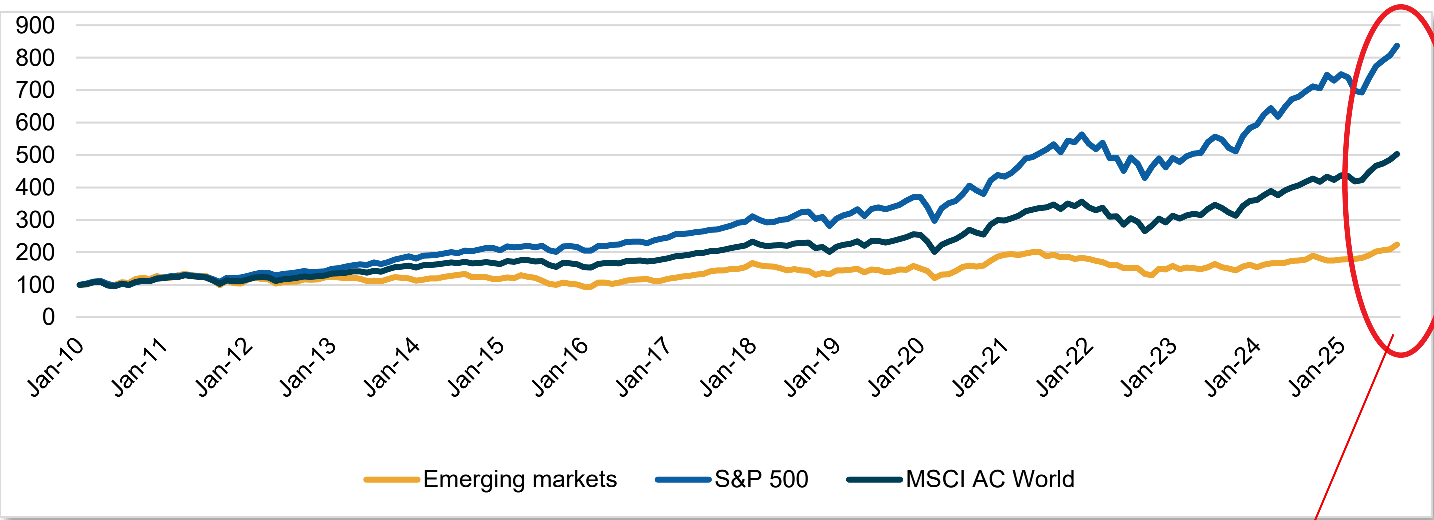
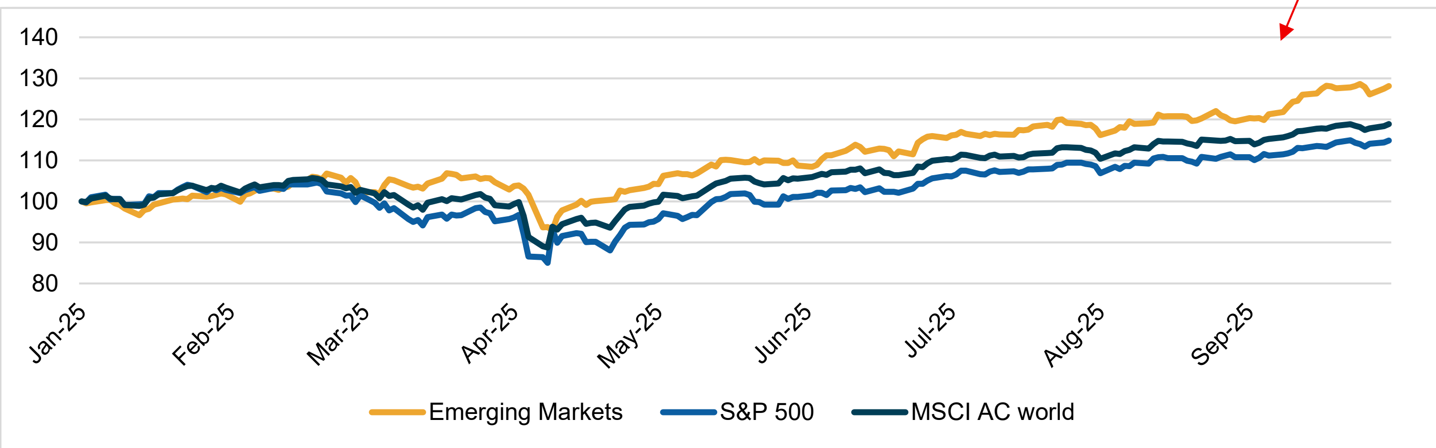
Market Commentary

Emerging market indices continued their strong run of performance over the September quarter (the Quarter) finishing (+8.0% in USD, +9.4% in AUD and +15.7% in NZD) and outperforming broader global equities (+7.6% in USD, +6.4% in AUD, +12.5% in NZD). Emerging markets have demonstrated notable outperformance compared to global and US equities year-to-date; however, this performance is less remarkable when viewed against fifteen years of US market leadership. Nevertheless, there are still valid reasons for continued optimism regarding EM equities.

Exhibit 1: Emerging markets have outperformed YTD – does this mark the end of US exceptionalism?





Sources: FactSet

China outperformance driven by liquidity and improving retail sentiment

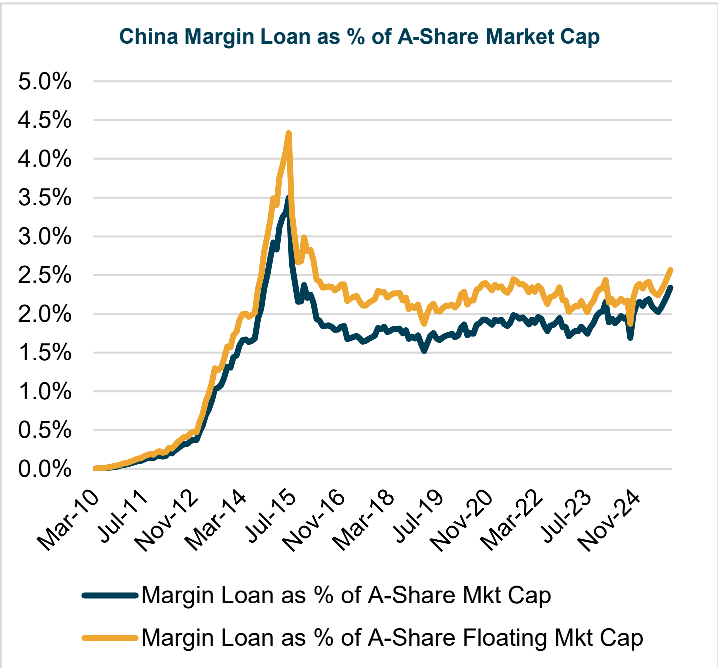
China has played a significant role in driving performance, reporting an increase of 19.2% quarter-to-date and 29.6% year-to-date (in AUD). While the fiscal and monetary stance is accommodative, there have been no major stimulus measures announced to drive such a move. This is the first time we have seen meaningful “organic” outperformance since 2021. The market turnaround was supported by increased system liquidity, aided by early government bond issuances, renewed local government spending, and banks being encouraged to lend. The overall policy approach remained accommodative, with a clear intention to stabilise the housing market and create a floor in housing prices, a goal that has yet to be delivered. Additionally, a generally pro-market orientation has encouraged insurance companies and other market participants to increase their allocations to equities. This has led to the unleashing of "animal spirits" within retail investors, who have returned to the market, reducing allocations to term deposits and driving an improvement in M1 money supply.

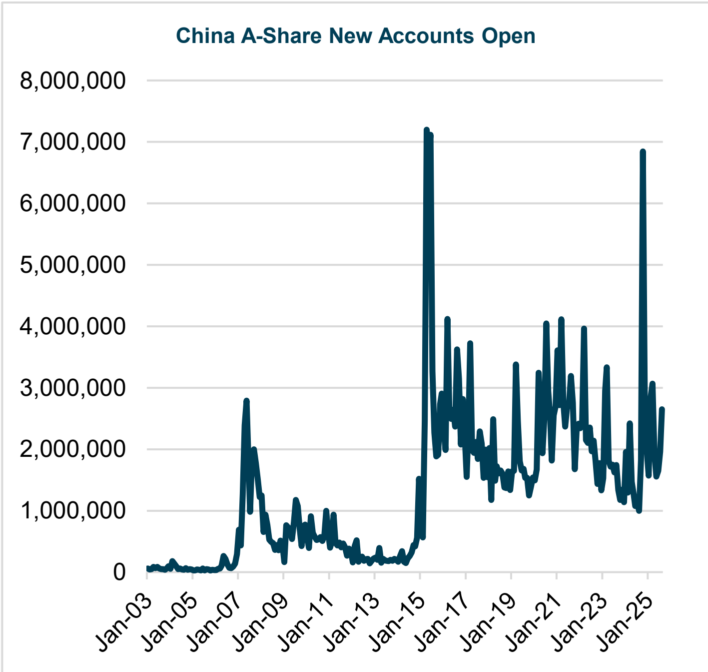
Exhibit 2: China M1 returns to growth

Source: PBOC

The velocity of the move has revoked memories of the 2015 retail rally and crash. However, most exuberance indicators like account openings and margin loans do not signal this risk. While valuation of Chinese equities remains among the most conservatively priced globally as highlighted below.

Exhibit 3: Chinese Retail participation increasing without material signs of excess





Source: Shanghai, Shenzhen and Beijing stock exchanges, CSRC

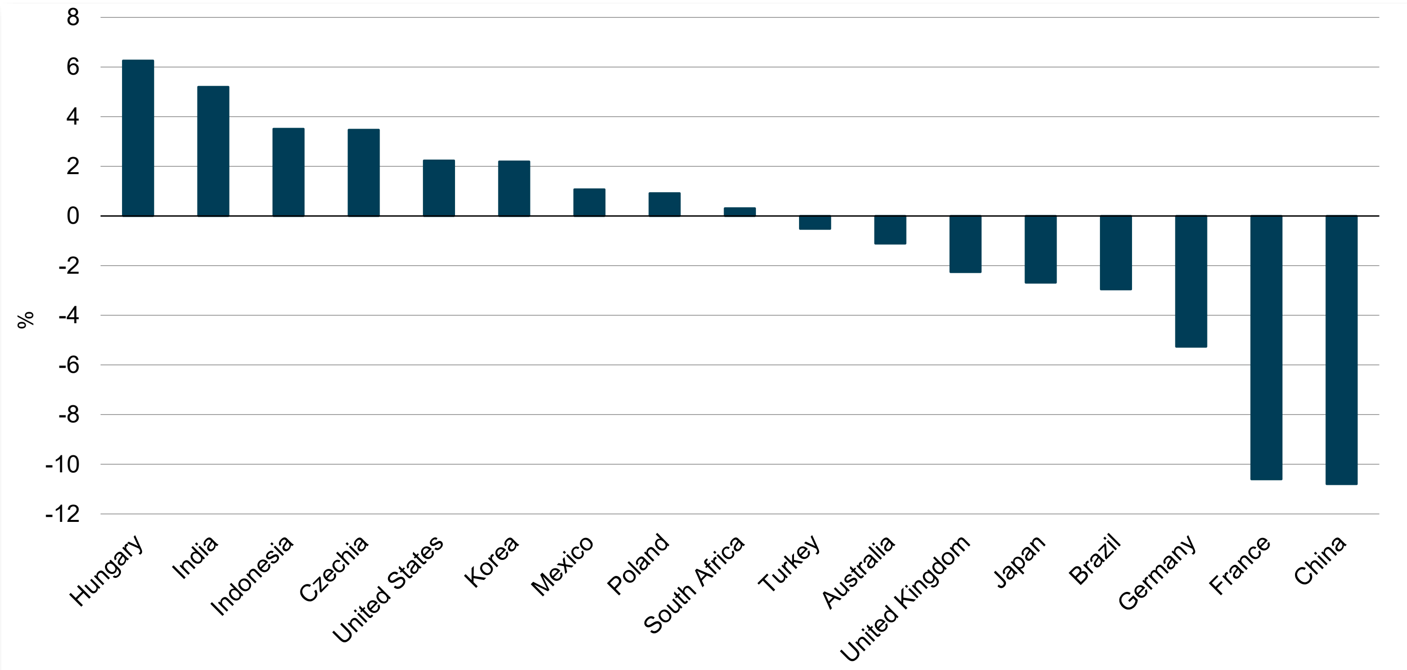
While the market has outperformed, concerns remain with economic data deteriorating. For example, September retail sales growth slowed to 3% yoy compared to 4.5% for the first nine months of 2025. The market has taken note of this, resulting in the underperformance of traditional economically sensitive sectors such as consumer, building products, real estate, and transportation over the past year. While returns have been more concentrated in companies exposed to structural factors that are growing despite the weaker backdrop. Accordingly, in China we continue to tilt towards resilient businesses exposed to structural opportunities in our portfolios.

Ultimately an economic recovery is required for the sustainability and broadening of market performance. This is unlikely to come from major policy acceleration, rather a continued piecemeal approach to support the economy. However, there is potential for animal spirits to spill to the broader economy, as the rise in the value of Chinese onshore equity investments year to date has offset the total value destruction in the housing market. This is the first time since 2021 that we have seen net wealth creation from these investments. Furthermore, as equity returns predominantly benefit affluent residents of tier 1 cities (where decreases in housing prices have been comparatively moderate) it suggests that confidence can grow among higher-income cohorts. Our portfolios are strategically positioned to take advantage of this opportunity through recent investments in Prada and Hang Lung Properties, which operate luxury malls in Hong Kong and Mainland China.

Uneven cycles, shifting leadership

There is plenty of potential for the Chinese economy to catch up after years of operating significantly below its structural "speed limit", indicating spare capacity and underutilised resources.

Exhibit 4: The cumulative output gap (2018-2025) measures how far actual GDP has run above or below its estimated structural "speed limit", adjusting for differences in labour-force growth, capital deepening and productivity. The U.S. and India stand out as major economies to have grown above potential, reflecting heavy fiscal support and wealth effects. Most other economies – China, Brazil and Europe – have operated significantly below potential, signalling weaker cyclical momentum and greater spare capacity



Source: International Monetary Fund (IMF), Organisation for Economic Co-operation and Development (OECD)

Potential GDP, while subject to many peculiarities of macroeconomic modelling, does at least attempt to adjust for demographic, capital formation, and productivity differences across regions. The U.S. exceptionalism of the last decade owes as much to policy as to productivity.

With fiscal fuel running low, markets have turned to the next big narrative: artificial intelligence. In a world where policy has little room left, AI has become the new source of optimism — a productivity revolution that, in theory, could deliver growth without inflation and efficiency without austerity. It's a compelling story, but one that risks being told too narrowly.

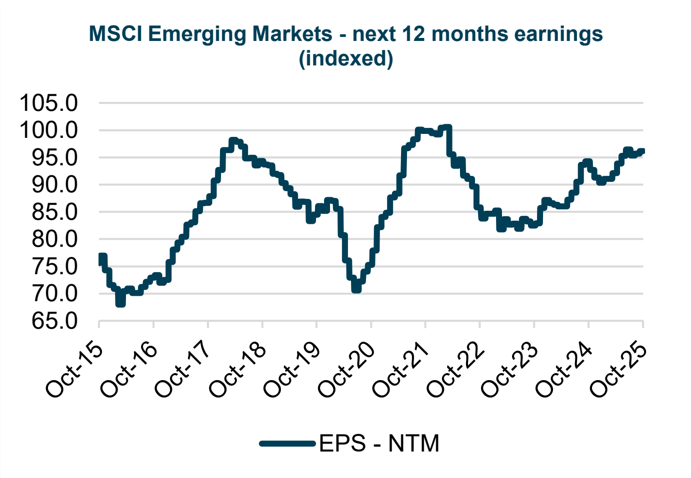
The U.S. has clearly led the first phase of this cycle — in investment, infrastructure, and imagination. The capex boom in data centres, semiconductors, and model training is almost entirely American-led, and it shows up vividly in national accounts. Private non-residential investment has surged, even as public investment flatlines. Yet the benefits of AI are unlikely to stop at the U.S. border. In contrast to past booms — housing in the 2000s, infrastructure in the 1950s, industrial build-outs before that — this one is inherently borderless. AI's enablers may be mostly U.S.-listed, but its adopters are global. The real productivity dividend — lower coding costs, faster design cycles, smarter logistics — will accrue to companies everywhere.

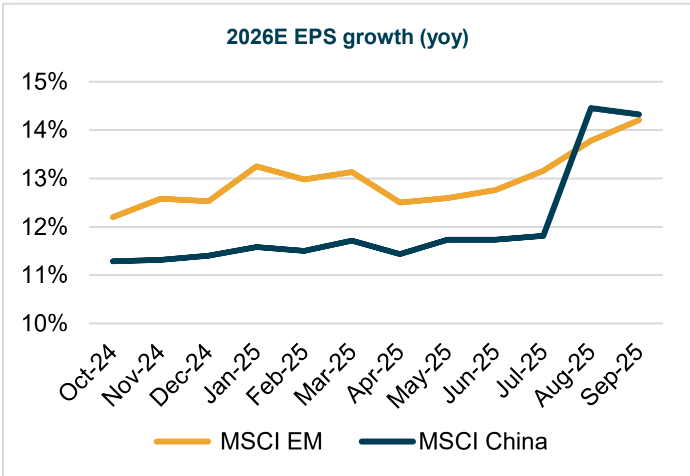
Meanwhile China is part way through the first phase of its own investment cycle in relation to home growth models, chips and software. Technology restrictions are driving innovation such as Alibaba's recently announced solution to optimise dynamic GPU usage for multiple LLMs. While aggressive targets to achieve 70% self-sufficiency in AI chips by 2027, highlight the scale of investment in technology that is generally only seen in the United States. This is a rare (and much needed) chance to close the gap, not through stimulus or devaluation, but through technology adoption.

The case for continued emerging markets outperformance

Considering this opportunity for an economic catch up, presents a case where earnings could sustainably grow across the EM index. To date earnings growth (as measured by an index of the next 12 months EPS) has been fairly muted, however forward looking estimates are accelerating as shown in the way that FY2026 bottom-up EPS growth forecasts are improving meaningfully over the year.

Exhibit 5: Emerging market earnings growth improving

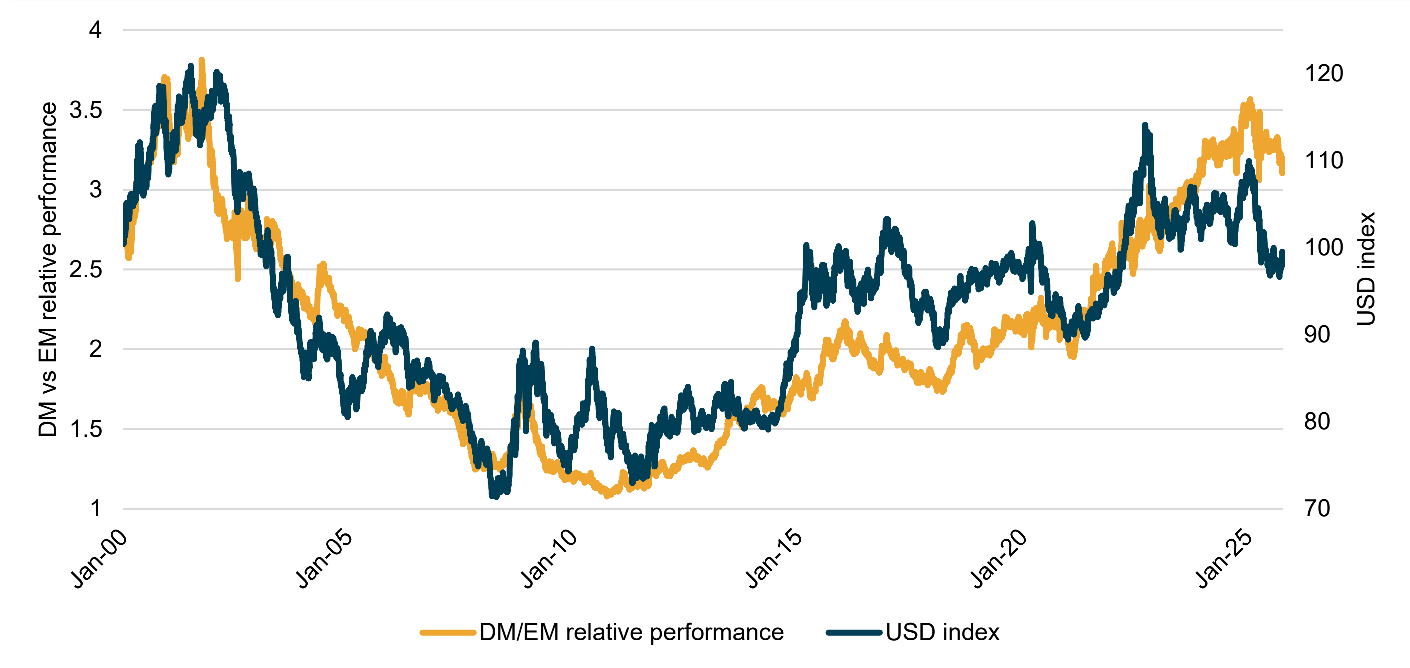




Source: FactSet

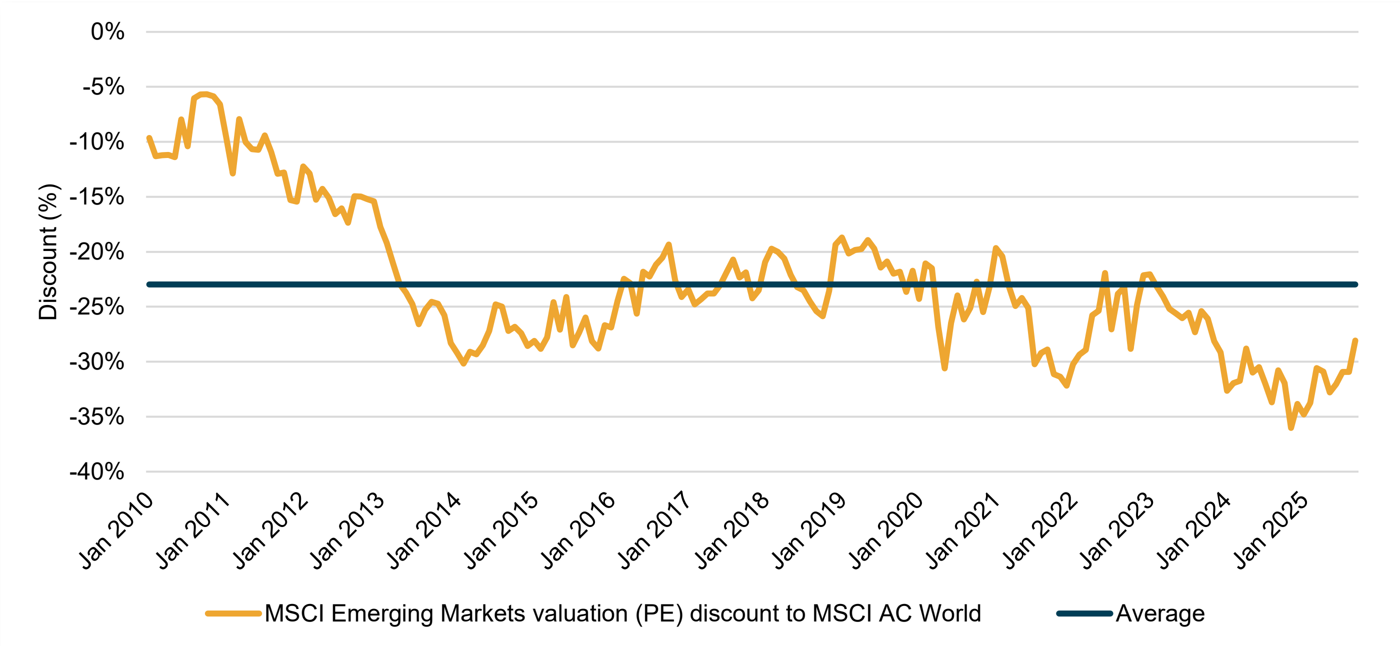
Furthermore, one cannot ignore the influence of the US dollar on emerging markets. Historically, a strong dollar has often coincided with regional underperformance, and vice versa. This is rooted in fundamentals (a strong USD tightens financial conditions for EM borrowers and makes EM exports less competitive, while is also indicative of better growth outside of the US and enhances USD denominated returns from foreign assets) as well as investor risk appetite (capital flows out of the region during US dollar bull runs). From around 2010 through 2022, the U.S. dollar experienced a powerful uptrend – a 15-year cycle of dollar strength that proved to be the longest in decades – coinciding with the region's long relative slump. The USD looks to have made a major peak in 2022 and going forward it's likely to weaken further, given interest rate cuts, rising fiscal concerns and broader political uncertainties in the US.

Exhibit 6: USD weakness will help improve EM relative to DM performance



Source: FactSet

Whilst the returns have been driven by re-rating this year, the MSCI EM discount to MSCI ACWI remains ~7% below the historical average.

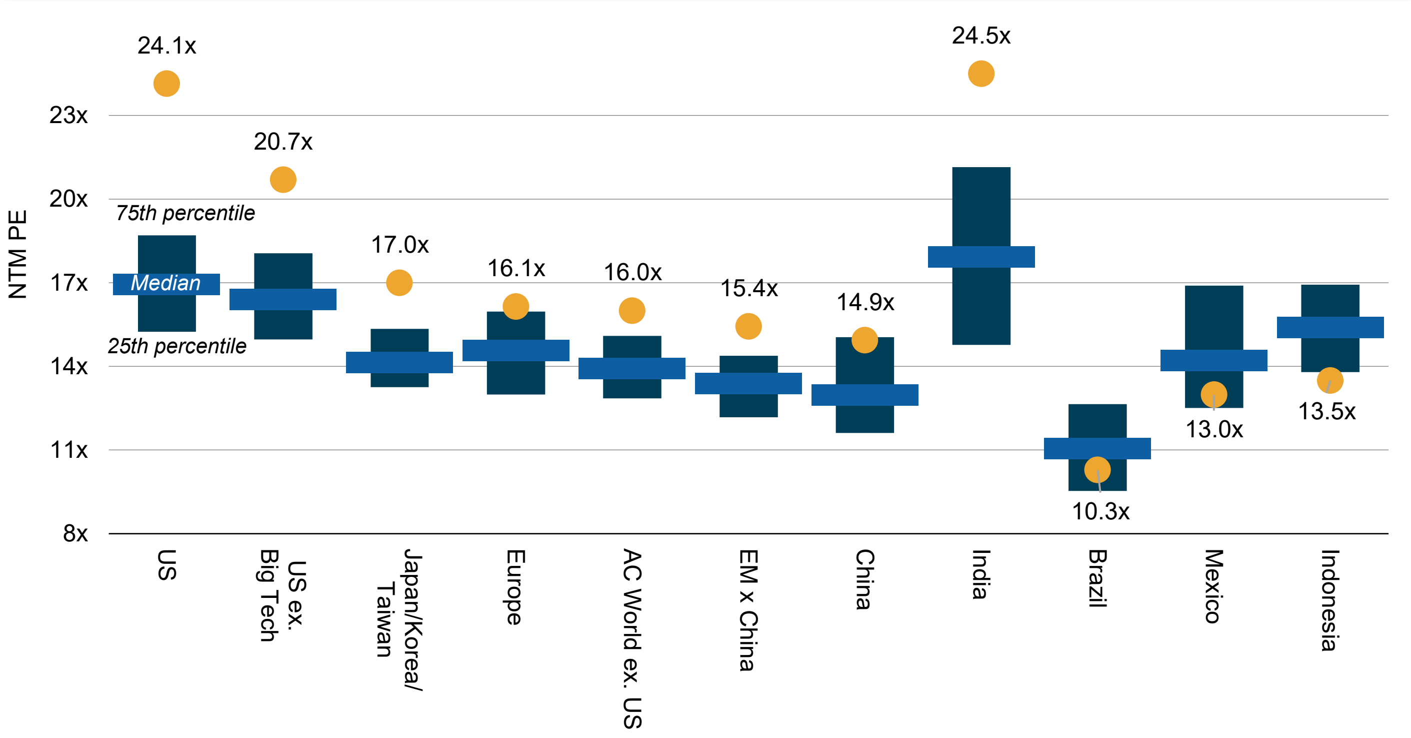


Source: FactSet

If this is broken down further, we find that key markets like China, Brazil, Mexico and Indonesia (all overweight in our portfolios) remain at attractive levels relative to the rest of world and relative to the growth and resilience presented by the investment opportunities in these countries.

Exhibit 7: EM valuations remain attractive relative to history

Source: FactSet, Antipodes



Portfolio Commentary

Over the Quarter, the Antipodes Emerging Markets strategy underperformed the benchmark. Absolute performance was driven by positioning in China/HK and South Africa, with portfolio exposure in Japan, underweight positioning in India and stock selection Latin America (Brazil and Mexico) detracting. On a sector basis, industrials and materials were the most notable contributors, with positioning in financials, consumer discretionary and information technology detracting. Detailed commentary on key contributors and detractors is outlined below.

Quarterly performance drivers

Key stock contributors to performance over the Quarter included:

- **Tencent** rallied over the Quarter, fuelled by positive momentum, particularly for Chinese technology stocks following positive commentary surrounding trade discussions between the US and China from the U.S Treasury Secretary. Whilst Tencent has demonstrated remarkable resilience as a platform during a slower economic period in China, its varied business lines spanning mobile games, video streaming, fintech services and cloud computing can benefit from any consumer led economic recovery sparked by optimistic trade outcomes.

- **TSMC** finished higher with performance underpinned by surging AI and HPC demand, driving record revenue over the Quarter. Upward revisions to 2025 guidance and aggressive capital investment in advanced 3 nm/2 nm node capacity and U.S. fabs bolstered investor confidence. TSMC also continues to benefit from its leading positioning in global foundry markets and the investor rotation towards the technology sector over the Quarter.

- Chinese battery manufacturer **Contemporary Amperex Technology Co (CATL)** finished higher as strong EV and ESS battery demand sentiment as well as tightening capacity after years of reduced investment has sparked interest in the sector. CATL's position as the industry leader will position it to increase investment and take advantage of the strong market in the coming years.

- **Valterra Platinum** surged on strong momentum tied to Anglo American's accelerated sale of its remaining 19.9% stake via a bookbuild, marking a clean spinoff within the stated timeframe. Performance was further supported by positive sentiment around platinum group metals, supply constraints and expectations of renewed pricing upside.

Key stock detractors to performance over the Quarter included:

- **Sendas Distribuidora** pulled back early in the Quarter, in line with broader Brazilian equities, after a period of strong performance over 1H25. Later in the Quarter despite delivering an EPS beat in its 2Q25 results, the company missed revenue expectations, indicating softer top-line momentum. Ongoing food deflation trends and weakened consumer purchasing power have driven a trade-down effect across the grocery retail sector. In addition, the reduced likelihood of near-term interest rate cuts has heightened concerns around leverage and margin risks.

- **Meituan Dianping** sold off over the Quarter after issuing weaker guidance and citing 'irrational competition' in the Chinese food delivery space impacting June quarter profits, most notably from Alibaba's Ele.me and JD.com's JD Takeaway services. Whilst JD.com's entry into the space in early 2025 was fuelled by discounts and lower restaurant fees, Meituan maintains around 75% of market share and has a track record of fending off newer competitors. Meituan is also continuing its ex-domestic push, with the food delivery application expanding to countries such as Saudi Arabia and Qatar, with additional plans to spend US$1b to service Brazil.

- Indian lender **Aavas Financiers** underperformance was driven by weakening loan disbursements and compression in net interest margins. In addition, broader macro concerns around India's housing finance sector and cautious guidance weighed on investor sentiment, despite the company's solid underlying earnings.

Portfolio changes

	In China, added to **Tencent**, **Alibaba** and **Contemporary Amperex Technology Company (CATL)**. Alibaba is quickly asserting itself as a key AI beneficiary in China, through the development of its own custom silicon, developments in the already leading LLM, its dominant cloud infrastructure business (growing 25-30% p.a.) as well as further in-house application opportunities via ecommerce advertising and search. We see the cloud business as the core avenue for Alibaba to monetise its investments in AI. The company expects domestic e-commerce revenues (advertising and commission) to grow c. 10% p.a., international e-commerce to grow c. 20%, with losses from both segments narrowing. Whilst 2026 will likely see profits fall due to investment in instant retail, we see earnings subsequently compounding at 20% p.a. with a high-teens forward earnings multiple. The position in Alibaba complements our increased position in Tencent, where position size remains larger given a relatively stronger business outlook thanks to its leading gaming business along with AI monetisation opportunities from WeChat search and advertising. We added to the position in in CATL, a global leader in electric batteries, as the outlook appears incrementally positive. Domestically, the company can continue to benefit from higher electric passenger vehicle sales and the accelerated adoption of light and heavy-duty EV trucks. Internationally, the company is taking market share in Europe, with overseas sales now accounting for 40% of gross profit. Rising demand coupled with supply side reform can see profitability inflect further. Despite this, the stock is priced at 20x forward earnings, with earnings growing at over 20% p.a. over the medium term.
	In the consumer space, we added to luxury mall operator **Hang Lung Properties** and **Prada S.p.A.**, building a portfolio cluster of exposure to recovery in luxury spend. Increase in the money supply and broader market strength can support a recovery in consumption of luxury goods, from the currently low base levels. Whilst we remain selective, we see early signs of a recovery with Hang Lung recording strong mainland tenant sales growth of 10% year-on-year for 3Q25.
	We exited **SK Hynix** and holding company **SK Square**, in favour of **Samsung Electronics** over the quarter. Traditional memory markets (DRAM and NAND) have recovered quickly in a supply constraint environment and the relative valuation discount of Samsung electronics to SK Hynix, on Price-to-book basis, is near an all-time high. We favour the risk/reward outcome in Samsung given its large exposure to traditional memory market and discount to Hynix.
	We added **Advanced Micro Fabrication Equipment Inc (AMEC)**, a Chinese semiconductor production equipment company that is a beneficiary of the push towards localisation of semiconductor production. AMEC is the leading etching tool maker with mid-teens market share and a growing but nascent presence in deposition tools. 70% of AMEC's revenue is from advanced nodes, as defined by the company as advanced logic (<14nm) + memory.
	We initiated a position in **Centre Testing International**, China's largest Testing, Inspection, and Certification (TIC) company which tests and evaluates the attributes of products, services or production processes in accordance with relevant regulations and standard specifications. Its services cover 68 sectors, with 100K+ clients and over 4 million reports through its 150+ labs. Centre Testing is expected to grow at 2-3 times the rate of GDP growth over the long term, as it is exposed to sectors with high R&D and investment.

Further information

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