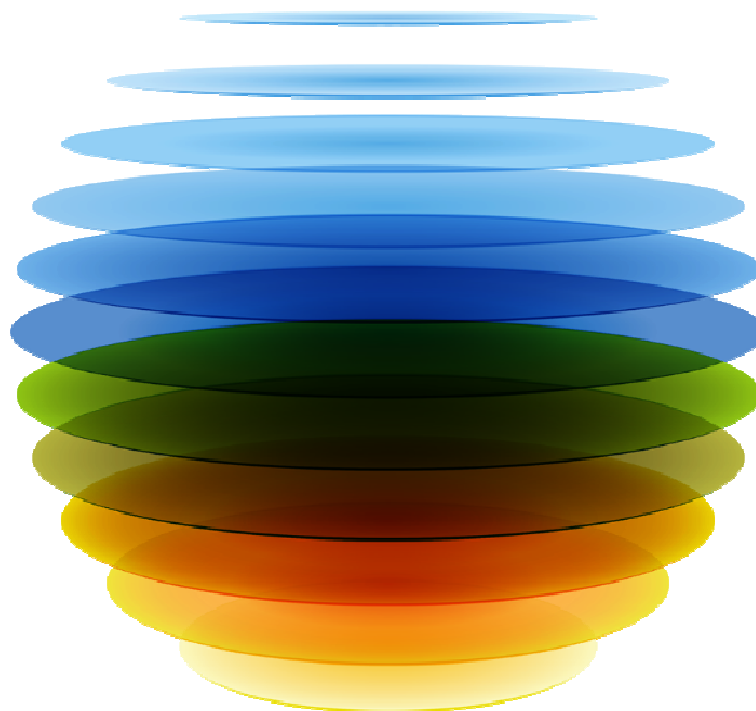




# ANTIPODES

GLOBAL INVESTMENT PARTNERS

2Q 2018



# Introducing Antipodes Partners

## A pragmatic value approach to idiosyncratic alpha

Fundamental manager of Global Long–Short and Long strategies

Holistic consideration of cyclical, structural and macro factors

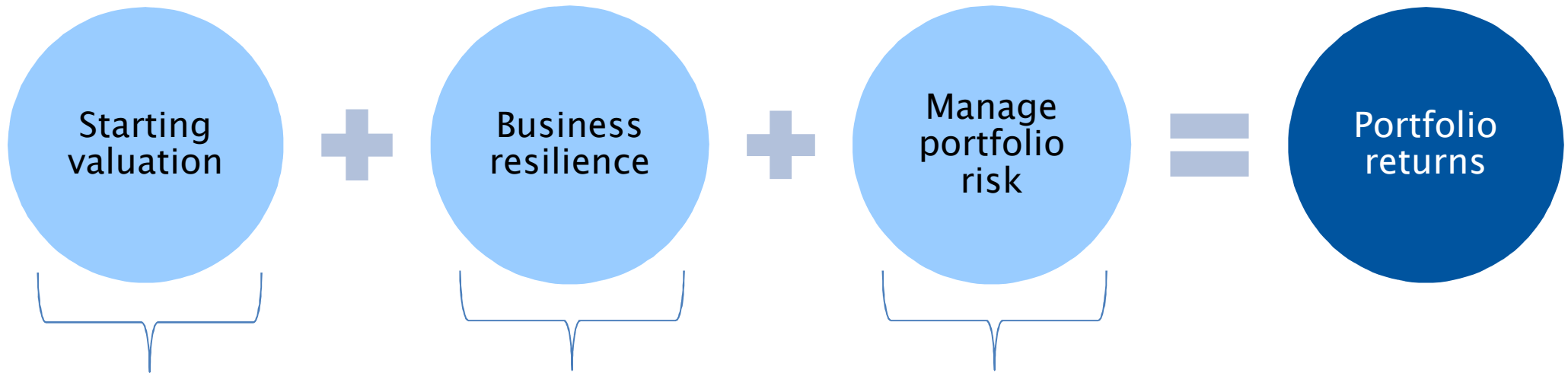
Combined qualitative and quantitative approach

Portfolio construction is central

Focused offering, client alignment –> Scalable process

# Our philosophy

## A pragmatic value approach



### Margin of Safety (*Short, no MoS*)

Seek min **15% absolute return**  
AND  
at least **10% better**  
than relevant region/sector

### Multiple ways of Winning (*Short, Losing*)

- Competitive dynamics
- Product cycle
- Regulatory
- Management/financial
- Macro/Style

Limit  
correlated alpha clusters  
to <15% of portfolio

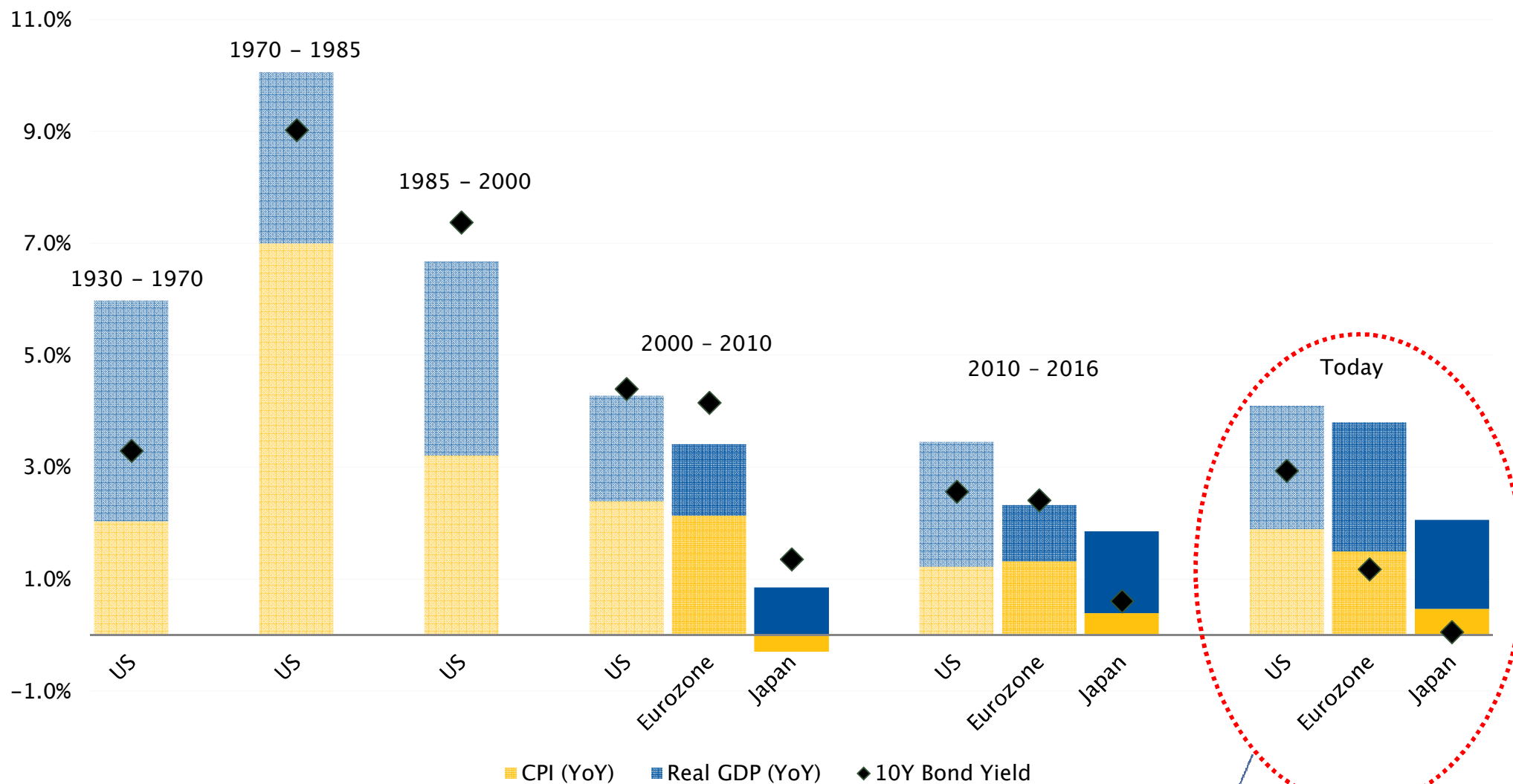
**Absolute returns in excess  
of the benchmark over the  
investment cycle (typically  
3–5 years) at below market  
levels of risk**

# Market observations and portfolio positioning



# Spot the difference

## Bonds are discounting a steep deceleration in growth/inflation

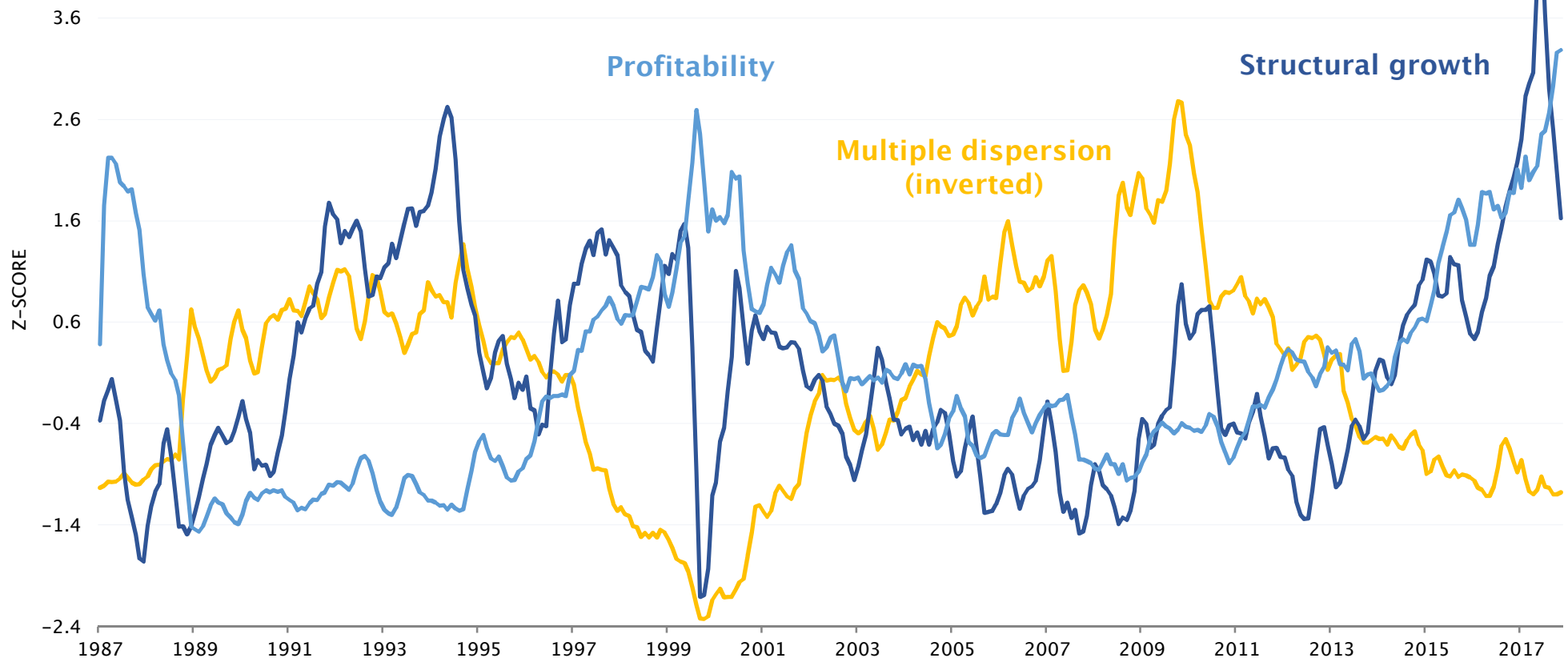


Source: Factset, BLS, BIS

# Global valuation clustering

## Investors are overpaying for perceived structural winners

Median EV/CE of upper quintile relative to lower quintile

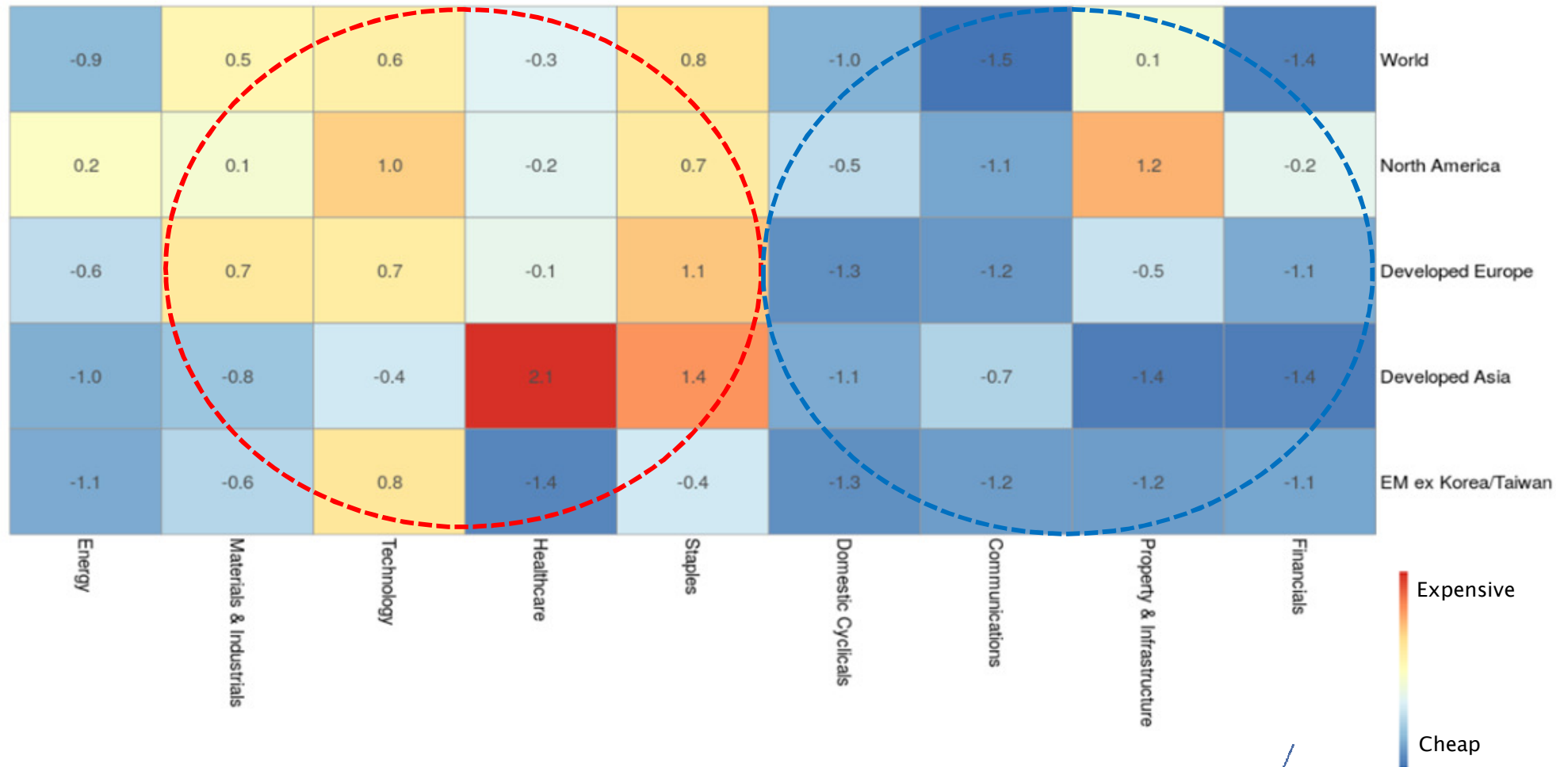


Source: Antipodes Partners

# Global valuation clustering: sector

## Crowding into global/quality to escape geopolitical concerns

22Y Z Score of EV/Sales relative to World (Price/Book for Financials)



Source: Antipodes Partners

# Diversified alpha clusters

## Global Long-Short

Long clusters	Weight	Examples
Consumer incumbent (EM)	12.4%	Ping An Insurance, Jiangsu Yanghe Brewery
Global	10.3%	Gilead Sciences, Hyundai Motor
Domestic recovery	10.0%	KB Financial, UniCredit, ING
Natural gas	9.6%	EDF, Inpex
Online services	8.5%	Baidu, Alphabet, LINE
Telco. incumbent	8.5%	KT, Telecom Italia, China Mobile
Software incumbent	8.2%	Cisco systems, Microsoft, NetApp
Consumer incumbent (DM)	6.7%	Tapestry, Under Armour
Low cost oil	6.6%	CNOOC, TechnipFMC, Saipem
Connectivity	4.7%	Qualcomm, TDK, Nokia
Gold	2.4%	Barrick Gold, Newcrest Mining
Battery	2.2%	Panasonic
<b>Total</b>	<b>90.2%</b>	
Short clusters	Weight	
Global shakeout	-9.6%	
Overhyped growth	-6.8%	
Domestic shakeout	-5.3%	
High cost oil	-2.3%	
Bond proxy	-2.1%	
<b>Total</b>	<b>-26.1%</b>	



# Global – Gilead Sciences

## Looking beyond HCV

### Other stock examples in this cluster

- Hyundai Motor, Honda Motor

### Irrational extrapolation

- Rapid HCV sales decline, obscuring resilient HIV franchise
- Rising healthcare costs -> Negative political cycle

### Multiple ways of winning

- HCV run-off** stabilising
- Virtual HIV duopoly: 68% mkt share**, Bictarvy approval will be “additive”
- Pipeline potential:** inflammatory and NASH Phase III (liver disease) data in next 12 months
- M&A targeting oncology:** KITE acquisition represents a first mover in cellular therapy (CAR-T)

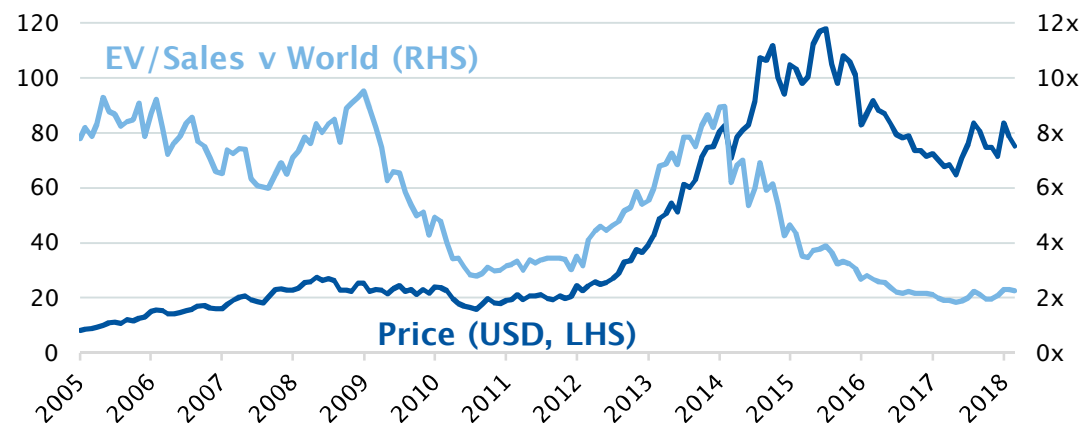
### Margin of safety

- 10% FCF yield, EV/Sales 4.0x, PE 12x

### Correlation cluster

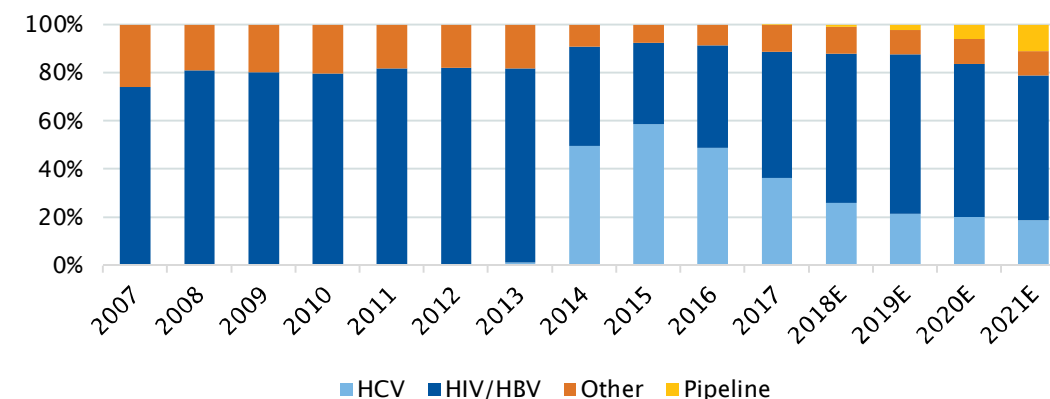
- Healthcare/consumer incumbent

### Gilead Sciences has de-rated materially



Source: FactSet

### Sales Composition



Source: Antipodes Partners

# Software/networking incumbents: Cisco

“Nobody ever got fired for buying ~~IBM~~ Cisco”

## Other stock examples in this cluster

- Microsoft, NetApp, Nokia, Qualcomm

## Irrational extrapolation

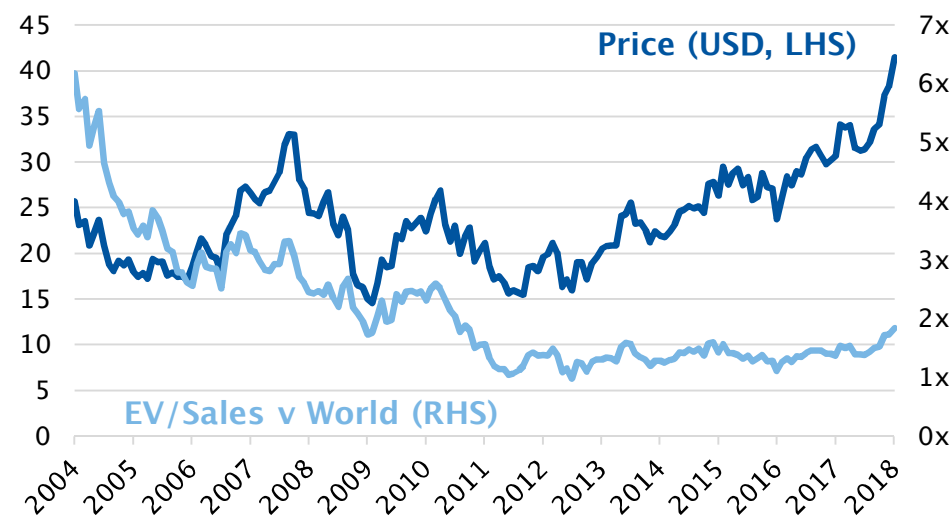
- Fears of **disruption** by new entrants supplying **software defined** capability
- Market share loss to **hyper-scale** data centres e.g. Microsoft Azure, Amazon Web Services

## Multiple ways of winning

- **Competitive dynamics**: incumbent with customer lock, captures **67%** of global networking profits
- **Product cycle**: responding to hyperscale opportunity with SDN capability and broadening offering to services/security
- **Management**: commitment to return half of FCF to shareholders
- **Regulatory**: cybersecurity a key addressable market
- **Macro/Style**: affordable quality

## Margin of safety

- 16.4x PE (vs +20x for comparable companies)



Source: Factset

# Telco incumbents: KT Corp

## Cheap essential infrastructure

### Other stock examples in this cluster

- Telecom Italia, Chinese telcos, Bharti Airtel

### Multiple ways of winning

- The “Korean discount”
- 5G capex spend is a big risk

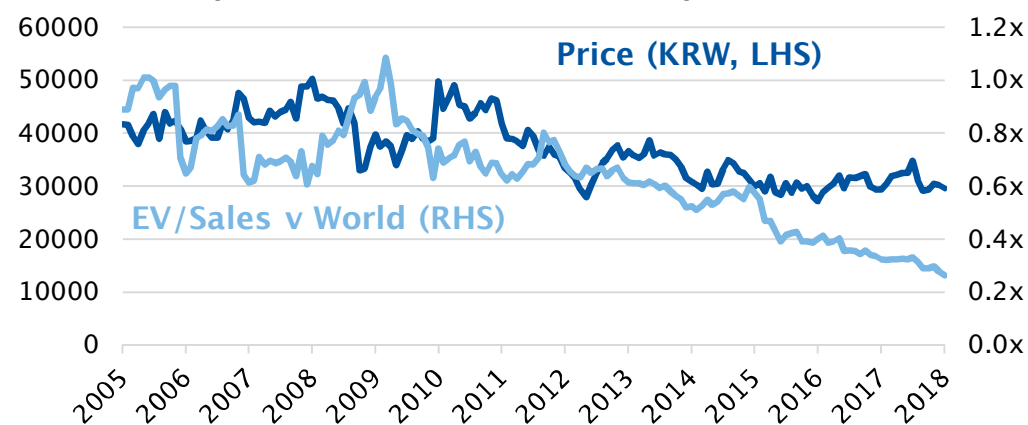
### Multiple ways of winning

- Low fibre capex risk: **near completed fibre network**, returns to follow
- Low 5G capex risk: Korea already has a **highly densified** cell site network
- **Hidden value in real estate**, potentially worth KRW~7tn or 100% of market capitalisation
- Telco valuations are **highly correlated to payout ratio**; National Pension Service is the major shareholder → obvious Stewardship Code **capital management target**

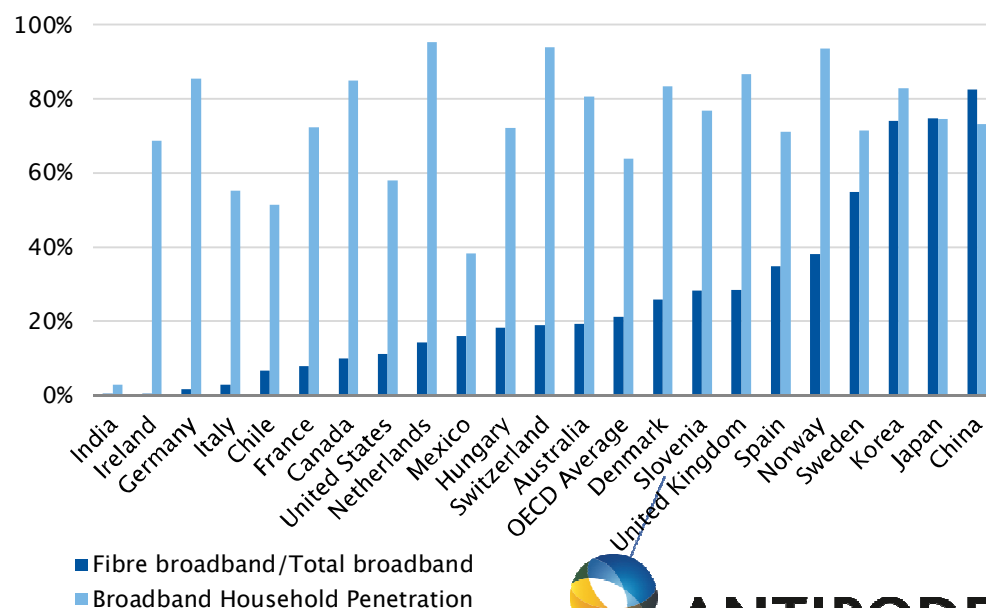
### Margin of safety

- Global telco sector has de-rated, but be selective
- **2.5x EV/EBITDA**, 0.6x EV/Sales, 16% FCF Yield; any rise in low ~20% payout ratio would drive re-rating

KT Corporation has de-rated materially



Fibre & Broadband Penetration



Source: OECD December 2016 “Broadband Statistics” report



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# Consumer incumbents: Ping An

## Life insurance powerhouse

### Other stock examples in this cluster

- China Pacific, PICC P&C

### Irrational extrapolation

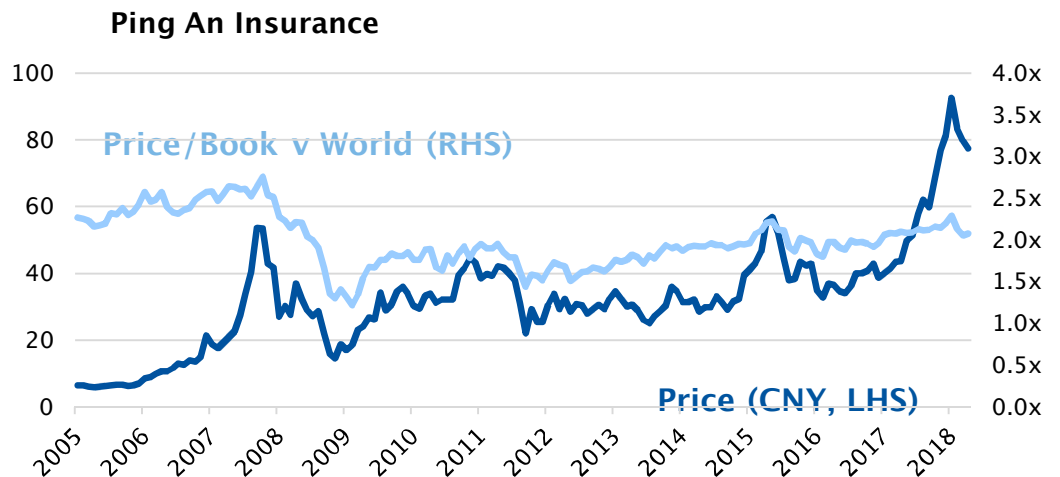
- Concerns regarding Chinese economy

### Multiple ways of winning

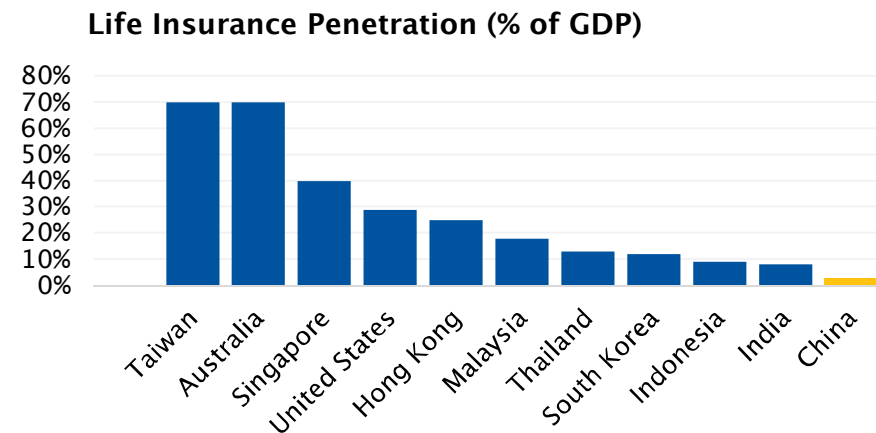
- **Product cycle:** life insurance is the safety net; under-penetrated market; protection innovator
- **Competitive dynamics:** industry leading tech plus data on +750m Chinese leads to competitive advantages including effective cross-selling
- **Regulatory:** well positioned for desired shift away from savings towards protection products
- **Management:** industry leading

### Margin of safety

- 14x P/E, growing earnings at 20% p.a. with RoCE of +30%
- Investment portfolio worth 15% market capitalisation



Source: Factset



Source: Swiss Re

# Investment summary

Investors are overpaying for structural growth

Look for the next crop of winners in neglected areas

Multiple dispersion is high, asymmetrical opportunities abound

	Global Long	Global Long-Short	Asia Long-Short
Return after fees (p.a.)	15.3%	14.4%	12.0%
Benchmark <sup>1</sup> (p.a.)	9.5%	9.5%	10.5%
<b>Outperformance after fees (p.a)</b>	<b>5.7%</b>	<b>4.9%</b>	<b>1.5%</b>
Up-market capture	113	95	74
Down-market capture	61	39	17
Net equity exposure – average	86%	59%	69%
Net equity exposure – current	87%	66%	68%

Past performance is not a reliable indicator of future performance. Performance based on net returns in AUD, Jul-15 to Apr-18.

<sup>1</sup>MSCI All Country World Net Index in AUD is the benchmark for Global and Global – Long. MSCI All Country Asia ex Japan Net Index in AUD is the benchmark for Asia.

# Global Long-Short portfolio positioning

Asset allocation	Long		Short	
	Equities	Other <sup>1</sup>	Equities	Other <sup>1</sup>
Weight (% NAV)	91.1	0.7	-24.5	-3.7
Count	62	1	40	3
Avg. security weight	1.5	0.7	-0.6	-1.2
Top 10 (% NAV)	26.7	-	-9.7	-
Top 30 (% NAV)	64.6	-	-21.1	-

Sector exposure <sup>2</sup> (%)	Long	Short	Net
Banks	11.1	-2.3	8.8
Communications	8.5	-0.7	7.8
Energy	8.3	-1.9	6.5
Software	8.2	-1.9	6.4
Hardware	7.6	-3.7	3.9
Internet	7.5	-0.6	7.0
Staples	6.8	-0.4	6.4
Durables	5.3	-1.7	3.6
Retail	5.0	-0.7	4.3
Other	23.3	-14.4	8.9

Top 10 long stock positions	Country	Weight (%)
Gilead Sciences	United States	3.0
Samsung Electronics	Korea	2.9
Baidu	China/HK	2.8
Cisco Systems	United States	2.7
Qualcomm	United States	2.6
KT Corporation	Korea	2.6
Ping An Insurance	China/HK	2.6
EDF	France	2.6
Microsoft	United States	2.5
INPEX	Japan	2.4
<b>Total</b>		<b>26.7</b>

Market cap exposure (%)	Long	Short	Net
Mega (>\$100b)	19.9	-6.5	13.2
Large (\$25b-\$100b)	31.7	-10.1	21.6
Medium (\$5b-\$25b)	30.2	-8.4	21.8
Small (<\$5b)	10.0	-3.2	6.8

<sup>1</sup> Index futures and other non-single stock derivatives

<sup>2</sup> Antipodes Partners classification

As at May 2018

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