.5%	9.8%
MSCI AC World Net Index	9.0%	27.7%	14.0%	11.8%
Difference	(6.9%)	(6.5%)	(7.5%)	(1.9%)

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

	Company
Average Net Exposure	100%
Upside Capture Ratio	76
Downside Capture Ratio	55
Portfolio Standard Deviation	8.7%
Benchmark Standard Deviation	10.7%
Sharpe Ratio	1.13

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:

- **Industrials** cluster, including Siemens and General Electric, which performed well as the market began to view cyclical businesses through a more favourable lens following confidence around vaccine-led reopening and positive implications for economic activity. Volkswagen was a notable contributor due to better than expected sales and cash flow guidance for this financial year despite the ongoing investment in electrification and digitalisation, anticipation around the company's upcoming EV launches, and a decline in rebates as supply and demand for new vehicles broadly remains tight due to semiconductor chip shortages.
- **Consumer Cyclical Developed Markets (DM)** cluster, including ING Groep and Capital One Financial, on improvement in the economic outlook. ING and Capital One have consistently reported lower than expected credit costs over the last 12 months, dividends and buybacks have recently lifted, and both companies have considerable excess capital to facilitate additional capital distributions.
- **Oil/Natural Gas** cluster including Exxon and Equinor on positive outlook for energy demand with vaccine-led reopening whilst supply growth remains disciplined.
- **Hardware** cluster notably TSMC and MediaTek. TSMC continues to benefit from strong demand for leading edge semiconductor manufacturing in the company's key end markets and is taking market share with customers reinforcing its dominant position. Likewise, MediaTek continues to report strong order growth as the company closes the gap with Tier 1 competitors, taking market share in handsets, gaming and datacentres.

Key detractors to performance over the quarter included:

- EDF in the **Telco/Infrastructure DM** cluster suffered as a decision regarding the company's new regulation and restructure, expected early in the year, was delayed. News flow post quarter end indicated the process is back on track and the stock recouped almost all of its losses.
- **Software/Internet Asia/Emerging Markets (EM)** cluster, notably JD.com and Meituan Dianping, amidst ongoing domestic scrutiny of Chinese internet platforms. Despite near-term regulatory issues, the long-term outlook for Chinese internet/e-commerce remains attractive given opportunities to increase penetration in lower tier cities, expand into new categories, and in digital advertising where ad penetration lags most developed markets.

Top 5 contributors & detractors

Top 5 contributors	
Facebook	0.79%
Microsoft	0.51%
Exxon Mobil Corp	0.32%
Teck Resources Ltd	0.29%
Capital One Financial	0.28%

Top 5 detractors	
Ping An Insurance	(0.35%)
Volkswagen AG	(0.29%)
First Solar Inc	(0.18%)
Siemens Energy AG	(0.17%)
Siemens	(0.15%)

Portfolio positioning

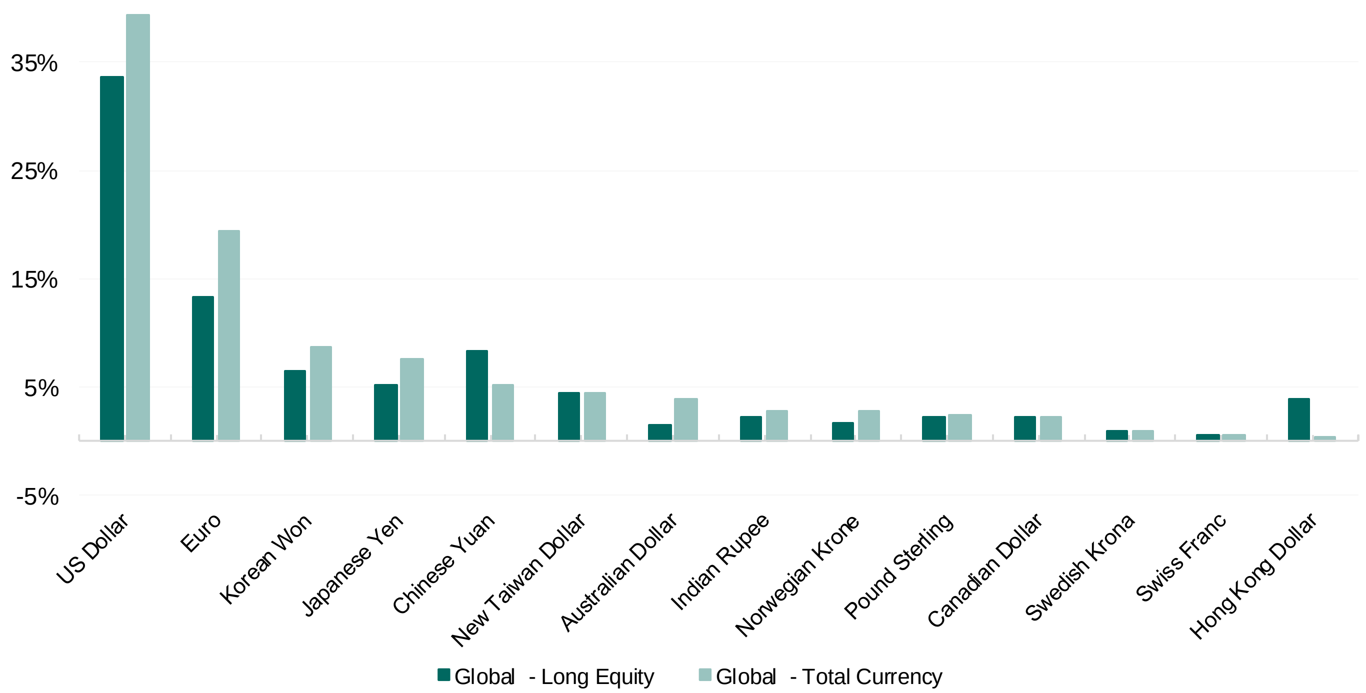
Key changes over the quarter included:

- Adding to the **Online Services - Asia/Emerging Markets (EM) cluster,** notably via Meituan, as broad concerns around regulation provided an opportunity to add to this company which has taken the lead in the modernisation of fresh food and grocery staples, a sizable opportunity given China's grocery market is valued at c. $2t.
- Adding to the **Infrastructure/Property Developed Markets (DM) cluster** via Frontier Communications, a fixed line broadband telco in the US with a unique opportunity to roll out fibre-to-the-home to up to 7% of US residential homes at very attractive returns.
- Adding to the **Software cluster** via dominant platform companies that are cheap relative to both smaller peers and their own growth profile after a period of relative sector under-performance post the approval of COVID-19 vaccines.
- Rotating exposure within the **Consumer Cyclical - DM cluster** by reducing exposure to US financials that have reached price targets on confidence around economic normalisation and adding to European financials which will benefit from a cyclical rebound in economic activity as reopening continues. The European Central Bank's relaxation around distributions can act as an additional driver for returns.
- Reducing exposure to the **Industrials cluster** following a period of strong performance due to confidence around economic normalisation. The position in Honda Motor was exited with a preference for Toyota and Volkswagen, which are better positioned for the transition to EVs. Volkswagen was trimmed after a sustained period of outperformance.
- Reducing exposure to the **Infrastructure/Property - Asia/EM cluster** via KT Corp as the market prices in a benign competitive landscape and improving outlook for capital distributions.

Cluster exposure & quarterly change[8]

Sector/cluster	Long	Short	Net	Bench mark	3 month net change	12 month net change	Long examples
Global	**39.6%**	**(4.7%)**	**34.9%**	**33.7%**	**(3.9%)**	**5.0%**	
Industrials/Materials	19.6%	(3.6%)	16.0%	14.1%	(4.9%)	7.2%	Volkswagen, Siemens, GE
Oil/Natural gas	4.0%	(0.2%)	3.8%	2.7%	0.5%	(1.8%)	Equinor, Technip Energies
Hardware	9.4%	(0.7%)	8.7%	7.3%	0.4%	0.5%	Samsung Electronics, TSMC
Healthcare	6.6%	(0.2%)	6.4%	9.6%	0.1%	(0.9%)	Sanofi, Merck
NA/Europe Domestic	**39.1%**	**(4.2%)**	**34.9%**	**52.7%**	**6.4%**	**13.5%**	
Software/Internet	16.2%	(2.5%)	13.7%	18.1%	4.6%	5.0%	Facebook, Microsoft, Amazon
Consumer defensive	6.8%	(0.3%)	6.5%	7.6%	0.2%	2.5%	Coca-Cola, Walgreens
Consumer cyclical	9.3%	(1.3%)	8.0%	20.0%	(0.3%)	2.0%	ING, Lowe's
Telco/Infrastructure	6.7%	-	6.7%	7.0%	1.9%	3.9%	EDF
Asia/EM Domestic	**17.2%**	**(0.6%)**	**16.6%**	**13.2%**	**(0.3%)**	**(0.1%)**	
Software/Internet	8.2%	-	8.2%	3.5%	2.0%	3.3%	Tencent, JD.com
Consumer defensive	2.1%	-	2.1%	1.2%	0.5%	(1.3%)	Yum China
Consumer cyclical	6.0%	-	6.0%	6.4%	(0.7%)	(0.7%)	Ping An, KB Financial
Telco/Infrastructure	0.9%	(0.6%)	0.3%	2.1%	(2.0%)	(1.5%)	KT Corp
Tail risk hedge (equity)	**1.4%**	**(5.4%)**	**(4.0%)**	**0.4%**	**0.1%**	**(4.0%)**	Newcrest
Total equity	**97.2%**	**(14.8%)**	**82.4%**	**100.0%**	**2.3%**	**14.4%**	
Tail risk hedge (other)	**-**	**(8.4%)**	**(8.4%)**	**-**	**0.7%**	**(2.2%)**	

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: Tencent

Tencent is a digital empire that is embedded in the everyday life of the Chinese consumer. The core social messaging app WeChat has been leveraged to offer users media/entertainment content, eCommerce, payment and financial services solutions to name a few. Tencent has also invested in a range of technology companies and in the gaming and cloud verticals to broaden its offerings. The company has built a valuable asset based on unrivalled user engagement and exposure to large addressable markets.

Irrational extrapolation

Tencent has undergone a significant valuation de-rate since the beginning of the year amid weakening Chinese economic data, from buoyant levels, and increased regulatory scrutiny and uncertainty across the Chinese internet sector. The same types of stocks in the US are trading at close to all-time share price highs, although in both cases the stocks have de-rated relative to very strong earnings growth.

In addressing these concerns, our base case remains that changes in regulation are designed to prevent anti-competitive behaviour, particularly in the e-commerce space, rather than stifle the growth of internet businesses more generally. In this context, Tencent's core advertising asset, WeChat, is less likely to be directly impacted by regulation than e-commerce peers such as Alibaba. Further, online gaming, which represents roughly 40% of group revenue, went through a rigorous regulatory process three years ago so Tencent has experience in navigating these issues.

More importantly, competition is increasing across both e-commerce and online advertising in China as new customer channels are emerging (such as community group buying) and with the evolution of new social platforms (Douyin/ TikTok and Kuaishou). In the most part these platforms are not direct competitors to Tencent's business. However, as the platform with the highest time spent, Tencent is competing for eyeballs and ad spend against these fast-growing apps. Although such interlopers may fragment the opportunity for Tencent, their impact is insignificant compared to the material growth in digital ad spend and the extent to which Tencent is currently under-monetised.

Tencent is also ramping up investment in three key areas: development of long production games, short form video and enterprise software. While the market may penalise the stock due to some uncertainty regarding the shorter-term payoff from these investments, these initiatives will strengthen Tencent's position in key verticals, build barriers to entry against smaller players, and drive growth and market share over the long-term.

Business resilience/Multiple ways of winning

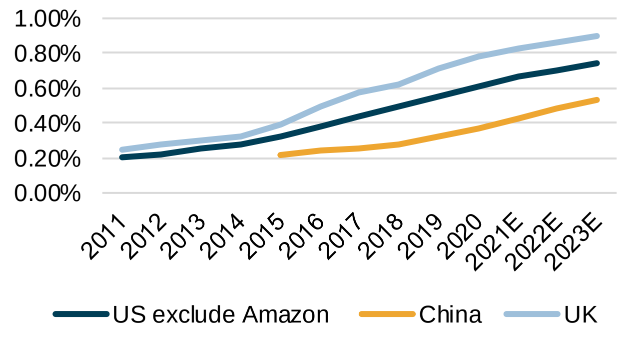
Competitive dynamics & product cycle

Tencent has built a formidable lock on the Chinese consumer as it has developed online solutions for the most necessary daily utility-like activities. The core WeChat platform has morphed from its origins of a simple messaging platform. Consumers now use the app for media & entertainment content (games, news, video, music), official accounts (similar to Twitter), eCommerce mini-programs (branded shopfronts) and financial services (payments and wealth management) to name a few. The strength of this platform is evidenced via its 1.2b Monthly Active Users (MAUs) on the core WeChat app, of which 82% will engage with the app on any given day for an average 84 minutes (and this excludes separately linked apps such as Tencent music).

This provides Tencent with valuable user data and creates a direct portal to the consumer – ultimately it enables Tencent to provide a superior return on investment for advertisers. The company is currently not monetising its powerful position to its full potential, with just a 12% share of the Chinese digital ad market. Some new initiatives in videos, WeChat Moments (similar to Facebook newsfeed) and monetisation of the WeChat mini program GMV are all potential ad revenue sources, not all of which are in our base case, that could materially fast-track the opportunity.

The penetration of digital advertising in China is still low relative to developed markets. Beyond a moderate and consistent share gain there is material upside in digital ad growth in China, which currently equals just 0.4% of GDP compared to the US at 0.6%. Given the rapid technological adoption seen in China as the country develops there is no reason why digital penetration will not reach similar levels to that seen in developed markets.

Figure 2: Digital ad as % of GDP



Sources: eMarketer, Antipodes

Tencent has leveraged its platform into fintech services which provides another avenue for monetisation. It is the leading offline payment tool and is catching up in online payments through its mini-program GMV (up 100% in 2020). Tencent is a powerful third-party distribution partner for financial product issuers across wealth and insurance products and in credit lending where Tencent only refers business to its 30% owned WeBank to avoid the ire of the regulator.

Gaming is an adjacent vertical that Tencent dominates, with its 60% market share in China. The company has strong publishing and distribution capabilities as well as a library of established titles that make it difficult for a competitor to catch up outside of one-off hits. Again, engagement with the consumer is high as the time spent per daily user on key titles is 100-140 minutes. There is also an attractive global opportunity given its strong content JVs and world class internal game development; the global gaming market is four times larger than China's at $160b.

Finally, Tencent's Cloud business (number two in China) has potential for meaningful growth over the medium term. Cloud adoption is still in its early stages in China outside of the internet verticals. We expect this to ramp up with the development of PaaS (Platform as a Service) and SaaS (Software as a Service) products providing value added services to customers and a higher margin business for Tencent. This business differs from the consumer focused core, but is synergistic given the great deal of content and data that is managed and as Tencent continues to work with investee companies.

Regulatory

China is in the process of implementing new regulations in three key areas: to restrain monopolies, govern fintech firms and protect data privacy and security. The Cybersecurity Law (enacted in 2017), Antitrust Guidelines for the Platform Economy Industry which became effective in February 2021, the Data Security Law (already released and comes into effect in September), and the Personal Information Protection Law, which just underwent its second draft and is expected by end of 2021, are all the result of this effort.

Alibaba, with the surprise cancelation of the Alipay IPO, and as the recipient of the largest fines, would seem to have been the major target of new regulations.

Details of this greater regulatory scrutiny and investment implications include:

- Antitrust Guidelines for the Platform Economy target the dominance and potential anti-competitive behaviour of the major e-commerce platforms. The new regulations make it illegal for the platform companies to restrict suppliers to exclusive deals, use technology such as algorithms or data/traffic throttling to behave in an anti-competitive fashion and price/offer discriminate between consumers.
- As a result of new fintech regulations, Alipay, et al, is now required to hold a higher level of regulatory capital against any loan originations.
- A focus on domicile of listing, especially for companies that are considered to hold large and sensitive datasets - witness the recent "punishment" of ride-hailing app Didi for listing in the US. The variable interest entity (VIE) structure is used by Chinese technology platforms to access foreign investors and avoid running afoul of Chinese ownership laws AND at the same time often maintain voting control in a similar manner that the large US founder-led platforms such as Facebook and Alphabet have done via super voting class shares. Chinese authorities have announced that they plan to review and amend special provisions concerning the listing and capital raising activities of Chinese limited stock companies outside of mainland China, with VIE structured companies potentially requiring approval from onshore regulators before listing offshore. The motivation for this would appear to be two-fold: Chinese capital market reform and control. China ultimately wants its leading companies to be accessible to Chinese domestic investors by encouraging a move in the primary listing to either Hong Kong, accessible to the mainland via the stock-connect program, or the mainland. This would seem sensible and positive at most levels and has been happening for some time, initially in response to US legislative threats, with three of our current holdings (JD.com. Trip.com and Yum China) having listed in Hong Kong in the last 12 months. The global strategies do not

have exposure to Chinese ADR's that do not also have a Hong Kong listing.

In Tencent's favour, via its mini-programs which facilitate the operation of independent store fronts, it is enabling greater e-commerce competition and in that regard the company appears better positioned to weather greater scrutiny. Further, the company has incubated and co-invested in many start-ups across different verticals, providing access to the platform and technologies with the objective of improving consumer experience and to benefit from co-investment. Finally, gaming and fintech have come under regulatory scrutiny in the past and the company has navigated these challenges and made appropriate changes to its business to remain compliant.

Uncertainty is not good for short-term sentiment and it will take time for this to dissipate. However, when we stress test each of our holdings they are all in good shape to manage the regulatory risk. Further, our experience with Facebook shows that heighted regulatory concerns, all else equal, allow incumbent companies to build even higher barriers to entry and hence can prove to be buying opportunities.

Management and Financial

Management has a clear vision of maximising long-term outcomes as larger addressable market opportunities are identified, as well as striking a balance between monetising these efforts while ensuring a positive user experience and navigating the regulatory environment.

Ultimately this will likely hold monetisation below levels seen at counterparts in the developed world (as is the case across the broader China internet space). However, this model will position Tencent's platform to become utility-like with an exposure to the fast-growing Chinese middle income and premium consumer which should translate to a 15%+ p.a. structural growth opportunity in the long-term.

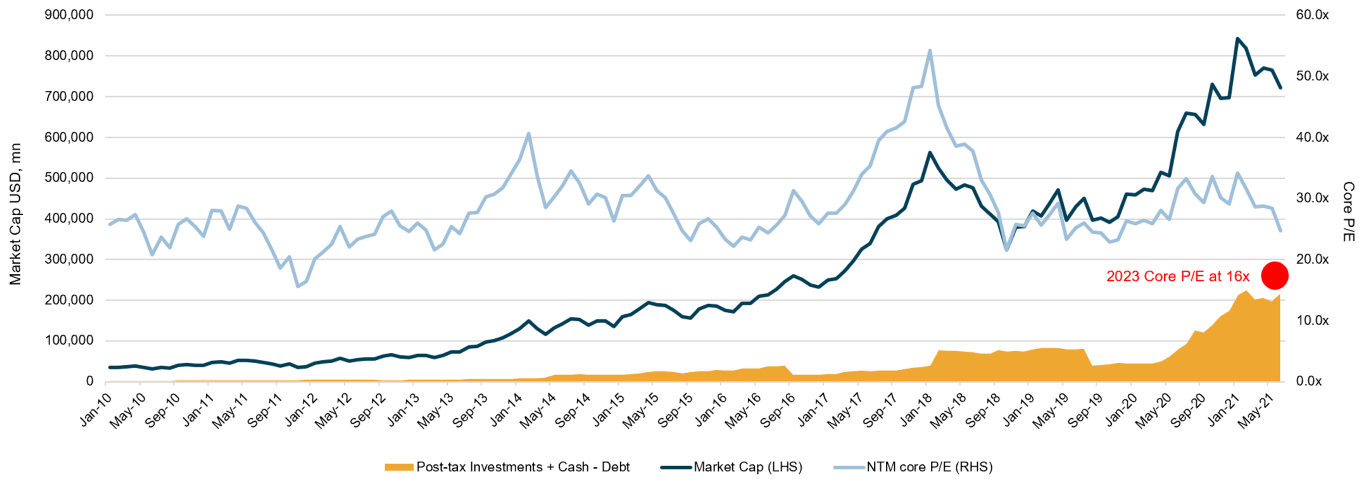
Style and Macro

Tencent offers cheap exposure to the quality and growth factors, though at times China macro will weigh on these defensive characteristics.

Valuation

The internet sector globally is one of the few sectors where valuation dispersion is low as most stocks have re-rated to high multiples versus history. The exceptions tend to be some of the larger capitalisation stocks such as Facebook and Tencent which not only trade cheaply relative to their historical multiples but also relative to the broader sector. Tencent's core business is priced at 16x 2023 earnings with additional value coming from its other digital investments with attractive long-term opportunities (currently valued at $250b or 37% of market capitalisation). This is in line with the world average multiple despite Tencent growing earnings at around 20-25% p.a, that is a much higher rate than the average company. This also represents a material discount relative to the company's five-year average valuation premium of 100%. On this basis we see material upside.

Figure 3: Tencent core P/E ex investments



Sources: Factset, Company data, Antipodes

Margin of error

The key risk to our case is that Bytedance, which has been taking time share from Tencent since 2018 (it has over 1bn MAU and 600mn DAU now), could continue to pressure user time spent on Tencent properties. Further, regulatory headwinds in the education sector could impede advertising growth in this vertical and the launch of Digital Currency/Electronic Payments (DCEP) limits upside in offline consumption take rate. Cloud services are also still in nascent stage where there is a lot of supply but demand is yet to catch up. So while there is high confidence that the payoff from investment in this area will be significant, it may take longer than expected. Finally, regulatory risks are rising across mega-cap tech and Tencent may face regulator-imposed penalties that are larger than expected.

Developments in the competitive environment and regulatory landscape need to be closely monitored, however the above risk factors are accounted for in our thesis by taking a cautious view of monetisation in our base case.

Outlook

A broad preference for low multiple – or value – stocks since the first positive vaccine announcements in November 2020 stalled in the second half of this quarter. Positioning for higher inflation became the consensus trade in both bonds and equities, peaking towards the end of May. The reality of higher inflation saw a fierce reversal of this trade back into long-duration favourites into quarter end. Value as a style underperformed growth over the quarter. Whilst broad indices are posting fresh all-time highs, breadth has pulled back sharply with index performance driven by fewer names.

Against this backdrop our global portfolios lagged the broader index. The rotation into value has been led by weaker expressions of value (some of the worst performing sectors in 2020) and US equities, as the US has led the developed world vaccine rollout. Our underweight to the US has acted as a headwind to portfolio performance, in particular our underweight to domestic-facing US businesses (domestic cyclicals[9]) given the stellar performance of this category over the past three to six months. Whilst this positioning has hurt in the near term, the rationale – expensive valuations and timeliness – still holds. US domestic cyclicals are 1.7 standard deviations expensive relative to their own historical valuations and are materially more expensive than similar businesses elsewhere in the world (see Figure 4). We also maintain the view that US cyclicals will be unlikely to sustain their lead as the vaccine rollout catches up in the rest of the world.

The long-term outperformance and re-rating of US equities is confronting. We have provided three ways to visualise this in the charts on page 17. Figures 5 and 6 calculate the cyclically adjusted EV/EBITDA[10] multiple in both absolute and relative terms. Based on our look back period to 1995, the US has never been more expensive on both measures, whilst the World x US is close to an all-time low in a relative sense. The two regions have a cyclical relationship when it comes to EBITDA growth. Over the ten years to 2012, the World x US outgrew the US by 3% pa, but for the ten years since the US outgrew by 2% p.a. During this period, the US benefitted from two arguably transitory tailwinds; the Trump tax cuts and outsized COVID stimulus. Secular trends such as cloud and internet were led by US companies, however a structural capital spending cycle emerging around decarbonisation would benefit equities in other parts of the world. Importantly, there is very little long-term historical difference in growth outcomes that would justify the current US premium. Figure 7 calculates market capitalisation to GDP, which is overly simplistic given the difficulties in adjusting for multinationals, but nonetheless captures the trend.

Figure 4: Global Long Strategy valuation clustering[11]

Composite valuation[1] v world (z-score)

	All	Industrials & Commodities (Global Cyclical)	Hardware (Global Cyclical)	Software & Internet (Global Defensive)	Consumer & Healthcare (Global Defensive)	Domestic Defensive	Domestic Cyclical	Financials
World	0.0	(0.5)	0.3	1.9	0.9	(2.7)	(0.2)	(2.1)
North America	2.1	1.4	0.6	2.3	0.3	(0.8)	1.7	(1.6)
Western Europe	(0.3)	0.4	0.5	(0.2)	0.5	(1.3)	0.2	(1.8)
Developed Asia	(1.2)	(1.4)	0.0	(0.5)	(0.1)	(1.7)	(1.0)	(1.2)
Emerging Markets	(0.7)	(0.0)	1.1	0.4	1.5	(1.6)	(1.3)	(1.6)

Active weight[2] (%)

	All	Industrials & Commodities (Global Cyclical)	Hardware (Global Cyclical)	Software & Internet (Global Defensive)	Consumer & Healthcare (Global Defensive)	Domestic Defensive	Domestic Cyclical	Financials
World	(6.7)	6.4	1.7	(2.0)	(8.0)	0.5	(4.7)	(0.6)
North America	(22.4)	(1.3)	(2.1)	(4.8)	(3.3)	0.2	(7.4)	(3.8)
Western Europe	8.6	7.2	(0.4)	(0.5)	(2.3)	1.7	1.5	1.4
Developed Asia	5.5	2.5	4.4	0.6	(1.3)	(0.1)	(0.9)	0.4
Emerging Markets	4.4	(1.1)	(0.2)	2.9	(1.0)	(0.9)	2.4	2.3

Expensive/Underweight — Cheap/Overweight

Source: Antipodes

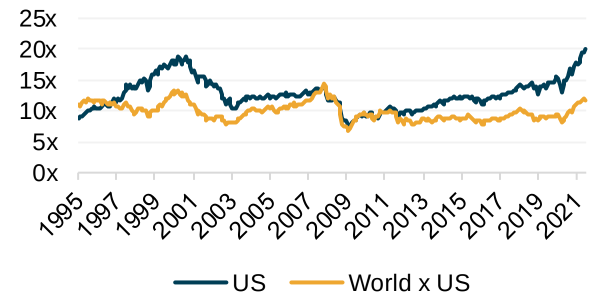
9 Transport, retail, housing and financial services

10 Enterprise Value (EV) to 7-year average EBITDA. EV captures the impact of leverage. Excludes Financials.

11 Table notes: As at Jun 2021, Composite valuation: Antipodes Global Fund – Long net equity exposure v iShares MSCI ACWI ETF

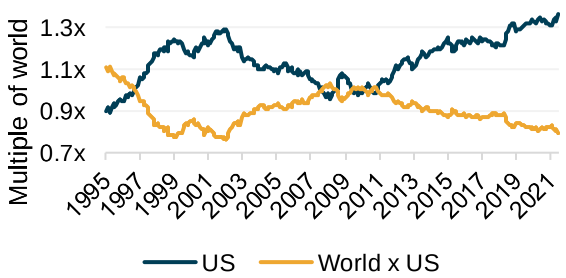
Active weight: Composite of forward PE, EV/Sales, EV/Operating Capital Employed (including goodwill) and cyclically adjusted PE and EV/EBIT for industrials, with EV based measures replaced with PB and cyclically adjusted P/Pre-provision profits for financials

Figure 5: Cyclically adjusted EV/EBITDA



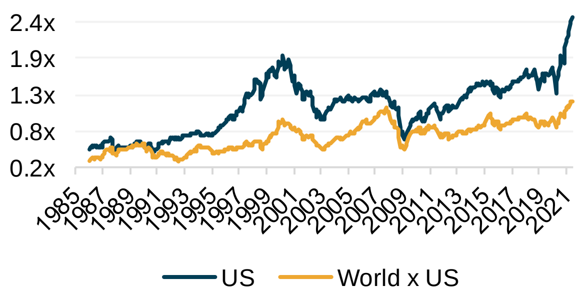
Sources: Factset, Antipodes

Figure 6: World relative cyclically adjusted EV/EBITDA



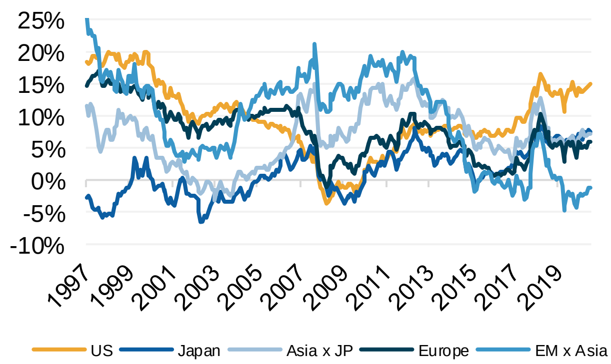
Sources: Factset, Antipodes

Figure 7: Market capitalisation to GDP



Sources: BIS, Factset, Antipodes

Figure 8: Regional returns (10Y rolling p.a.)



Sources: MSCI, iShares, Factset, Antipodes

Finally, Figure 8 measures the 10yr rolling common currency returns by region – the spread between the highest, the US at roughly 15% p.a., and the lowest, EM at negative 1% p.a. is extreme.

Our underweight to the US is not simply contrarian, it's based on valuation fundamentals. The multiple premium applied to US assets was already high when Antipodes was founded in June 2015 and has become more extreme since then. All else equal, we aim to be relatively style and macro neutral at the portfolio level however this has become increasingly difficult while retaining valuation discipline.

Our exposure to Chinese consumer and internet stocks weighed on performance as the market continues to come to terms with a changing regulatory environment. Recent events regarding ride-sharing group DiDi indicate how fluid the situation remains. However, and as seen in developed markets, concerns regarding regulatory risk can often present attractive buying opportunities. While acknowledging the uncertainty, we continue to hold the view that domestic regulation in China is designed to prevent anti-competitive behaviour rather than stifle the growth of internet businesses. We remain constructive on internet businesses where consumers benefit, such as increasing e-commerce penetration in lower tier cities, the modernisation of fresh food, and in digital advertising given the size of the opportunity and under-penetration relative to developed markets (as discussed in the Tencent feature). That said, we cannot ignore that risks have risen and should be factored into valuations. For example, we assume Chinese platform companies continue to under-monetise relative to their potential to manage regulatory risk. Monetisation rates are up to 50% lower than developed world counterparts, and this discount will likely persist.

China is the first economy to begin tightening, with credit and liquidity growth slowing in recent months. In an era of unorthodox policy in the West, it must be remembered this is a normal response to an economy that is humming. Should the economy weaken, policy makers have the capacity to loosen once again. Arguably other parts of the world do not have the same dry powder. The risk, naturally, is that China over-tightens so the situation needs to be monitored.

With the COVID-19 Delta strain in the headlines, it's important to note transmission has not translated into higher hospitalisations and deaths in countries where vaccinations are well-progressed. 85% of UK adults have received at least one dose followed by 60-65% in the US and Europe[12]. Indeed, Europe's vaccination rate has quickly caught up over the quarter. At this stage, a return to widespread lockdown in the northern hemisphere appears unlikely. We expect policy makers globally to continue to focus on the vaccine rollout and believe a successful rollout in Emerging Markets is central to a global pathway to herd immunity and cross border reopening beyond regional travel bubbles.

As the global economy shows signs of normalisation, the question is whether the price action in June signals that the rotation into cyclicals has run its course - will the market return to the bond proxy/long-duration trade? We view the June price action as a necessary consolidation at the end of the first phase of an ongoing rotation in market leadership. This first phase was defined by a normalisation in inflation rather than economic growth expectations.

As has been widely discussed, inflationary pressures are building at every channel including raw materials, energy, transport costs, labour. Clearly there are some pandemic related pressures that will fall away as supply chains normalise, but the extent of excess savings and pent-up demand could see consumption overshoot as restrictions are still easing in the northern hemisphere. Add to the mix the fact that house prices in the US are at 20-year highs[13] and accelerating at the highest pace in the last 15 years, with no base effect. Assuming historical relationships hold, this will translate into higher rent costs in the months ahead. Further, even with 6m jobs yet to be regained, against a pre-pandemic base average hourly wages are growing at 4.9% p.a. compared to the long run trend of 2.9% p.a. We think near-term inflation will overshoot expectations and won't peak until late 2022 – the question then becomes where does it settle in the medium term?

In the US, goods inflation has been running flat over the last decade while the service sector has inflated at approximately 2.5% p.a. (Figure 9). COVID flipped the status quo such that goods inflated with tensions in supply chains while services inflation fell below trend due to lockdowns but has recently normalised.

China's integration into the world economy has been one of the most transformative events over the last 30 years. The global economy saw a one-off doubling of the supply of labour at a materially lower cost than that of developed markets, and the development of the largest scale, lowest cost production centre the world has seen.

China has been a major deflationary force, but this is changing. The pool of low-cost labour the world has tapped into is rapidly shrinking. In 1990 labour in China was 60% cheaper than the US (adjusted for productivity), but this arbitrage closed to 20% in 2018[14]. This gap will continue to narrow as incomes are rising quickly in China. Today 185m or 50% of Chinese households have an average income of less than $8,500, but by the end of this decade this pool of very low-cost labour is expected to halve as households graduate to "aspirational" or "premium" consumer classifications (see Figure 10) due to domestic economic development. China's transition from the world's factory to a modern consumer-led economy is accelerating.

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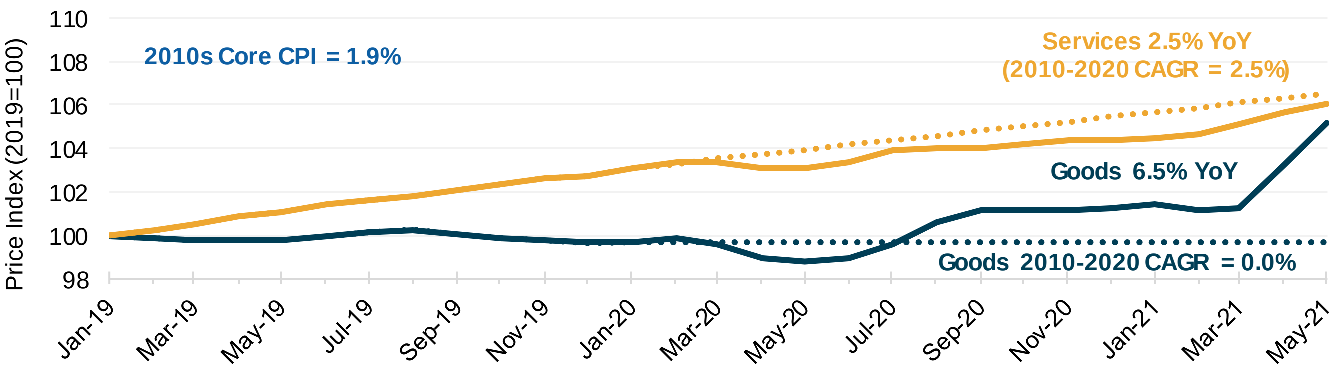
Figure 9: Services Inflation vs Goods Inflation: 2019 – 2021



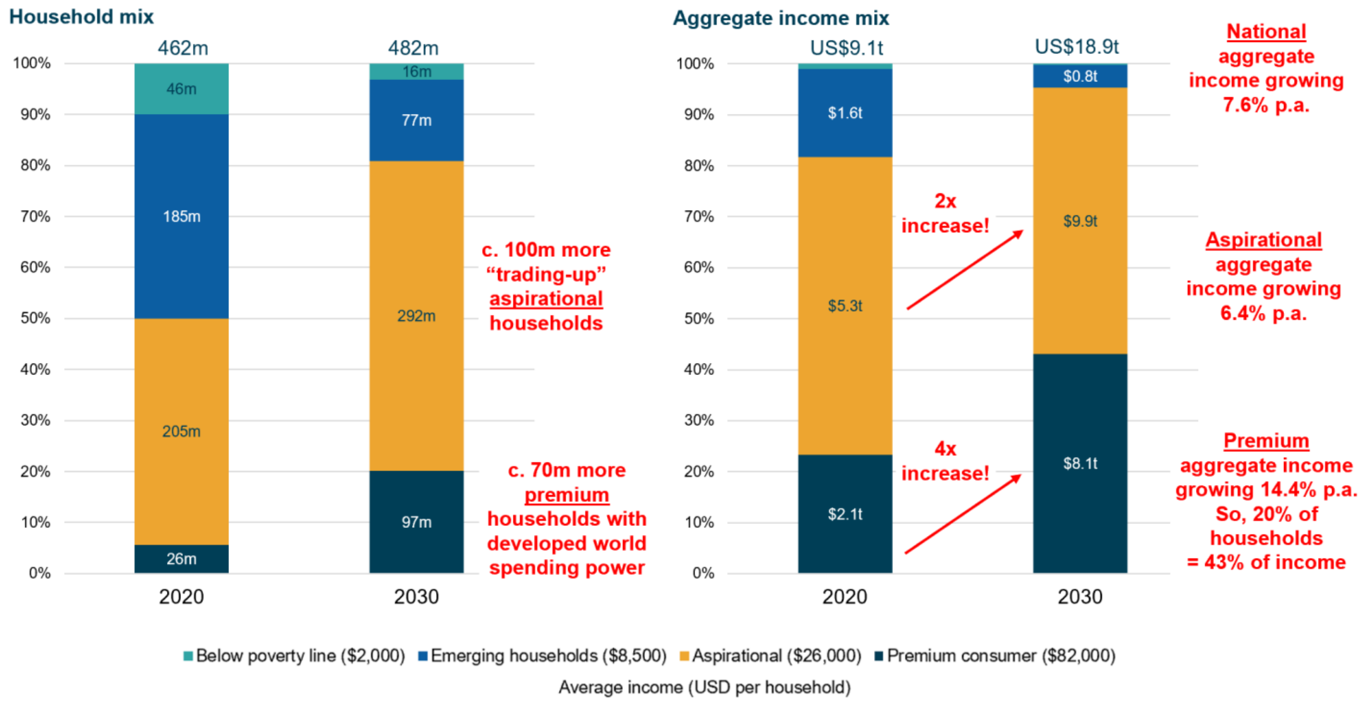
Source: US Bureau of Statistics

12 JP Morgan, US Centres for Disease Control and Prevention (CDC), UK, French, Germany, Spain, Italy governments. Data as at 27 June, 2021.

13 S&P Case-Shiller 20-City Composite Home Price Index

14 The Conference Board International Labor Comparisons

Figure 10: Chinese household wealth and consumer income: 2020 to 2030



Sources: Antipodes' forecasts based on Euromonitor, UN estimates.

Hence, a large structural deflationary impulse may be reversing. Additionally, China's central government is weaning weak and inefficient state-owned enterprises off government aid and prioritising decarbonisation. Inefficient capacity will likely be closed and capacity restrictions enforced in carbon intensive industries such as steel, aluminium and chemicals. This should mean, all else equal, structurally higher raw materials prices going forward.

At the margin, some manufacturing will bleed into other low-cost regions, but it seems near impossible to replicate China's unified national strategy of industrialisation. Other large pools of low-cost labour such as India and Africa do not have China's political system or administrative capital to achieve similar scale and efficiencies in production and logistics.

Beyond China's evolution in demographics and policy, and a trend for supply chains moving home, generous transfer payments in the US are applying upward pressure on the minimum wage. The lowest income decile of American workers have seen incomes increase by roughly 20% during the past year even without a job. US companies regardless of size and industry are indicating that an inability to hire workers is a key constraint. Some of the largest employers in corporate America - McDonalds, CostCo, Walmart, Amazon - have lifted wages for low-income employees, a change worth paying attention to. Unemployment benefits are scheduled to expire by September with some states reducing these earlier, but it poses an interesting dilemma for policy makers and corporates in an age of rising populism. Dominant, technology savvy companies will generally manage wage and cost pressures better. However both the equity and credit markets seem more willing to pay a higher price for the opposite – companies in weaker competitive and financial positions with limited pricing power and/or cost control.

Investors should pause to consider the implications of a potential structural inflection in goods prices after a multi-decade period of slumber.

Pushback to our longer-term inflation views likely centre around a belief that aging populations, technology and extraordinary levels of government debt are deflationary. These topics, including a comparison to the Japanese experience are discussed at length in our recent podcast: challenging the inflation consensus. In summary:

- Global demographics are inflecting; as populations age, the proportion of consumers (young and the old) to workers is now increasing.
- Contrary to popular belief, consumption increases as populations age. While the nature of consumption changes, spending increases in aggregate. This spending will need to be financed by governments.

- The ability to grow out of ballooning levels of government debt seems limited as the bulk of gains from the labour force and productivity growth have been reached. Governments could increase taxes, though the politically acceptable choice may be an attempt at inflate that debt away.
- Technological innovation is not new and while at the margin it continues to be deflationary, it will be some time before we see AI replacing white-collar jobs. The increasing politicisation of rising wealth inequality may see this at least partially offset by a permanently higher social wage.
- The Japanese experience is worthy of study, with their population aging at the same time that China was deflating the world. Japanese corporates took advantage of this, offshoring to such an extent that it offset any domestic inflationary impulse. From the perspective of policy, Japan experimented with quantitative easing well before the rest of the world, but nowhere to the scale observed today.

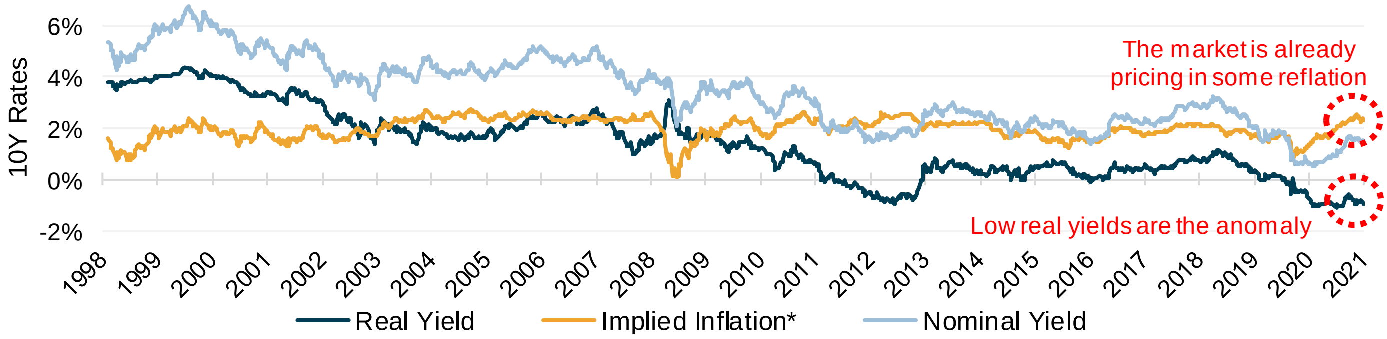
Data indicates economic activity globally has returned to trend levels. The current cycle, however, can extend further given quantitative easing is funding aggressive fiscal stimulus which finds its way more directly into the real economy and given the overall strength of household balance sheets.

US household disposable income is 6% above pre-COVID levels (e.g. from wage increases, equity market gains) while spending is 5% higher. Accordingly, the underlying household savings rate remains modestly elevated (8.5% in May 2021 vs 7% trend[15]). US households have never been in a stronger position to continue consuming above trend, with pent-up savings since March 20 from stimulus and underspending equivalent to 17% of current run-rate spending.

With activity normalised and indeed supported by excess savings/pent up demand, inflation expectations have returned to 2-2.5%, consistent with the average seen over the last 25 years. Despite this, real yields remain negative and anchored at historic lows, which we continue to view as an extreme anomaly (Figure 11). Inflation protected bond prices are at bubble like levels – real yields should be higher (bond prices lower) against a backdrop of economic normalisation.

The second phase of the rotation will be dependent on the emergence of a self-sustaining investment cycle. Central banks do not want to expand their balance sheets at the same pace as last year, so the cycle will eventually slow

Figure 11: Nominal yields, real yields & implied inflation (10-year rates)



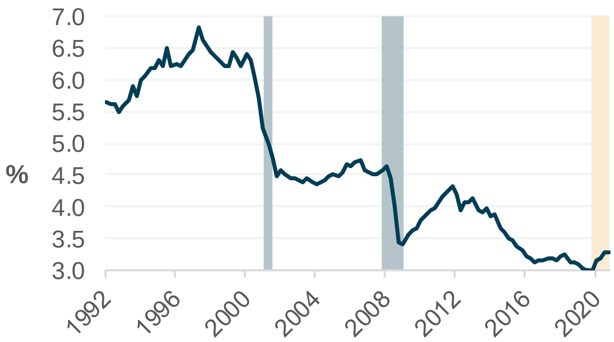
Source: Factset
*Note: *10Y average inflation rate expected by the bond market*

15 US Bureau of Economic Analysis

unless private sector borrowing accelerates, or governments add additional stimulus. The pandemic has resulted in a change in policy makers' attitudes towards fiscal stimulus - the fiscal channel is now open – and policy makers will be reluctant to shift to austerity too quickly.

Decarbonisation and next generation technology are two multi-decade investment cycles we have been highlighting for some time. Additionally, an unbundling of global supply chains prompted by COVID-exposed weaknesses in just-in-time supply chains and geopolitical tensions can see a revival in the developed world capex cycle. As can be seen from Figure 12, US capital expenditure as a percentage of GDP is at 30-year lows as this investment shifted to China.

Figure 12: US capex as a percentage of GDP



Sources: U.S. Bureau of Economic Analysis; U.S. Census Bureau
Notes: U.S. recessions are shaded; the most recent end date is undecided

While it may not necessarily be a smooth transition from stage 1 to 2, vaccines and reopening provide scope for policy makers to pivot away from income to investment stimulus. Decarbonisation and infrastructure (technology, healthcare and traditional) are areas that will likely be targeted, which can lead to a more permanent shift away from a perceived low growth, low real rate environment. Higher real yields would drive a further rotation into new market leaders and would prove to be a headwind for weaker and expensive expressions of the growth complex.

Given this framework, how do we reconcile recent moves in bonds and equities? A backdrop of economic health and a stronger inflationary pulse suggests long-term yields should be rising but instead 10Y Government bond yields fell from a recent high of over 1.7% to below 1.5%. We've seen an aggressive flattening of the yield curve despite the Fed revising inflation, growth and employment forecasts higher.

Positioning for higher inflation became the consensus trade by mid-quarter. The market 'sold short' bonds in anticipation that long-term yields would rise with higher inflation prints, bond prices would fall, and a profit could be made by buying bonds back at a lower price. As positioning in this trade intensified (Figure 11) fixed income traders locked in profits by buying bonds back, driving bond prices higher and yields lower which fed into a reversal of the cyclical/value rotation.

Hence, the recent moves in the bond market appear technical rather than a concern the Fed will tighten too early, choke off the economic rebound pushing investors back into the long-duration, growth at any price trade. To make it clear, we find the valuation of some of the larger capitalisation internet and software stocks such as Microsoft, Facebook and Tencent attractive and we own them, however, we continue to struggle with valuations of many of their smaller, competitors with narrower offerings.

At a high level, we see four major near-term risks facing the US equity dominated global benchmark:

- The economic recovery is well priced by the market, especially in the US;
- When US stimulus expires in September, if the job market hasn't fully normalised, excess household savings could remain unspent. Hence, consumption may slow just as the economy fully reopens and supply chains normalise[16];
- Based on the pipeline of inflationary pressures, we don't see US core inflation peaking until late next year; and
- Retail equity inflows and participation in the market have reached the extreme levels typically associated with periods of irrational exuberance.

The risk remains that the economy slows materially before any stage 2 self-sustaining investment-led recovery gains traction. Hence, the nightmare scenario for US equities given elevated valuations, is a weaker economic environment evolves against a backdrop of higher inflation – the dreaded stagflation outcome. For an equity market that is priced on the assumption of permanent stimulus, low yields and high profit share, and a Fed leadership that has limited experience in navigating higher inflation, this scenario is far from priced. We would argue that the best way to manage this risk is to focus on investing in resilient businesses at the

16 Expanded health, income and childcare tax credits per the planned American Families Plan legislation could see cash flows of low-income earners remain relatively unchanged even with September's expiry of additional unemployment benefits

right price, and incorporate some inexpensive tail-risk protection.

Despite broad equity indices hitting fresh all-time highs, opportunities still exist in relative valuations. Real yields will respond to a backdrop of economic normalisation, which can act as a catalyst to further tighten multiple dispersion (the valuation multiple applied to the most expensive stocks relative to the cheapest). Multiple dispersion has already begun to contract on confidence around reopening but remains elevated in a historical context. Higher yields would force the market to reassess the price it's prepared to pay for secular growth companies given their starting multiples are elevated. Not all highflyers are genuine disruptors. Some will be revealed as growth traps and ultimately not justify their lofty multiples, just as some lower multiple stocks are permanently disrupted and hence their prices don't recover, the classic value trap. There is a heightened risk of both outcomes in the current environment of easy money.

As a pragmatic value manager, we seek out resilient businesses at attractive valuations. The portfolio has exposure to a collection of companies across the growth spectrum that are attractively priced relative to their growth profile. A dogmatic approach to value – wedding to low multiple stocks with an expectation of mean reversion – can result in episodic periods of outperformance. A pragmatic approach should result in higher risk-adjusted returns through the cycle.

Appendix

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

Absolute performance (%)	3m	1y	3y	5y	10y
Regional equities (MSCI)					
AC World	7.4%	39.3%	14.6%	14.6%	9.9%
USA	8.8%	41.9%	18.8%	17.5%	14.3%
Europe	7.4%	35.1%	8.7%	10.3%	5.6%
Japan	(0.3%)	24.8%	7.2%	10.2%	7.2%
Korea	4.8%	66.2%	14.9%	16.2%	6.4%
AC Asia ex Japan	3.6%	39.6%	12.2%	14.5%	7.0%
All China	4.7%	32.2%	13.3%	14.6%	7.4%
EM ex Asia	10.1%	40.3%	5.5%	6.6%	(1.5%)
Global sectors (MSCI)					
Consumer Discretionary	5.9%	46.3%	18.6%	18.4%	13.6%
Consumer Staples	5.7%	20.7%	9.5%	6.3%	8.4%
Energy	9.3%	39.1%	(5.4%)	1.0%	(1.4%)
Financials	6.2%	48.9%	8.2%	12.1%	7.3%
Health Care	9.4%	23.5%	15.8%	12.4%	13.1%
Industrials	4.7%	44.6%	12.3%	12.9%	8.9%
Information Technology	10.5%	46.0%	28.4%	29.3%	19.6%
Materials	6.0%	49.0%	12.5%	15.0%	3.9%
Communication Services	8.0%	42.0%	20.4%	10.3%	7.9%
Utilities	(0.4%)	14.7%	8.5%	6.3%	5.3%
Commodities					
Crude Oil Brent	18.9%	80.8%	(2.0%)	8.5%	(4.0%)
Gold	4.3%	(0.3%)	12.1%	5.9%	1.6%
Bloomberg Commodity Index	13.3%	45.5%	2.6%	1.3%	(5.0%)
Bonds (BAML)					
Global Government	1.0%	(0.1%)	3.2%	1.2%	1.5%
Global Large Cap Corporate	2.7%	5.7%	6.4%	4.5%	3.9%
Global High Yield	2.6%	15.6%	7.3%	7.2%	6.3%
Currency					
AUD	(1.4%)	9.0%	0.5%	0.2%	(3.5%)
USD	0.0%	0.0%	0.0%	0.0%	0.0%
EUR	0.9%	5.6%	0.5%	1.3%	(2.0%)
JPY	(0.4%)	(2.8%)	(0.1%)	(1.6%)	(3.1%)
CNY	1.4%	9.5%	0.8%	0.6%	0.0%
SGD	(0.0%)	3.8%	0.5%	0.0%	(0.9%)

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

Further information

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