

Global Long

Global Long-Short

Emerging Markets

Quarterly Report 31 December 2023



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Market commentary

Global equities were higher in Q4 2023 (the Quarter) (+11.0% in USD, +5.0% in AUD), as markets were supported by a dovish pivot in global central bank tone, indicating the potential for interest rate cuts. Headline inflation data continued to cool, assisted by lower energy costs, despite rising geopolitical tensions in the middle east.

Over the Quarter information technology, industrials and financials outperformed, whilst energy, consumer staples and healthcare underperformed.

US equities outperformed (+11.8% in USD), as the Federal Reserve's (the Fed) 'higher for longer' narrative shifted indicating likely interest rate cuts through 2024, while maintaining their soft-landing forecast. This dovish pivot drove equities higher, especially those viewed as long duration with the US yield curve subsequently adjusting to reflect 6.3 rate cuts in 2024, up from 2.8 at the beginning of the Quarter.

Oil prices were lower over the Quarter, after the Republic of Angola left OPEC, and speculation that key members including the United Arab Emirates would fail to agree to Saudi Arabia's production cuts, potentially signifying a shift in the organisation's ability to control the price of oil. Lower energy prices however helped to cool headline inflation and in addition to falling core inflation seemingly prompted the Fed's dovish pivot.

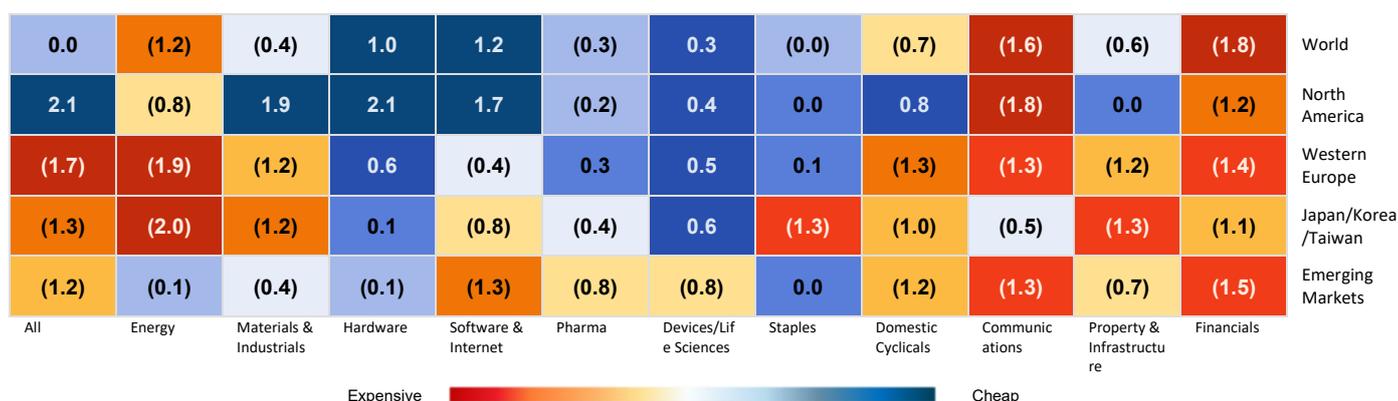
European equities were higher during the Quarter (+11.1% in USD), despite central banks maintaining a more hawkish

tone compared to their US counterparts. Cooling inflation and less robust economic data has resulted in market consensus remaining mixed on whether the European Central Bank and/or the Bank of England will begin cutting rates before the Fed. In line with the US, lower energy prices supported regional macroeconomic and equity market performance.

Overall, Asian equities underperformed during the Quarter (+7.1% in USD), weakened by Chinese equities (-3.8% in USD) with mixed economic data failing to spark optimism. Investor sentiment and consumer confidence remained muted, with the lingering overhang from the property sector and regulatory activity in the online gaming sector outweighing incremental government stimulus. Japanese equities outperformed the region however underperformed broader global equities (+8.2% in USD) as the Bank of Japan maintained its policy looseness, with lower energy prices and deflationary impacts from China ensuring higher inflation prints remained within tolerable bounds.

Elsewhere, Brent Crude (-19.2% in USD) was weak, Gold (+11.6%) was stronger, whilst the US Dollar (-4.6%) moved lower following the pivot in central bank expectations.

Figure 1: Region-sector valuation heat-map¹ - Composite multiple vs world – Z-score (Dec 1997 – Dec 2023)



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.

Performance analysis

Summary

Performance² as at 31 December 2023

| | 3 months | 1 year | 3 years p.a. | 5 years p.a. | Inception ³ p.a. |
|--|----------|---------|--------------|--------------|-----------------------------|
| Global Long | 7.8% | 16.4% | 4.0% | 8.9% | 8.2% |
| MSCI AC World Net Index | 11.0% | 22.2% | 5.7% | 11.7% | 8.5% |
| Difference | (3.3%) | (5.8%) | (1.8%) | (2.8%) | (0.4%) |
| Global Long-Short | 5.4% | 10.2% | 2.0% | 5.7% | 6.5% |
| MSCI AC World Net Index | 11.0% | 22.2% | 5.7% | 11.7% | 8.5% |
| Difference | (5.6%) | (12.0%) | (3.8%) | (6.0%) | (2.1%) |
| Antipodes Emerging Markets (Managed Fund) ⁴ | 6.1% | 8.7% | - | - | 15.5% |
| MSCI Emerging Markets Net Index | 7.9% | 9.8% | - | - | 16.1% |
| Difference | (1.8%) | (1.2%) | - | - | (0.6%) |

Performance & risk summary⁵ as at 31 December 2023

| | Global Long | Global Long-Short | Antipodes Emerging Markets (Managed Fund) |
|------------------------------|-------------|-------------------|---|
| Average Net Exposure | 89.5% | 64.9% | 78.5% |
| Upside Capture Ratio | 96 | 74 | 127 |
| Downside Capture Ratio | 88 | 66 | 139 |
| Portfolio Standard Deviation | 15.9% | 12.9% | 28.0% |
| Benchmark Standard Deviation | 15.6% | 15.6% | 20.9% |
| Sharpe Ratio | 0.50 | 0.48 | 0.41 |

² All returns are net of fees and in USD terms since inception. Calculations are converted to \$US and are based on the exit price of the \$A managed account with distributions reinvested, after ongoing fees and expenses but excluding taxation. Past performance is not a reliable indicator of future performance..

³ Inception date is 1 July 2015 for Antipodes Global Strategy – Long and Antipodes Global Strategy.

⁴ Please note the strategy of the Fund changed effective 1 October 2022. The Antipodes Emerging Markets (Managed Fund) was previously known as the Antipodes Asia Fund which targeted companies listed on Asian exchanges and derive revenue from Asia. As of 1 October 2022, the Fund invests in companies that are exposed to emerging markets or listed on emerging market stock exchanges.

⁵ All metrics are based on gross of fee returns in USD 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.

Global strategies

Note: The term “cluster” or “exposure” is used herein to reference a collection of positions which exhibit similarities in their risk profile.

Key contributors to performance over the Quarter included:

- Frontier Communications within the **Infrastructure/Property** cluster moved higher over the Quarter following calls in October from an activist shareholder for the telecommunications provider to be open to takeover offers.
- Siemens within the **Industrials** cluster reported strongly over the Quarter, declaring a record order backlog of €111bn, driven by strong orders in the company’s electronic design automation software business. Management also declared the intention to continue to look for complementary bolt-on acquisitions and re-committed a desire to make further divestments of non-core assets.
- Barrick Gold within the **Tail Risk** cluster, with the Canadian based miner reporting strongly over the Quarter, which included a 21% increase in net earnings compared to 3Q22. The company also benefitted from a rise in gold production at reduced costs.
- Itau Unibanco within the **Consumer Cyclical – Asia/EM** cluster, with the Brazilian bank benefitting from a positive inflection in the Brazilian economy, with investor sentiment buoyed by rate cuts and positive macroeconomic data. Brazilian financials were further supported by signs that non-performing loans have peaked and indications of an acceleration of credit growth into 2024.

Key detractors to performance over the Quarter included:

- **Internet/Software – Asia/EM** cluster, notably Baidu with the internet platform unveiling its latest version of generative artificial intelligence model, Ernie 4.0. While analysts remain bullish on Ernie 4.0, investor sentiment was impacted by near-term downside risk from weak demand in China’s e-commerce sector impacting short-term earnings.
- Similarly within the cluster, Alibaba announced the platform would no longer proceed with the full spin-off of its cloud platform, Cloud Intelligence Group, citing the impact from US chip export restrictions in sourcing critical supplies. This resulted in broader market concern that the planned spin-off may not achieve the intended effect of shareholder value enhancement. Antipodes’ thesis remains intact with the company’s core business lines continuing to perform in line with expectations with a pathway to return capital to shareholders.
- Sanofi within the **Healthcare** cluster, with the company unexpectedly abandoning 2025 profit margin targets, unveiling new plans to significantly increase spending on R&D and list its consumer healthcare business. Antipodes thesis remains in-tact, whereby we see potential for value creation in separating its consumer health business which will allow Sanofi to focus on expanding its pipeline of innovative drugs and vaccines. At current trading levels, we believe the long-term resilience of Sanofi’s vaccines and rare disease drugs are underappreciated with little credit given to the company’s pipeline.
- Short positioning within the Materials, Industrials and Internet/Software – DM clusters detracted over the month.

Antipodes Global Fund

Top 5 contributors & detractors

| Top 5 contributors | |
|-------------------------|------|
| Frontier Communications | 0.9% |
| Siemens | 0.6% |
| Itau Unibanco | 0.5% |
| Barrick Gold | 0.5% |
| Microsoft | 0.5% |

| Top 5 detractors | |
|-------------------|--------|
| Short-Tail Risk | (0.4%) |
| Baidu | (0.3%) |
| Short-Tail Risk | (0.3%) |
| Short-Industrials | (0.3%) |
| Ping An Insurance | (0.3%) |

Antipodes Global Fund – Long

Top 5 contributors & detractors

| Top 5 contributors | |
|-------------------------|------|
| Frontier Communications | 0.9% |
| Siemens | 0.6% |
| Barrick Gold | 0.5% |
| Itau Unibanco | 0.5% |
| Microsoft | 0.5% |

| Top 5 detractors | |
|-------------------------|--------|
| Baidu | (0.3%) |
| Sanofi | (0.3%) |
| Ping An Insurance | (0.3%) |
| Country Garden Services | (0.2%) |
| Alibaba | (0.2%) |

Emerging Markets strategy

In addition to the relevant positions discussed above, key contributors over the Quarter included:

- Samsung Electronics and TSMC within the **Hardware** cluster benefitted from buoying investor sentiment following indications the memory and semiconductor cycles are bottoming, with an anticipated inflection in 2024 and the prospect of earnings revisions.
- Fomento Economico Mexicano (FEMSA) within the **Consumer Defensive – EM** cluster, whereby the Mexican convenience retailer reported strongly and pushed higher in line with broader Mexican equities. Sentiment continued to remain positive post recent divestments of non-core assets with the company in a strong position to continue to increase capital returns to shareholders.

In addition to the relevant positions discussed above, key detractors over the Quarter included:

- Galaxy Entertainment within the **Consumer Cyclical – Asia/EM** cluster. Despite steady revenue and profit uplifts, broader macroeconomic concern and weak consumer confidence continued to impact non-essential spending including gaming and leisure. Further, Ping An Insurance also detracted following the release of mixed Chinese macroeconomic data.
- Contemporary Amperex Technology Co Ltd (CATL) within the **Industrials** cluster detracted as the world's largest EV battery maker reported a 10.7% uplift in third-quarter profit. This result marked the company's weakest quarter since the beginning of 2022, as competition from tier-2 battery makers increased, in addition to weaker-than-expected lithium-ion battery demand.

Top 5 contributors & detractors

| Top 5 contributors | |
|---------------------|------|
| Itau Unibanco | 1.3% |
| Samsung Electronics | 1.2% |
| FEMSA | 1.1% |
| TSMC | 0.9% |
| VLRS | 0.7% |

| Top 5 detractors | |
|---------------------------------|--------|
| Ping An Insurance | (0.7%) |
| Alibaba | (0.6%) |
| Contemporary Amperex Technology | (0.5%) |
| Galaxy Entertainment Group | (0.3%) |
| Country Garden Services | (0.3%) |

Portfolio positioning

Global strategies

Key changes over the Quarter included:

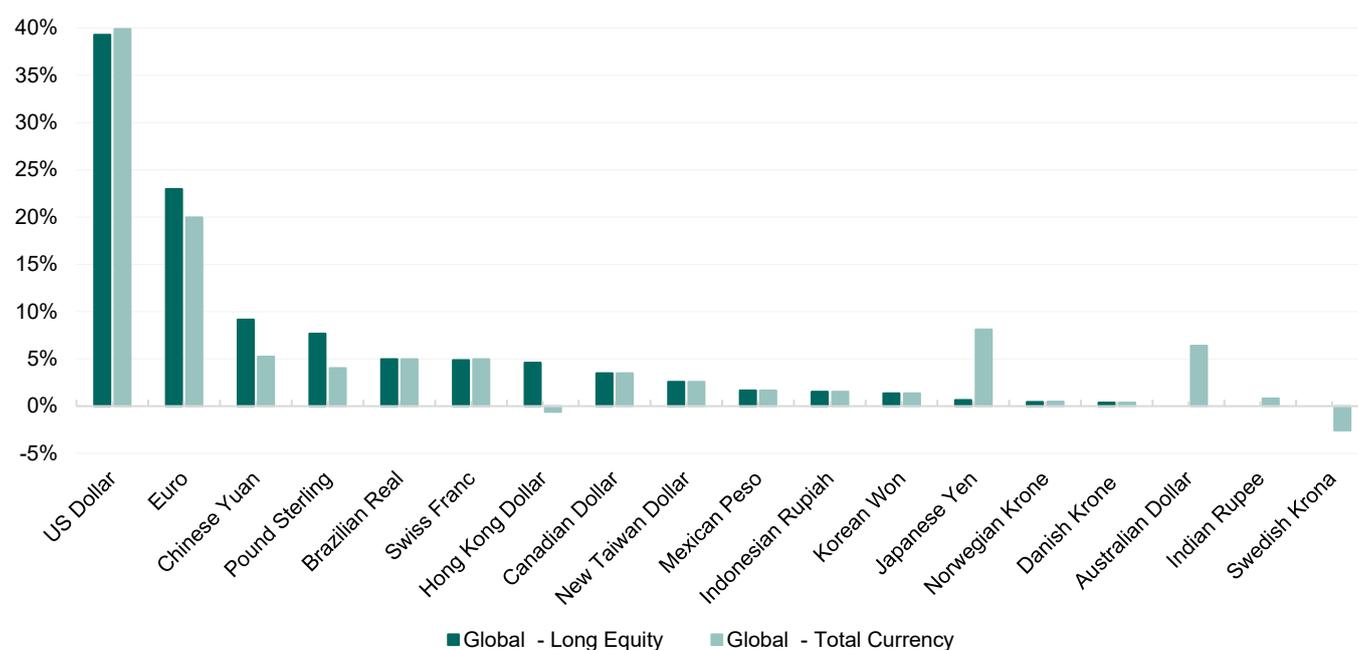
- Increased exposure to the **Materials** cluster, re-initiating a position in Nutrien at an attractive entry point, with the company exhibiting bottom of the cycle type characteristics. Nutrien historically generates around one-third of its business from potash and has seen earnings impacted by weak demand over the last two years. Our analysis indicates we are approaching an inflection in demand as farm soil runs low on stored potash and without fresh application this will begin to impact farming yields.
- Also, within the **Materials** cluster we initiated a position in Brazilian pulp and paper producer, Suzano. Suzano is a low-cost supplier of pulp, with the company utilising optimised logistics, a favourable climate and good onward access for sales to Asia, to grow its global market share to ~15%. Despite the industry currently experiencing a cyclical trough, our analysis indicates supply/demand dynamics are likely to tightening over the medium term. Shrinking softwood supply, a shortage of land and regulatory barriers to entry will constrain supply and/or meaningfully increase the cost of new projects. Further, demand for packaging and tissue will be supported by plastic substitution and urbanisation in emerging markets.
- Increased exposure to the **Hardware** cluster, via TSMC as the capital intensity of the business is expected to fall and the company harvests fab investments made in Taiwan, US and Japan. Comments made by TSMC around prioritising return on capital employed despite higher cost fabs in developed markets increases our conviction around the company's future financial performance. 18x forward earnings is an attractive multiple to pay for a business that has a near monopoly over the manufacture of leading-edge chips for semiconductor companies globally, with forecasted earnings growth of 15-20% p.a.
- Also within the cluster we exited Dell in preference for Intel, where we see better risk/reward with cyclical opportunities, as well an attractively priced way to obtain exposure to the AI investment cycle. On the cyclical front, we are approaching the bottom of the cycle for PCs and inventory digestion of server chips is likely to be complete over the next six to 12 months. Further, the launch of Intel's new CPU is well-timed to participate in the next up-cycle. On the secular front, the acceleration in computing power driven by AI will benefit GPUs as well as CPUs. The latter still form the backbone of compute architecture, with Intel's new powerful CPUs offering advanced processing power for PC and server customers.
- Rotated exposure in **Industrials** via trimming Toyota given recent strength and a potential Yen near-term headwind. The capital was used to initiate a position in Daimler Truck. Daimler is the world's largest truck company principally operating in oligopoly markets in North America and Europe. The company has a 40% share of the North American heavy market and 20% of the European market. Our 7x forward earnings entry point compensates near-term cyclical risks and provides adequate margin of safety given the strength of the truck franchises. We also exited the remaining position in Stellantis, given peer outperformance and increasing signs of consumer stress feeding into the auto market.
- Rotated exposure within the **Healthcare** cluster, via substantially reducing our exposure to Seagen, which is in the process of being acquired by Pfizer and adding to Alnylam, covered last quarter. In our view, the company has the potential to further leverage its gene silencing platform (RNAi) to develop multiple drugs over the next decade, particularly in much larger diseases.
- Reduced exposure to the **Consumer Cyclical - Asia/EM** cluster, via trimming Midea where although the export opportunity remains resilient there is risk this will be overwhelmed by the company's exposure to the slowdown in Chinese property completions which we expect will continue to act as a drag in 2024. While a slowdown in primary sales could be mitigated by an increase in renovation activity, it remains prudent to trim the position size.
- Rotated and reduced overall exposure within the **Internet/Software – DM** cluster, trimming our exposure to SAP which is reaching our valuation target. We initiated a position in Global Payments, which provides electronic payment processing services to merchants, facilitating the acceptance of card-based payments at the point of sale. Current valuations represent an attractive entry point given the long-duration nature of the company's growth profile as it will continue to benefit from wider merchant acceptance, growth in ecommerce and continued advances in payment processing technology.
- Increased the overall net exposure within the portfolio.

Antipodes Global Fund

Cluster exposure & changes⁶

| Sector/cluster | Long | Short | Net | Benchmark | 3 month net change | 12 month net change | Long examples |
|---------------------------------|---------------|----------------|----------------|---------------|--------------------|---------------------|--|
| Global | 38.4% | (6.2%) | 32.1% | 35.7% | 4.3% | 2.6% | |
| Industrials/Materials | 14.0% | (4.3%) | 9.7% | 13.8% | 3.2% | 1.5% | Siemens, Nutrien, Teck Resources |
| Oil/Natural gas | 7.3% | - | 7.3% | 3.5% | (0.4%) | 0.9% | Flowserve Corp, TotalEnergies |
| Hardware | 6.2% | (1.3%) | 5.0% | 9.2% | 2.1% | (0.4%) | TSMC, Intel |
| Healthcare | 10.8% | (0.7%) | 10.1% | 9.2% | (0.6%) | 0.6% | Merck, Sanofi, Alcon |
| Domestic – DM | 43.2% | (8.9%) | 34.3% | 57.5% | 2.2% | 6.0% | |
| Software/Internet | 14.3% | (2.6%) | 11.7% | 20.3% | (0.6%) | 5.4% | Meta Platforms, Oracle, Microsoft |
| Consumer defensive | 8.8% | (0.9%) | 7.9% | 7.5% | 0.4% | (0.4%) | Diageo, Heineken, Richemont |
| Consumer cyclical | 13.8% | (3.3%) | 10.5% | 22.5% | 0.8% | 1.7% | Tesco, Saint-Gobain, Lowe's |
| Telco/Infrastructure | 6.3% | (2.1%) | 4.2% | 7.1% | 1.6% | (0.8%) | American Electric Power, Frontier Communications |
| Domestic - EM | 21.1% | (0.6%) | 20.4% | 6.5% | 0.2% | 1.7% | |
| Software/Internet | 7.9% | - | 7.9% | 1.2% | 0.5% | 3.5% | Baidu, Alibaba, Tencent |
| Consumer defensive | 2.9% | - | 2.9% | 0.6% | 0.5% | 0.5% | FEMSA |
| Consumer cyclical | 10.3% | (0.5%) | 9.8% | 3.7% | (1.0%) | (2.1%) | Itau Unibanco, Bank Mandiri |
| Telco/Infrastructure | - | (0.1%) | (0.1%) | 1.0% | 0.2% | (0.1%) | |
| Tail risk hedge (equity) | 2.9% | (6.6%) | (3.7%) | 0.3% | 3.6% | (3.1%) | Barrick Gold, Agnico Eagle Mines |
| Total equity | 105.5% | (22.4%) | 83.1% | 100.0% | 10.4% | 7.2% | |
| Tail risk hedge (other) | - | (14.3%) | (14.3%) | - | 0.1% | (5.6%) | |

Currency exposure



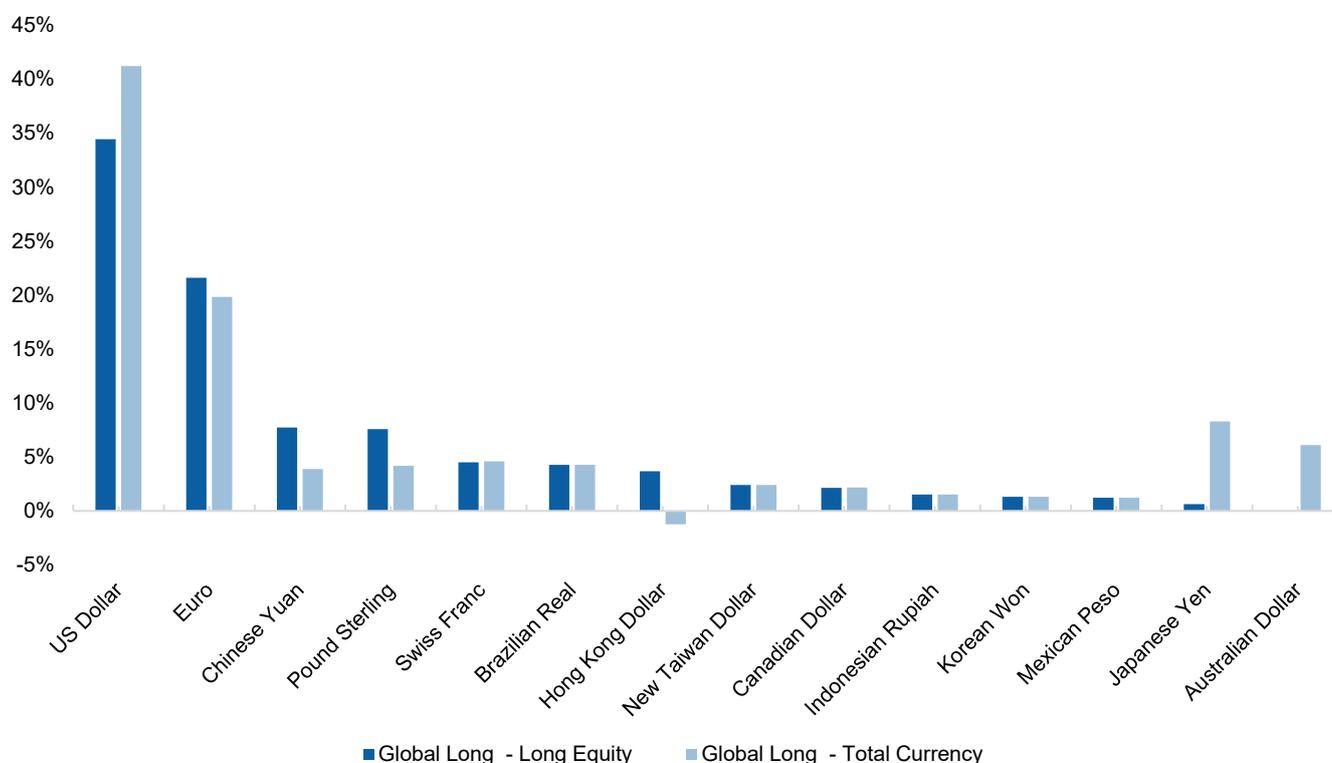
⁶ Options exposure represents the market downside. For put options (typically used to limit potential downside) delta-adjusted exposure is used and for call options (typically used to capture potential upside) exposure is calculated using the current option value.

Antipodes Global Fund – Long

Cluster exposure & changes⁶

| Sector/cluster | Long | Benchmark | 3 month net change | 12 month net change | Examples |
|---------------------------------|--------------|---------------|--------------------|---------------------|--|
| Global | 33.1% | 35.7% | (0.5%) | (2.1%) | |
| Industrials/Materials | 11.9% | 13.8% | 1.1% | (1.8%) | Siemens, Teck Resources |
| Oil/Natural gas | 6.5% | 3.5% | (0.1%) | 0.2% | Flowserve Corp, TotalEnergies |
| Hardware | 5.5% | 9.2% | 0.2% | 0.3% | TSMC, Intel |
| Healthcare | 9.1% | 9.2% | (1.6%) | (0.7%) | Merck, Sanofi, Alcon |
| Domestic - DM | 39.7% | 57.5% | 0.4% | 3.3% | |
| Software/Internet | 11.9% | 20.3% | (1.6%) | 1.1% | Oracle, Microsoft, Meta Platforms |
| Consumer defensive | 8.3% | 7.5% | 0.4% | 0.3% | Diageo, Heineken, Richemont |
| Consumer cyclical | 13.2% | 22.5% | 1.0% | 1.9% | Tesco, Flutter Entertainment, Lowe's |
| Telco/Infrastructure | 6.4% | 7.1% | 0.6% | 0.1% | American Electric Power, Frontier Communications |
| Domestic – EM | 17.8% | 6.5% | (0.2%) | 1.5% | |
| Software/Internet | 6.0% | 1.2% | 0.7% | 2.0% | Baidu, Alibaba, Tencent |
| Consumer defensive | 2.7% | 0.6% | 0.4% | 0.6% | FEMSA |
| Consumer cyclical | 9.2% | 3.7% | (1.4%) | (1.1%) | Itau Unibanco, Bank Mandiri |
| Telco/Infrastructure | - | 1.0% | - | - | |
| Tail risk hedge (equity) | 2.4% | 0.3% | 0.0% | (1.4%) | Barrick Gold |
| Total equity | 93.1% | 100.0% | (0.3%) | 1.3% | |
| Tail risk hedge (other) | - | - | - | (0.0%) | |

Currency exposure



Emerging Markets strategy

Key changes over the Quarter included:

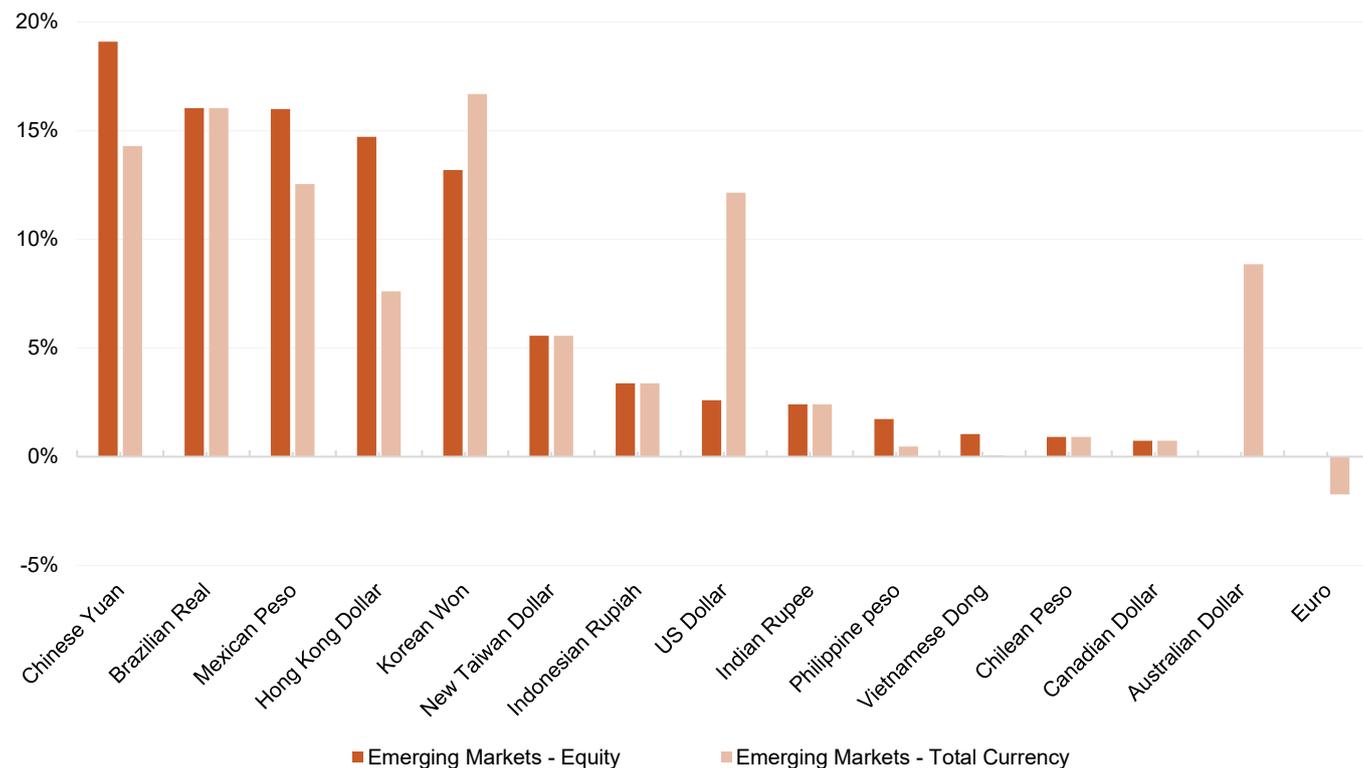
- Increased exposure to the **Hardware** cluster, by adding to Samsung Electronics and initiating a position in Korean conglomerate SK Square. We anticipate a demand/supply mismatch opportunity into calendar-year 2024 and valuations at the current point in the memory cycle represent attractive entry points.
- Increased exposure to **Internet/Software – Asia/EM** cluster via adding to Kingdee International Software Group, China's leading ERP software company. The company is exhibiting strong domestic growth despite challenging macroeconomic conditions and continues to benefit from local substitution from western enterprises.
- Reduced and rotated exposure within the **Consumer Cyclical – Asia/EM** cluster after exiting ICICI Bank in favour of initiating a position in HDFC Bank. We view concerns around the merger between HDFC Bank and property lender HDFC Limited as overblown, presenting an attractive entry point and greater relative valuation upside.
- Within the cluster, we initiated a position in Vietnamese property developer, Vinhomes following signs of stabilisation in the Vietnamese property sector and the company's current valuation providing an attractive opportunity. The additions were funded via exiting PagSeguro Digital on increasing competition in the LATAM fintech space that limits potential earnings upside.

Antipodes Emerging Markets (Managed Fund)

Cluster exposure & changes⁶

| Sector/cluster | Long | Benchmark | 3 month net change | 12 month net change | Long examples |
|---------------------------------|--------------|---------------|--------------------|---------------------|---------------------------------|
| Global | 26.9% | 41.0% | 2.1% | 0.4% | |
| Industrials/Materials | 9.1% | 15.8% | (1.0%) | 0.6% | Contemporary Amperex Technology |
| Oil/Natural gas | 2.9% | 3.3% | (0.2%) | (2.9%) | Petro Rio |
| Hardware | 15.0% | 18.9% | 3.3% | 2.7% | Samsung Electronics, TSMC |
| Healthcare | - | 3.0% | - | - | |
| Domestic - EM | 66.4% | 58.2% | (1.6%) | 0.1% | |
| Software/Internet | 21.9% | 12.2% | 2.2% | 8.7% | Baidu, Tencent, Alibaba |
| Consumer defensive | 11.0% | 6.0% | 0.5% | 2.6% | FEMSA |
| Consumer cyclical | 33.4% | 32.3% | (4.4%) | (9.2%) | NU Holdings, Itau Unibanco |
| Telco/Infrastructure | - | 7.8% | - | (2.0%) | |
| Tail risk hedge (equity) | 3.3% | 0.8% | 1.6% | 4.5% | Fresnillo |
| Total equity | 96.6% | 100.0% | 2.0% | 5.0% | |
| Tail risk hedge (other) | - | - | - | - | |

Currency exposure



Feature: Are cyclical and structural factors finally aligning to drive a turning point for Brazil?

Despite being the seventh most populous country in the world and the fifth largest country by area, Brazil is a market that doesn't get much attention from investors. We shine the spotlight on Brazil, highlighting that a cheap starting valuation for the market, combined with improving cyclical and structural factors is likely to lead to a turning point for Brazilian equities that should not be ignored.

The last 3 years (following the outbreak of COVID-19) for Brazil can best be described as volatile.

Inflation bottomed at ~2% in mid-2020, then climbed to ~12% by early-2022 before dropping to 4.6% at the end of 2023. As a result, interest rates (known as the Selic rate) in the country were 2.0% in mid-2020, before rising to 13.75% in early-2022 in order to combat inflation. They are now on their way back down, ending 2023 at 11.75% with further cuts likely in 2024.

Brazil also transitioned from right-wing President Jair Bolsonaro to left-wing President Luiz Inácio Lula da Silva (known as "Lula") following the October 2022 elections. The transition was not entirely peaceful, with Bolsonaro supporters invading federal government buildings in Brasilia in January 2023 as a form of protest.

Finally, the country was affected by La Nina from 2020 to 2022 which impacted crops in key agricultural regions in the country. The country is now experiencing the effects of El Nino, which has affected water levels in the Amazon River in parts of the country.

Not surprisingly, Brazilian equities have been rangebound over the last three years. However, the Bovespa Index (Brazil's key benchmark index for equities) has finally broken out to all-time highs to end 2023 – reflecting the fact that we might finally be seeing a turning point.

The good news is that we believe that the momentum could continue into 2024 – driven by a trifecta of improving domestic cyclical factors, structural improvements to the economy and valuations that remain relatively cheap.

Attractive cyclical setting:

Brazil dealt with inflation quickly allowing a relatively quick shift to a more stimulatory policy setting and there is strong

evidence we'll see a soft landing. This is a favourable backdrop for equities.

Confidence in the sustainability of this new policy path can be taken from both domestic and global factors. Brazilian inflation seems to be controlled and we expect a reading of less than 4% by the end of 2024, which would allow the Brazilian Central Bank (BCB) to continue cutting rates from today's 11.75% to ~9.0% by the end of 2024. Meanwhile, inflation and increasingly interest rates appear to be on a downtrend across most major economies which lessens the BCB's concern regarding relative yields.

Turning to growth, there are a number of datapoints that suggest that the soft landing will transition to sustainable growth:

- **Unemployment:** The labour market has been a source of strength, with the unemployment rate in November 2023 printing at 7.5%, which is down from 8.1% in November 2022 and 11.7% pre-pandemic.
- **Real wage growth:** After spending ~18 months in negative territory, real wage growth turned positive in late 2022 and remains positive – growing at 3.8% YoY in November 2023. Positive real wage growth is a key to repairing household balance sheets and supporting consumption.
- **Credit growth:** Brazilian banks pulled back on credit growth in 2023 due to rising non-performing loans in the system. Non-performing loans have now peaked – as a result the Brazilian banking federation survey indicates a reacceleration in credit growth for banks in 2024.

Figure 2: Brazil – Unemployment & Real Wage Growth



Source: IBGE, Haver Analytics, Goldman Sachs

We can see early signs of improving growth expectations filtering into GDP growth projections. The BCB’s median 2024 real GDP growth estimate has improved from 1.2% in mid-2023 to 1.5% today. More importantly for the performance of equities, 2024 EPS estimates for the Bovespa Index have risen 9% since mid-2023 and imply 15-20% earnings growth for the year ahead.

Structural improvements to sustain economic improvement:

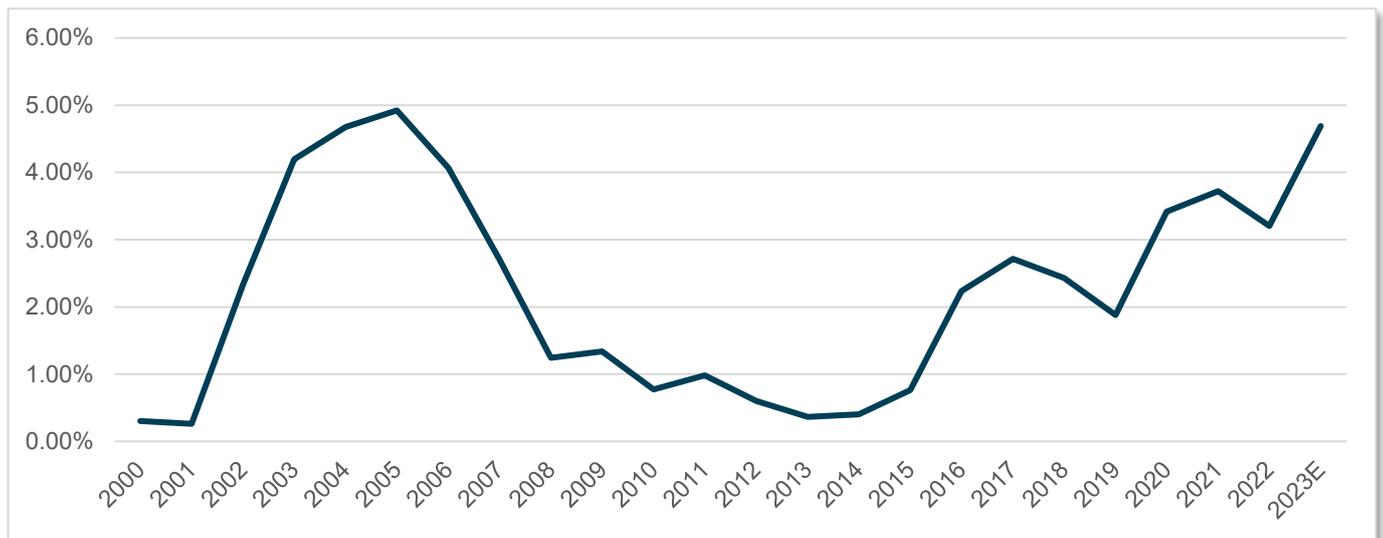
Brazil is a country that has been blessed with a vast array of natural resources – in fact, the country was named after the brazilwood tree, which was a prized commodity in Europe in the 16th century.

Today, Brazil is the world’s largest exporter of agricultural products – being a top-five exporter of 34 agricultural commodities, and the largest exporter of soybeans, coffee and sugar in the world. Crucially, Brazil is one of the few major agricultural producers with the potential to increase agricultural output, with agricultural acreage expected to

continue to grow at 3-5% per year. For example, from 2022-23 Brazil’s increase in soybean production was equivalent to Argentina’s (the third largest producer) total production. Given that the global population is expected to grow by 1.5 billion by 2050, Brazil will play an increasingly important role in feeding the world.

Another underappreciated component of Brazil’s export story is the steady growth in oil production since state owned oil company Petrobras discovered huge amounts of oil reserves (known as the pre-salt region) in 2006 located deep underwater off the coast of the country. In fact, the discovery is the largest worldwide oil discovery in decades. As a result, Brazil’s oil production has increased more than 50% in the past decade, and is forecast to increase by another 40% over the next 5 years. If this is achieved, Brazil will move from the ninth largest producer of oil globally to the fourth largest.

Figure 3: Balance of Trade as % of GDP



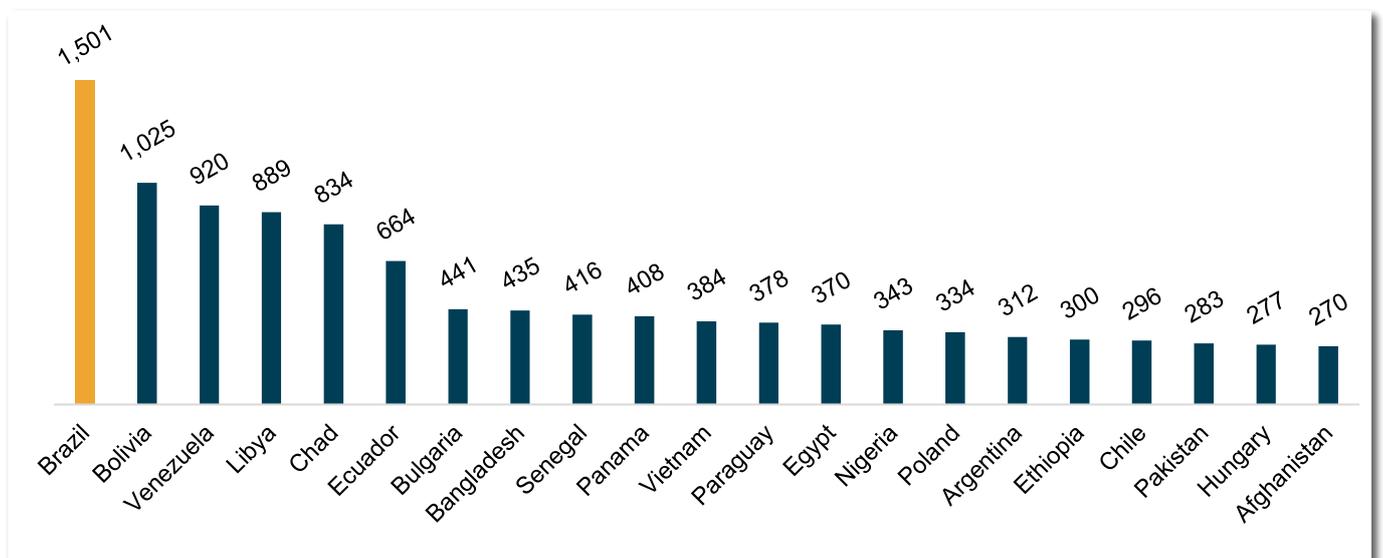
Source: Brazilian Central Bank, 2023 based on consensus 4Q23 GDP estimate and trade balance data through to December 2023.

Despite the abundance of natural resources leading to a healthy trade surplus, political uncertainty and poor policy decisions has held back the country throughout its history. There was some worry that the country would take a step back in terms of economic policy after left-leaning President Lula was elected in October 2022. However, contrary to popular opinion at the time of the election, the Lula government has been fairly progressive in terms of economic

reform since coming to power.

The first is a complete overhaul of the consumption tax system in Brazil, which was passed in December 2023. Brazil has one of the most complex tax systems in the world. This not only creates a large drag on labour productivity within the economy, but also disincentivises investment into the country by foreign companies / investors.

Figure 4: Time spent by businesses doing taxes (hours per year)



Sources: Brazil – Chamber of Deputies, Center for Fiscal Citizenship, Credit Suisse

Under the new system, the five existing forms of consumption tax will be replaced by a dual VAT system (one at the Federal level and one at the State level). A study by the Institute for Applied Economic Research in Brazil estimates that the reform could add up to 2.39% of GDP over the next 8 years of implementation. The second part of the reform relating to income taxes will be tackled over the next year, which should unlock further productivity gains.

The second major reform is related to the sustainability of Brazil's fiscal budget. Brazil's management of the fiscal situation has deteriorated since 2014, when Brazil's government debt increased from ~50% of GDP to a peak of ~85% in 2020. This is expected to reduce to ~75% of GDP by the end of 2023, but concerns around the sustainability of this reduction remain. Mandatory expenditure items (mostly related to social security programs and salaries for public sector employees) make up 85-90% of budgeted expenditure each year and are indexed to inflation, which leaves little room to reduce spending over the medium-term. Such concerns over fiscal management are reflected in a weaker currency and higher long-term interest rates since 2015, which in turn reduces investment within the country (and also impacts valuations for equities).

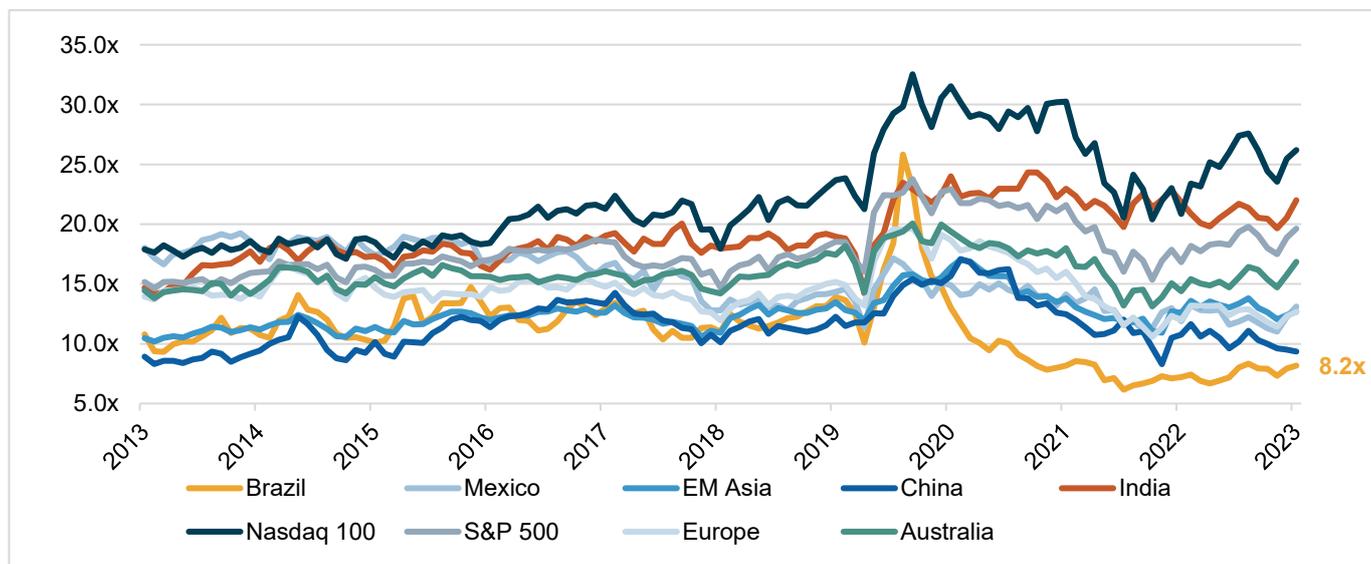
Recognising this risk, the Lula government enacted a "Fiscal Rule" in August 2023 which puts targets around the budget deficit and implements caps on spending if such targets are to be breached. The government is guiding for a neutral primary budget (government revenue equal to government expenditure excluding interest payments) for 2024 and primary surpluses in 2025 and 2026.

Whilst we are still in the early stages of the new rule, the progress is encouraging with evidence of a pragmatic approach to deliver targets while managing growth. This has helped to improve risk sentiment for Brazil already – the currency has strengthened versus the US dollar in 2023 and long-term rates have come down substantially from where they started 2023.

Valuation provides a strong margin of safety

Despite strong performance in 2023, Brazilian equities are still cheap. The Bovespa Index is trading at 8.2x forward PE (more than 1 standard deviation below its 10-year average) which would make it one of the cheapest major equity markets in the world. Brazilian equities are cheap relative to interest rates too. At similar levels of real interest rates, Brazilian equities have traded at an average valuation of 10.5-11.0x – far above where valuations are today.

Figure 5: Forward P/E by country/index – Last 10 Years



Source: FactSet

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Portfolio Holdings

Itau Unibanco (ITUB – US)

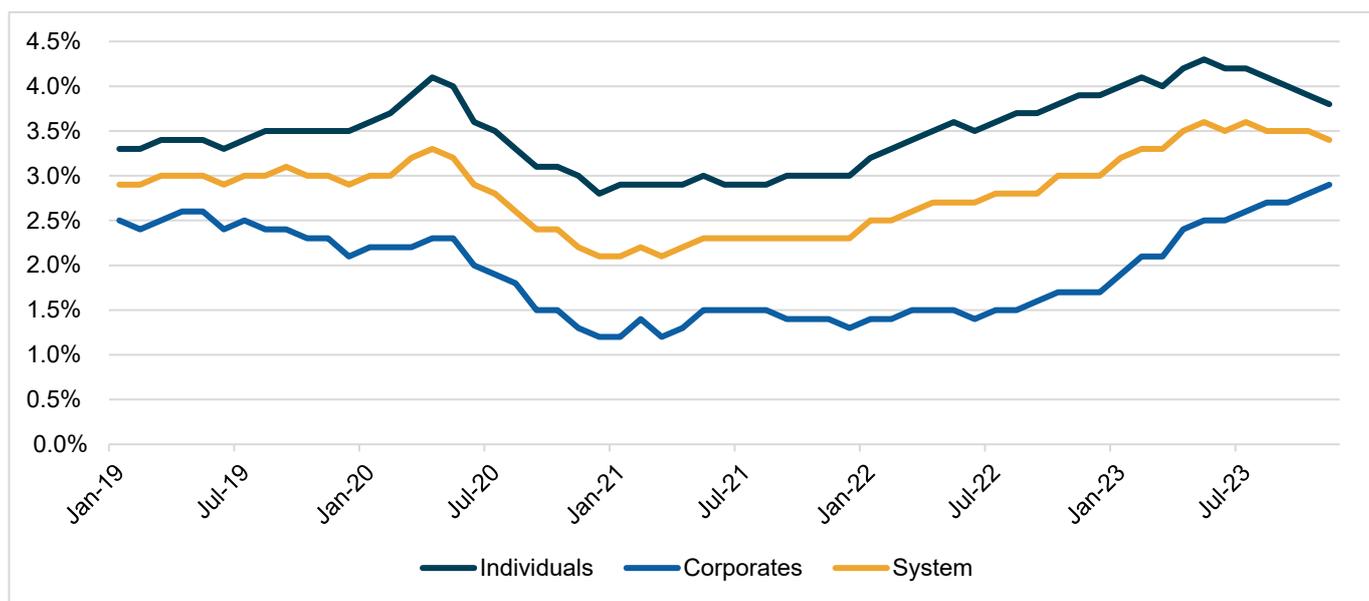
Itau Unibanco is one of the leading private banks in Brazil with a 12% share of total system loans. Itau operates in a consolidated market structure where the top four banks account for 46% of system loans, with state development banks (which exist to fulfil policy goals) accounting for another 23%.

Similar to our view on the Brazil market as a whole, the Brazilian banking sector benefits from the positive alignment of both cyclical and structural factors. Cyclically, non-performing loans in the system peaked in mid-2023. With concerns on asset quality in the rearview mirror, banks can now focus on reaccelerating loan growth. From a structural

perspective, Brazil has a low household debt / GDP ratio and a large percentage of the population is “underbanked” (i.e. limited access to banking products), which sets up a long-term growth story for credit in the country.

We think that Itau is particularly suited to the current environment. Itau has a wealthy customer base of retail clients, with credit card spend per client ~50% higher than the industry average and the highest deposits per customer in the industry. This has allowed it to weather the non-performing loan cycle better than peers, which means that it is in a better position to accelerate loan growth in 2024. The bank is trading at a forward P/B ratio of ~1.65x which is far below its 10-year average of 2.1x despite generating an ROE in excess of 20% which is slightly above its 10-year average.

Figure 6: Brazil – Non-performing loans by borrower



Source: Brazil Central Bank, data as of November 2023

Sendas Distribuidora (ASAI-US)

Sendas operates the second largest grocery retailer in Brazil via its brand Assai. Assai operates a cash & carry format store, which concentrates on a limited number of products in order to get volume discounts that can then be passed onto customers in the form of low prices. The cash & carry format

has been a consistent share gainer in Brazil given that consumers can purchase a typical basket of groceries for 15-20% cheaper than traditional supermarkets / hypermarkets.

Again, when focusing on both cyclical and structural factors, we think that cash & carry retailers in Brazil appear to be well placed. From a cyclical perspective, food prices in Brazil

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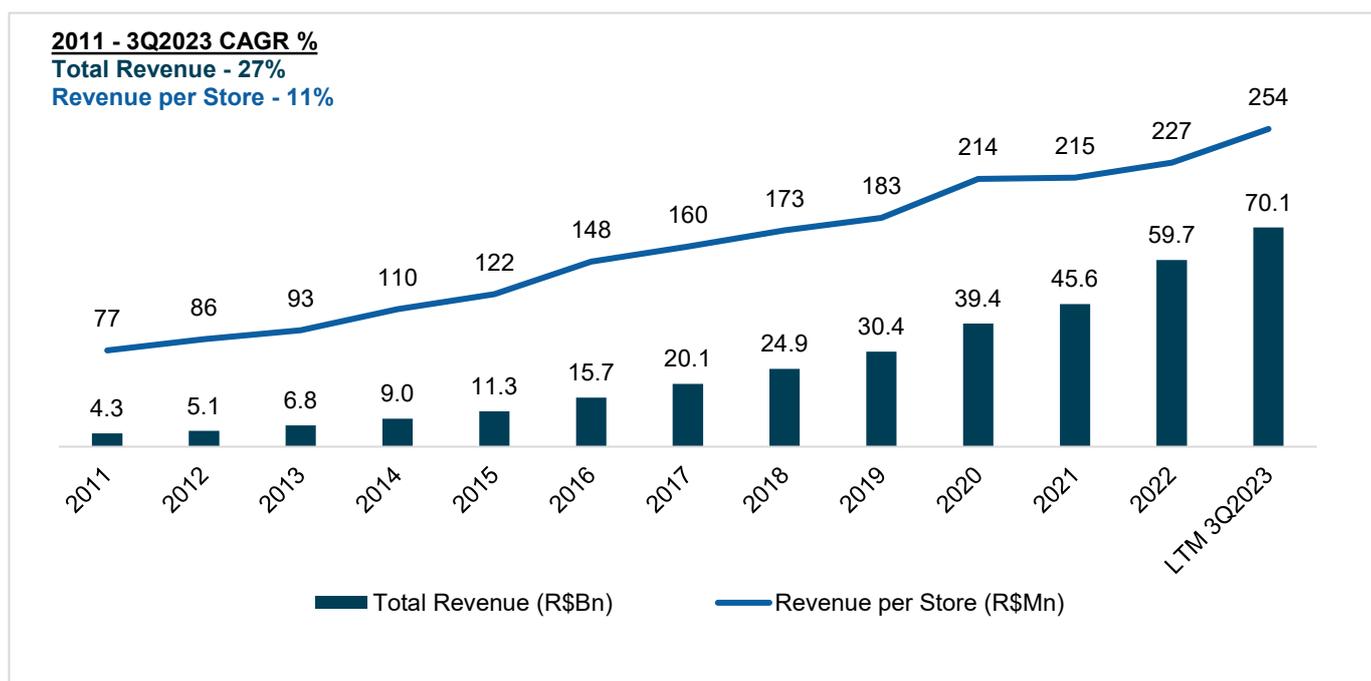
were in deflation for five consecutive months before finally moving back to inflation in November and December 2023. We expect food inflation trends to continue to normalise throughout 2024, which will be a tailwind for revenue for Assai. From a structural point of view, there is still a large opportunity for more cash & carry stores in Brazil. The format only represents ~21% of total food sales in Brazil. To this point, Assai highlighted that there were 91 cities with a population of greater than 150,000 people where Assai was not currently present, which present new territories for the company to expand into. This compares to 288 stores open as of December 2023.

Assai's earnings will also benefit from falling interest rates in the country after the company raised debt to fund a rapid

store expansion plan in 2021-2023. The company is on track to deleverage in 2024-25 since the expansion is largely complete.

Putting all of this together, earnings have the potential to grow at more than 50% annually for the next two years which puts the valuation at ~8.5x 2025 PE. This is a large discount to its average of 15x since IPO in early 2021, and it's an attractive valuation given the blend of defensiveness and growth on offer. Similar companies in other countries trade at far higher multiples, for example Costco trades at >35x PE, Woolworths & Coles trade above 20x, and even emerging market peers such as Wal-Mart de Mexico trade at more than 20x.

Figure 7: Assai – Total revenue & revenue per store



Source: Company filings

Outlook

Global equities had a strong 2023 driven by the seven largest tech stocks for most of the year, until the back end saw an increase in breadth. US government bonds rallied and the 2023 laggards have begun to lead the way on the view that inflation has been tamed and that rates can fall while economic growth and employment remains intact. The market assumes that even if the world's largest economy doesn't stick the soft landing, the Fed has the wiggle room to prevent a hard landing – the worst-case scenario has been averted. This is one possible outcome, though we see greater uncertainty ahead with risks around an inflation wall, the lagged ramifications of tight policy and tightening liquidity.

We're not there yet

As bonds and equities celebrate the recent 3% headline inflation print in the US it's worth remembering that core inflation – more meaningful to the Fed – came in at 4%, though the market assumes this can fall to approximately 2.4% by the end of 2024. The pathway for inflation is down, but we see core inflation getting stuck around 3% mid-year due to a sticky shelter component (which accounts for one-third of headline inflation) and potentially geopolitics (energy, onshoring). The upward pressure on rents is coming from a large and continued undersupply in US housing. We see long-term rents growing faster than the historical average of 3.5% p.a. which will see rent inflation persist for some time. This will feed into core CPI. The "last mile" may be harder to achieve than the market expects, and 3% may be too high for the Fed.

Despite a more conservative view on where inflation will settle, we've likely seen the peak of the tightening cycle, and we expect some rate cuts over the coming year. Falling inflation means real rates have risen – and real rates are a more accurate reflection of the true restrictiveness of monetary policy. If the Fed doesn't cut nominal rates, policy is effectively tightening.

The Fed still finds itself in a difficult position. If it cuts too early it could reignite inflation given the persistent strength of the US economy. Yet the market is pricing around 140bp of rate cuts over 2024, which equates to almost six rate cuts. This feels akin to a recession not a resilient economy with above target inflation. The risk is disappointment over the pace of loosening and in our view investors need to be open to rates remaining higher for longer.

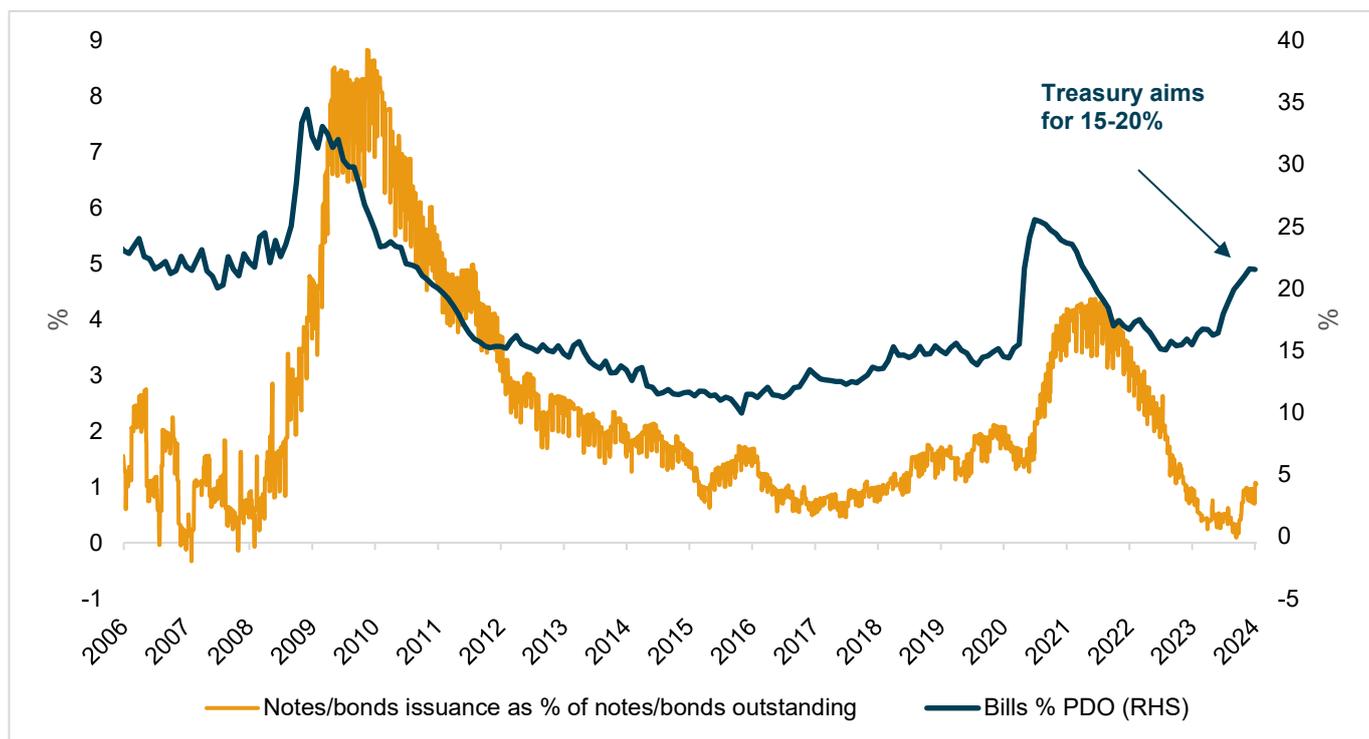
Our base case has been a mild recession in the West. The EU and UK are facing a weak growth outlook with both economies teetering on the brink, while the US has been

more resilient than we expected as the transmission of tighter monetary policy to the real economy has lengthened. Fixed rate mortgages have protected households from higher rates, household balance sheets are strong (US household debt is less than 75% of GDP, the lowest level since the early 2000s), and the top third of households largely own their own home and account for a disproportionate share of consumption which has supported the economy.

Despite this, uncertainty remains as the threats of monetary tightening may not have passed. The labour market continues to loosen (albeit from very tight levels), nominal wage growth is slowing, and new orders - a forward-looking view on demand - continue to contract. The US could still experience a downdraft in economic activity.

Further, liquidity is set to tighten from 1Q24 and deteriorate over the year. The very large US fiscal deficit will increasingly be funded via issuing long-dated bonds as short-dated debt has hit the upper end of the Treasury's typical debt mix (Figure 8). Money market funds, by definition, can't invest in long-dated bonds and with the Fed out of the market (still adding to supply via QT), yields will need to increase to attract banks, insurance companies and households to soak up the supply that is coming. The lack of term structure i.e., lack of a positive yield curve, exacerbates the issue. This also means less capital will be available for lending or holding other assets (Figure 2) – like equities. The supportive liquidity environment in 2023 disproportionately benefited a narrow set of winners so a deterioration will have implications. Investors should focus on finding tomorrow's winners rather than wedding to yesterday's success stories - and paying a fair price for the quality of a company and its growth profile, not any price.

Figure 8: Public Debt Outstanding (PDO) bill composition



Source: Antipodes, S&P Global, US Department of the Treasury
 Liquidity = Total Assets - Reverse Repurchase Agreements - Treasury General Account

A fault line

While the broader US economy may not be feeling the force of tighter monetary policy, private equity backed businesses are coming under increasing stress, and higher long bond rates exacerbate the risk of insolvencies and higher unemployment.

The leveraged loan and high yield market is around \$2.5t, but at roughly half the total, it's the leveraged loan market that has ballooned over the last two decades. At c. \$1.25t it's four times larger than during the 2008 financial crisis and the percentage of lower quality debt has also grown. Today around 75% of leveraged loans are B rated or lower versus a reported 35% in 2000. Around \$700b of leveraged loans are held by PE-backed companies, and most of this debt is floating rate and unhedged. The cost of servicing this debt has risen from 4% in 2021 to 10%. The median interest burden is now around 40% of EBITDA, eye-watering but arguably manageable. However, once you exclude PE-backed companies with a net cash balance sheet – i.e. we scrutinise the tail - the interest burden lifts to almost 90% of EBITDA which is clearly unmanageable if rates remain higher for longer and/or the economy fades and EBITDA weakens. To compare, the interest burden of US listed

corporates is only 5 - 10% of EBITDA thanks to stronger balance sheets and termed-out debt.

The leveraged loan market is relatively opaque. The vast majority of high yield and leveraged loan debt needs to be refinanced in the next three to five years. Some PE-backed firms will collapse under the weight of their debt load, but others will be able to negotiate with stakeholders to remain alive until rates fall. Private credit can also step in to fill the hole.

The key point remains that the scale of this debt is vast relative to history so a stressed scenario can emerge even without distressed levels of default. PE-backed companies employ c. 12m people, which is approximately 7.3% of the total workforce. If we see a run of failures, it will have broad implications for the economy and it's a tail risk we're closely monitoring.

Crisis of confidence

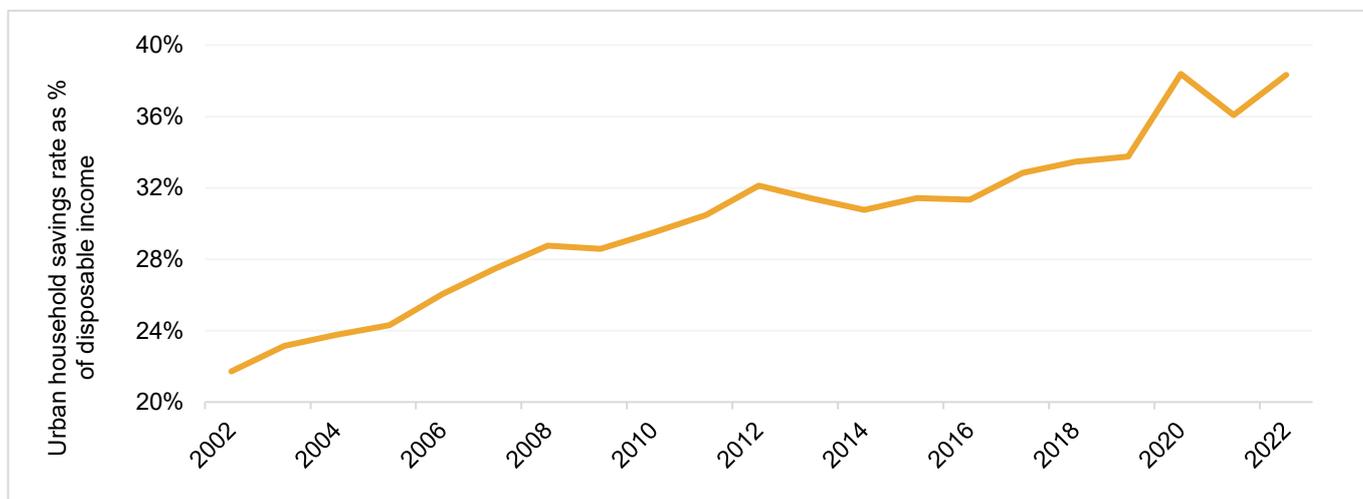
The macro data in China is yet to meaningfully improve despite incremental easing from the government. Until the property sector starts to heal, household and business confidence – and market sentiment – is unlikely to recover. The issues in the property sector are specific to debt-laden

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private sector developers as opposed to a broad unravelling. Primary sales volume for the top 70 cities fell around 8% in 2023, while secondary sales in the top 17 cities rose almost 30% - a marked difference. It's been well publicised that the cumulative backlog of uncompleted properties has blown out over the last two years, but almost three-quarters of this sits with these problem developers that lack the cash flow to build and deliver. State and semi-state-owned developers and the private developers with strong balance sheets are completing and delivering, backlogs sit at normal levels, and new sales are continuing albeit at a slower pace relative to history.

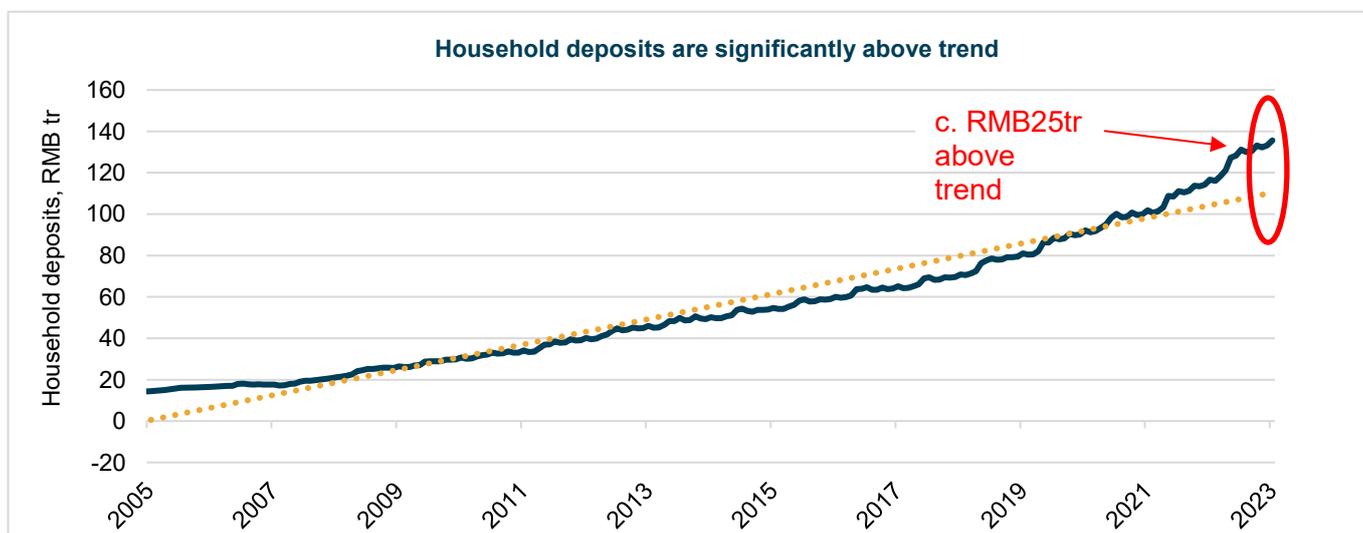
This doesn't diminish the issue. Problem developers make up half of China's property market, and if the current situation remains unresolved there will be negative consequences for property prices. This would be an enormous hit to household confidence and consumption. However, that this issue is ringfenced to certain developers means policy makers can target stimulus to clear the backlog of uncompleted developments and restore confidence in the property market and in turn the broader economy. Meaningful savings and demand can be deployed in a more optimistic environment. Urban household savings rates have spiked to almost 40% of disposable income, on par with COVID (Figure 9), with an estimated RMB25tr in excess savings – or \$3.5t - which is almost 20% of GDP (Figure 10).

Figure 9. Urban household savings rates in China



Source: PBOC, NBS

Figure 10. Household savings deposits in China



Source: PBOC, NBS

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In the meantime, investors are exiting China but this misses that policy makers have the flexibility to stimulate. However, the longer the government allows the malaise created by weak developers to fester, the more damaging it will be to the domestic economy. To oversimplify, failing to act would be an own goal which feels at odds with Xi Jinping's ambitions. At 9x forward earnings – a near-trough multiple over the last two decades – the market is arguably factoring in the worst-case scenario, a debt deflation cycle, which can be avoided.

The Antipodes global portfolios have around 17% exposure to Emerging Markets, with around 11% in China. We are focused on companies that have strong balance sheets, are growing even in this challenging backdrop, and are priced at very attractive multiples relative to the quality of their business and growth profile. Many are buying back stock.

Portfolio positioning

In the near term, a rally fuelled by expectations around central bank policy can continue so we increased our exposure to equities in both global strategies during the quarter, and meaningfully so in long-short strategy to our highest net invested since inception. We are comfortable with this tactical positioning for now noting that our broader views have not changed. We still expect to see greater volatility around the economic and policy cycle and lower equity multiples.

While the global portfolios retain their relatively defensive tilt, we have continued to selectively add to global cyclicals that

have attractive supply and demand dynamics e.g. Oil/Natural gas (anchored by Total Energies and Occidental Petroleum, previously discussed) or global cyclicals that are exhibiting bottom of the cycle characteristics and are priced on low multiples e.g. Industrials/Materials such as LyondellBasell (a chemicals business with feedstock flexibility that feeds into the industrial and consumer supply chain), low-cost Brazilian pulp and paper producer Suzano (favourable supply/demand dynamics on account of low prices, underinvestment, land shortages and regulatory barriers to entry) and potash (where we see demand globally inflecting to support farm yields).

In addition, we continue to find mispriced beneficiaries of investment in energy transition, supply chain onshoring and Cloud/AI monetisation. Around one-third of our global portfolios are exposed to these investment themes and the quarter provided opportunities to add to our Hardware exposure for example via TSMC (the picks-and-shovel play of the AI age which is prioritising return on capital employed as it harvests investments made in Taiwan, Japan and the US).

If it becomes more apparent that the Fed can cut rates and the economic backdrop remain resilient, we will lean further into our cyclical exposures – both our mature cyclicals and beneficiaries of long duration investment trends - and ex-US-listed multinationals are an attractively priced way to play the soft-landing scenario.

Appendix

Market returns to 31 December 2023 (USD, p.a.)

| Absolute performance (%) | 1m | 3m | 1y | 3y p.a. | 5y p.a. | 10y p.a. |
|---------------------------------|--------|---------|---------|---------|---------|----------|
| Regional equities (MSCI) | | | | | | |
| AC World | 4.8% | 11.0% | 22.2% | 5.7% | 11.7% | 7.9% |
| USA | 4.7% | 11.8% | 26.5% | 8.6% | 15.2% | 11.4% |
| Europe | 5.0% | 11.1% | 19.9% | 5.8% | 9.1% | 4.1% |
| Japan | 4.4% | 8.2% | 20.3% | 0.7% | 6.9% | 5.0% |
| Korea | 6.6% | 15.3% | 23.2% | (7.3%) | 5.3% | 3.1% |
| AC Asia ex Japan | 3.5% | 6.4% | 6.0% | (6.7%) | 3.7% | 3.9% |
| All China | (2.0%) | (3.8%) | (11.5%) | (16.2%) | 0.0% | 1.8% |
| EM ex Asia | 6.2% | 12.1% | 17.6% | 1.9% | 2.1% | (0.3%) |
| Global sectors (MSCI) | | | | | | |
| Consumer Discretionary | 4.9% | 9.8% | 29.1% | (1.3%) | 10.9% | 7.9% |
| Consumer Staples | 2.8% | 5.4% | 2.5% | 2.1% | 7.0% | 5.3% |
| Energy | 0.5% | (2.9%) | 5.0% | 23.9% | 8.9% | 2.0% |
| Financials | 5.8% | 12.5% | 15.5% | 9.0% | 9.0% | 5.8% |
| Health Care | 4.3% | 5.9% | 3.6% | 4.5% | 10.0% | 8.7% |
| Industrials | 7.5% | 13.3% | 21.9% | 7.1% | 11.6% | 7.3% |
| Information Technology | 4.5% | 17.6% | 51.0% | 9.9% | 23.2% | 17.6% |
| Materials | 6.6% | 11.6% | 12.1% | 4.4% | 10.6% | 5.6% |
| Communication Services | 3.5% | 9.3% | 37.7% | (0.6%) | 8.6% | 3.9% |
| Utilities | 3.6% | 10.8% | 0.5% | 1.8% | 5.8% | 5.4% |
| Commodities | | | | | | |
| Crude Oil Brent | (3.1%) | (15.0%) | (8.8%) | 14.8% | 7.8% | (3.4%) |
| Gold | 2.1% | 11.1% | 14.6% | 3.3% | 10.2% | 5.6% |
| Bloomberg Commodity Index | (3.1%) | (5.9%) | (12.6%) | 8.1% | 5.2% | (2.4%) |
| Bonds (BAML) | | | | | | |
| Global Government | 4.5% | 8.1% | 3.6% | (7.5%) | (1.8%) | (0.4%) |
| Global Large Cap Corporate | 4.1% | 8.6% | 9.6% | (4.0%) | 1.7% | 1.7% |
| Global High Yield | 3.7% | 7.6% | 13.4% | (0.1%) | 4.1% | 3.7% |
| Currency | | | | | | |
| AUD | 2.9% | 5.7% | 0.6% | (4.0%) | (0.6%) | (2.7%) |
| USD | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| EUR | 1.2% | 4.3% | 3.5% | (3.4%) | (0.7%) | (2.2%) |
| JPY | 4.9% | 5.8% | (6.4%) | (9.9%) | (4.9%) | (2.9%) |
| CNY | 0.5% | 3.0% | (2.0%) | (2.7%) | (0.6%) | (1.6%) |
| SGD | 1.2% | 3.5% | 1.7% | 0.1% | 0.7% | (0.4%) |

Source: MSCI, BAML, Bloomberg, FactSet



Fund summaries

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