Market Commentary

China equities endured a challenging second quarter, with the MSCI China Index falling -7.7% in AUD as the market that had led global returns in 2025 found itself structurally sidelined from the AI rally powering North Asian neighbours. The Fund returned -5.2% in AUD, outperforming the benchmark by 2.5%, as positioning in industrials, domestic technology and grid infrastructure names provided relative resilience in a broadly negative market environment.

The MSCI China Index fell to its lowest level relative to the MSCI ACWI since the immediate aftermath of the September 11 attacks in 2001, as two index heavyweights, Tencent and Alibaba, fell more than 29% combined, wiping out approximately $337 billion in market capitalisation.

The earnings picture was considerably more nuanced than the index performance implied. Alibaba's Cloud Intelligence Group AI-related products generated an annualised revenue run rate of approximately US$5.2 billion, posting its eleventh consecutive quarter of triple-digit year-on-year growth. Yet adjusted EBITA fell 84% year-on-year as the company invested aggressively in AI infrastructure ahead of monetisation, with free cash flow swinging to a 17.3 billion RMB outflow from a 3.7 billion RMB inflow a year earlier. Alibaba Cloud revenue grew 38% year-on-year in Q1 2026, Baidu Smart Cloud 79%, and Tencent enterprise services 20% - strong growth numbers that the market discounted in favour of the immediate margin compression from heavy AI investment. The tension between genuine AI commercial momentum and front-loaded spending was the central narrative for China's large-cap technology sector throughout the quarter.

Emerging market equities were resilient overall in 2026, but the divergence between China's onshore and offshore markets was a notable feature. The MSCI China Index - approximately 80% offshore - fell in local currency terms, while the China A Index, which is 100% onshore, rose around 10%, helped by its tilt toward technology, industrials and materials - all of which offer exposure to the hardware layers of the AI supply chain. Domestic investors channelled capital into grid infrastructure, AI hardware and advanced manufacturing names, precisely the sectors benefiting from China's accelerating ultra-high voltage investment cycle and domestic AI chip development programmes. This divergence between onshore and offshore performance directly informed the portfolio's positioning through the quarter.

Macro conditions for the offshore market remained difficult. April macro data was weak, with domestic demand cooling, retail sales nearly flat, and weakness broadening beyond subsidy-linked categories. Investment moved back into contraction, led by property drag and softer manufacturing activity, making the second-quarter growth path more challenging for consumer and platform-oriented companies. Property sector weakness continued to act as a drag on consumer sentiment, with the secondary housing transaction recovery slower than anticipated.

Currency provided a modest but meaningful tailwind for Australian investors through the quarter's final month. The AUD's depreciation against the USD in June - approximately 3.9% - converted what was a -7.1% USD decline in MSCI China in June into a more moderate -3.5% AUD outcome, partially cushioning June's losses. For the full quarter, the AUD ended broadly flat against the USD, meaning the currency contribution to full-quarter returns was minimal and underlying equity market performance was the primary driver of outcomes for Australian investors. The MSCI China's -6.6% USD decline for the quarter translated to -7.7% in AUD, with the modest additional AUD underperformance reflecting the currency's slight depreciation over the full three-month period.

Portfolio Commentary

The Antipodes China Fund returned -5.2% in AUD for the quarter to 30 June 2026, outperforming the MSCI China Index benchmark, which returned -7.7% in AUD over the same period, by 2.5%. For the 12 months to 30 June 2026, the Fund returned -0.8% in AUD, compared with the benchmark return of -5.1% in AUD, an outperformance of 4.2%.

Performance over the quarter was driven by positioning in Information Technology (IT) and Consumer Discretionary, while Industrials detracted. Within IT, it is worth noting an important internal divergence: the Semiconductors and Semiconductor Equipment sub-sector was a meaningful positive contributor, reflecting the Fund's deliberate positioning in China's domestic semiconductor equipment and supply chain names ahead of what proved to be a significant re-rating. This was offset by detraction from Software and Services, where AI disruption risk weighed on valuations, and Technology Hardware and Equipment. The net result was an IT sector contribution that was positive overall, but narrower than the underlying semiconductor performance might suggest.

Quarterly performance drivers

Key stock contributors to performance over the Quarter included:

- **Advanced Micro-Fabrication Equipment (AMEC) (+130%)** AMEC was the Fund's strongest contributor over the quarter, as China's domestic semiconductor equipment industry entered a powerful re-rating cycle. AMEC exceeded the CN Semiconductor industry's already strong return over the past year by a wide margin, driven by a combination of surging domestic demand for semiconductor fabrication equipment and the structural tailwind of US export restrictions accelerating China's self-sufficiency push. AMEC's etching and MOCVD equipment sit squarely in the path of China's accelerating investment in domestic chip production, with customers at every major Chinese foundry ramping capacity to serve both AI infrastructure and the broader domestic substitution wave. Analyst consensus for FY2026 saw earnings per share estimates revised upward, with revenue forecast at 16.9 billion yuan and net income forecast to grow 44% year-on-year.

- **SG Micro Corp (+70%).** SG Micro was a strong contributor over the quarter, benefiting from the convergence of three structural tailwinds: AI data centre buildout driving demand for power management chips, the global analog chip price upcycle triggered by Texas Instruments' third round of price increases in a year, and China's accelerating domestic substitution of imported analog semiconductors. SG Micro achieved double growth in both revenue and profit in Q1 2026, having deployed high-barrier products across automotive-grade, signal chain, isolation and driver chip categories - enabling it to simultaneously capture the triple tailwind of demand volume growth, pricing elasticity and domestic substitution. The company's positioning in industrial, automotive and AI-related applications places it among the clearest beneficiaries of the ongoing analog chip upcycle.

- **ASE Technology (+105%)** ASE Technology contributed strongly as the advanced semiconductor packaging cycle accelerated. ASE reported Q1 2026 net revenues up 17.2% year-on-year with net income attributable to shareholders up 87% year-on-year, as AI-related products drove a structural shift in demand mix that muted traditional seasonality and supported sequential revenue growth even in a typically weak quarter. For Q2, ASE guided ATM revenue growth of 9-11% quarter-on-quarter with gross margins of 26-27%, as computing and AI demand continued to strengthen.

- **ASM Pacific (+139%).** ASMPT was one of the quarter's most compelling performers, with the company's deliberate repositioning toward AI-era advanced packaging now generating exceptional financial results. ASMPT's Q1 2026 results confirmed the growth model is executing: revenue climbed 32% year-on-year to HK$3.97 billion, adjusted earnings per share surged 189%, and Q1 bookings hit a record HK$5.67 billion, up 71.6% year-on-year - the highest level in company history. Management's Q2 guidance of US$540-600 million implies another 37% year-on-year jump at the midpoint.

- **SMIC (+30.7%).** SMIC contributed positively as China's largest contract chipmaker benefited from both the global semiconductor capacity crunch and the domestic self-sufficiency drive. Revenue grew sequentially in Q1 2026, with strong AI-driven demand and price increases expected to boost Q2 revenue by 14-16%. SMIC launched an action plan to deepen expertise in specialised fields including BCD technology, analogue chips and specialised memory chips, citing domestic substitution and supply chain localisation as the two key growth drivers for 2026.

Key stock detractors to performance over the Quarter included:

- **Alibaba and Tencent (-22% and -11%)**. Both names detracted as the market continued to penalise China's large offshore internet platforms for their aggressive AI infrastructure investment programmes ahead of monetisation. Alibaba's Cloud Intelligence Group revenue grew 38% year-on-year, with AI-related products achieving triple-digit growth for the eleventh consecutive quarter, yet adjusted EBITA plummeted 84% as aggressive investment compressed margins, with the consolidated adjusted EBITA margin falling to just 2% from 14% a year earlier. Tencent enterprise services grew 20% year-on-year in Q1 2026, with AI-powered marketing services outpacing China's industry growth rate, but the investment step-up weighed on operating margins. We remain constructive on both holdings. The AI commercial momentum is genuine and accelerating, and at current valuations, the market is discounting the transition more than the underlying trajectory warrants.

- **Kingdee International Software (-32%)** Kingdee detracted as sentiment toward China's enterprise software sector remained depressed by concerns that large language models and AI agents will structurally reduce demand for traditional seat-based software. The share price weakness occurred against a backdrop of genuine fundamental improvement. Kingdee issued a positive profit alert for H1 2026, forecasting total revenue of RMB3,608-3,639 million, up 13-14% year-on-year, with profit attributable to shareholders swinging to RMB40-60 million from a loss of approximately RMB98 million in the prior period, and net operating cash inflow of RMB130-150 million versus a net outflow a year earlier. The structural question around AI disruption of enterprise software is real, and we are closely monitoring the pace at which Kingdee's AI-native product suite translates into durable customer retention and expanding contract values.

- **CNOOC (-27**%). CNOOC detracted as oil prices reversed sharply following the US-Iran ceasefire and the reopening of the Strait of Hormuz. Brent crude fell approximately 30% over the quarter, directly pressuring the earnings outlook for what is one of the purest upstream oil price proxies available to investors. Despite strong operational delivery with Q1 2026 net profit rising 7% year-on-year driven by 9% growth in net production, the sharp fall in realised oil prices dominated the share price outcome. The operational case remains compelling, but the near-term earnings headwind from lower oil prices is material and the position detracted accordingly.

- **Kingsoft Cloud (-34**%). Kingsoft Cloud detracted as the market applied broad de-rating pressure to China's cloud software names, with concerns about AI agent disruption of traditional cloud services compounding the weak offshore sentiment. The company's growth trajectory has been challenged by an increasingly competitive cloud pricing environment in China, where ByteDance's Volcengine and Alibaba Cloud are competing aggressively on price. We are monitoring the pace of Kingsoft Cloud's transition toward higher-margin AI-native services, where its relationship with the Xiaomi and Kingsoft ecosystem provides some differentiation**.**

Portfolio changes

	We initiated positions in Alchip, SG Micro, and Lite-On as beneficiaries of the tech cycle that are yet to be fully priced in. Alchip provides exposure to hyperscaler custom AI chip design at the leading edge of Taiwan's semiconductor ecosystem, with 3nm designs in production, a 2nm ecosystem under active development and growing leadership in chiplet-based architectures and advanced packaging. SG Micro provides exposure to China's domestic analog chip upcycle, where Texas Instruments' third round of price increases in a year has validated the structural pricing power of well-positioned domestic manufacturers. SG Micro achieved double growth in both revenue and profit in Q1 2026, capturing the triple tailwind of demand volume growth, pricing elasticity and domestic substitution. SG Micro’s structural opportunity is reflected in its ability to grow earnings over the last three years, while peers in the analogue chip industry saw major declines. Lite-On provides exposure to the server power supply buildout enabling AI data centres, with a dominant share of the hyperscaler power supply market that positions it as a direct beneficiary of the accelerating capital expenditure cycle. All three were initiated at valuations we considered attractive relative to the earnings growth trajectories visible over the investment horizon.
	We initiated a position in **SMIC**, China's largest semiconductor foundry, as the combination of the domestic AI infrastructure buildout, accelerating substitution of foreign chips and the global memory capacity crunch creates a powerful demand backdrop for China's leading mature-node manufacturer. SMIC launched an action plan identifying domestic substitution and supply chain repatriation as the two core growth drivers for 2026, deepening its focus on specialised fields including BCD technology, analogue chips and specialised memory chips. Strong AI-driven demand and price increases are expected to drive Q2 revenue growth of 14-16% sequentially, and the company's position as the indispensable backbone of China's semiconductor self-sufficiency drive gives us confidence in the multi-year earnings growth trajectory ahead.
	We initiated a position in **Sunny Optical**, the global leader in smartphone lens sets, camera modules and vehicle lens sets, as we see the company as a compelling proxy for multiple structural growth themes beyond its core smartphone business. Net profit jumped 71.9% on strong handset and vehicle sales in the most recent reporting period, with management guiding for Pan-IoT revenue growth of more than 60% year-on-year in 2026, driven by AI industrial cameras, warehouse automation vision systems and robotics-related projects. The company guides for hybrid zoom lens revenue growth of more than 150%, periscope lens revenue growth of approximately 40%, and is expanding into optical interconnect and co-packaged optics as longer-term growth options. At entry, we believe the market continues to undervalue Sunny's non-smartphone growth vector, which we see as increasingly important over the investment horizon.
	We exited our position in **Hang Lung Properties**, the Hong Kong-listed commercial real estate developer and landlord, as the thesis for a recovery in high-end retail and office spending across mainland China proved slower to materialise than we had anticipated. Persistent weakness in consumer confidence, the ongoing property sector overhang and continued cautious corporate spending have extended the headwinds to premium commercial real estate beyond our original timeline. With the opportunity cost of holding a position in a structurally challenged sector rising as more compelling opportunities emerged in the domestic semiconductor and hardware supply chain, we concluded the capital was better deployed elsewhere.

China Construction Bank	We reduced our position in **China Construction Bank**, reflecting a rebalancing of the portfolio away from state-owned financial names toward opportunities in the domestic technology hardware sector where we see superior near-term earnings growth catalysts. China Construction Bank remains a well-capitalised, attractively valued institution with a high dividend yield, and we retain a position. However, the combination of net interest margin pressure in a lower-rate environment and subdued loan demand from the property sector limits the near-term earnings upgrade potential relative to our highest-conviction positions. The trim reflects portfolio optimisation rather than a change in our view of the company's long-term merits.
NAURA 北方华创	We exited our position in **Naura Technology**, the Chinese semiconductor equipment manufacturer, following strong share price appreciation over the quarter that moved the valuation to a level where we saw better risk-reward elsewhere. Naura's position as a domestic beneficiary of China's semiconductor self-sufficiency drive remains structurally intact, and the earnings outlook is positive. However, following the exceptional returns generated by the position, we concluded that the margin of safety at the prevailing share price was insufficient relative to the returns available from other semiconductor equipment positions where the re-rating had been more modest. We rotated the proceeds into AMEC and SMIC, where we saw a superior balance of earnings visibility and valuation.
NARI	We exited our position in **Nari Technology**, China's leading manufacturer of power grid automation and protection equipment, following meaningful gains from the position initiated in Q1 as the ultra-high voltage investment cycle and energy security tailwinds drove a re-rating. Having initiated the position in Q1 2026 to capture the structural tailwind from China's grid expansion and domestic energy security imperatives, the position delivered meaningful returns as UHV project approvals accelerated. We concluded that following the re-rating, the most attractive risk-reward in the portfolio lay in the semiconductor hardware names where the AI-driven earnings upgrade cycle is at an earlier stage. The grid infrastructure thesis remains intact and we may revisit the position on any material pullback.

Further information

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