Personal Choice

Investor Update

How Antares has strengthened its approach to ESG

June 2018

Environment, Social and Governance (ESG) issues can positively and negatively impact a company's performance. Antares believes companies that focus on ESG issues not only support better business practices, but also strive to make their business become more sustainable.

Integral to our investment process is Antares proprietary ESG framework and traffic light designations. This has recently been enhanced with the addition of an ESG score based on the weighted average of ESG factors that we believe have the greatest impact on company share prices.

ESG factors analysed

With the increasing amount of ESG information being reported by companies, separating factors that are likely to have a positive or adverse impact from those we believe will have no impact on share price is vital. To achieve this, Antares has assessed over 50 different ESG factors and analysed their historic impact on price, while cross-referencing industry trends and market movements, to obtain strong correlating data.

Some of the environmental factors we analysed included environmental fines, energy consumption/revenue, hazardous waste production, and greenhouse gas emissions. Social factors included, but were not limited to, employee turnover, proportion of contractors used, workplace fatalities/injuries and proportion of females in key management roles.

Governance accounted for the highest proportion of factors analysed including director independence, board committees, board diversity and director share ownership capacity, among others. The ESG factors we determined as having the strongest impact on price movements were selected for our framework.

Additionally, Antares reviewed a number of academic studies that identified different factors with strong price movement correlations. As a result we identified 14 factors that we believed have the greatest potential to impact share price movements. These were weighted based on our analysis of relevant historical price fluctuations.

As part of the ESG framework, we have ranked the companies of the S&P/ASX 200 Accumulation Index in quartiles based on how they score using our chosen ESG factors. Each quartile is consistently monitored in order to track the total shareholder return attributable to ESG, with bi-annual ESG rebalances occurring.

But even a weighted average score may not be sufficient to arrive at conclusions about ESG or sustainability for each company. For example, a company may score well on one factor but poorly on another. For example, a company with a low number of contractors (a potential positive), but high employee turnover (negative), could be indicative of a company that has a culture problem.

Furthermore, this ESG factor may evolve into a quantitative factor if the high turnover rate continues and important knowledge of the business is lost. This may affect the company's profitability and corresponding share price in the long run. If we are able to predict this loss of knowledge, using ESG analysis, then we may be able to achieve superior returns by taking advantage of mispricing within the market.

Integrating ESG within the stock selection process

Our ESG factor analysis is not an exclusionary screening process. Instead, we utilise our ESG analysis in conjunction with our established internal ESG traffic light designations to determine if we need to adjust any of our company target prices. Each company within our investment universe receives an ESG score and corresponding traffic light.

	A green traffic light means that no ESG issues have been identified that required a price adjustment
	An amber traffic light means issues have been identified, however they are not yet material enough to justify adjusting the price. Amber issues will be closely watched to ensure they do not become material
	A red traffic light means issues have been identified that are considered material. Target prices must be adjusted accordingly

Both the colour of the traffic light and the ESG score highlight where companies may have an ESG issue. The purpose of the traffic light is to alert the analyst to any possible ESG issues and subsequent discounts that they may need to factor into their target price.

Even after using our ESG scores and traffic lights to assist with analysing the risk reward trade-off of an investment, it is still possible that we will invest in companies that have a low ESG score, receive a red traffic light, or both. For example, if a security has a red traffic light, but its target price still represents significant upside after an ESG discount has been applied, it may be considered a buy.

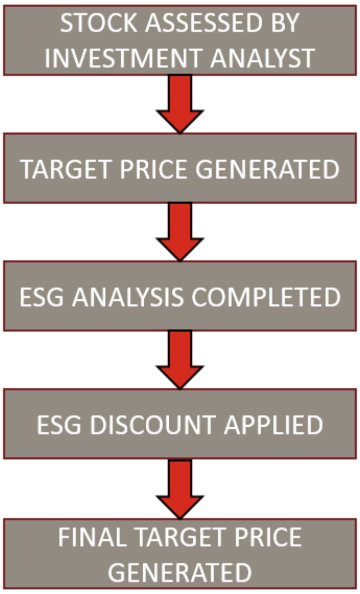
Active Engagement

When invested in, or considering investing in, a security where we believe ESG factors could negatively impact the share price, Antares engages with management and/or the board to discuss and review the issues identified.

Antares portfolio managers will also utilise voting rights on any appropriate resolutions to actively address any ESG issues of concern. Antares actively engages in voting in respect to securities within its portfolios. Antares believes that active ESG engagement may result in avoiding adverse share price shocks and improve long-term share price performance.

An ESG process example

An Antares analyst may decide to further investigate a manufacturing company that has been assigned a poor ESG score due to previous injury rates. Upon further investigation, the analyst may determine that an ESG discount needs to be applied, based on the likelihood of this occurring again and the price impact they believe it may have. Below is the process that our analysts follow when valuing a security.



Antares market & fund updates

Below is a brief review of how the Australian share market performed during the quarter as well as short commentaries on each Antares Fund, outlining their net performance and the main contributors to performance.

Australia share market review

Australian shares posted a positive return of 13.0% for the financial year but with a very mixed performance across industry sectors. The Health Care sector recorded an exceptionally strong 27.7% return buoyed by takeover activity and strong profit momentum. Sharply higher global oil prices benefitted the Energy sector which increased by 41.6%. The resources laden Materials index rose by 29.9% as prices for metals and bulk commodities strengthened in line with the global economy's growth.

In contrast, the Telecommunications sector was very weak, falling 30.9% due to competitive pressures in the sector which saw Telstra flag lower earnings and dividends. The Financials Ex-AREITs sector returned just 1.6% due to numerous headwinds for the major banks such as competitive pressures and low prospective earnings growth. The commencement of the Royal Commission into misconduct of banks and other financial services entities added to the negative sentiment. AMP shares lost considerable value following damaging revelations at the Royal Commission, which lead to the resignations of the Chairman and CEO.

Australian Shares Fund*

The Antares Australian Shares Fund delivered a return of 0.0% (net of fees) for the six months to 30 June 2018, underperforming the benchmark S&P/ASX 200 Accumulation Index return of 4.3% by 4.3%. Over the 12 months to 30 June 2018 the Fund returned 8.5% (net of fees), underperforming its benchmark by 4.5%. The main contributors to relative performance over the past year were overweight holdings in Santos and Rio Tinto and an underweight holding in CBA. Detracting from the Fund's performance were underweight holdings in CSL and BHP Billiton as well as an overweight holding in AMP.

Elite Opportunities Shares Fund*

The Elite Opportunities Shares Fund delivered a return of 2.7% (net of fees) for the six months to 30 June 2018, underperforming the benchmark S&P/ASX 200 Accumulation Index return of 4.3% by 1.6%. Over the 12 months to 30 June 2018 the Fund returned 10.9% (net of fees), underperforming its benchmark by 2.1%. The main contributors to relative performance over the past year were an overweight holding in Santos plus underweight holdings in CBA and Telstra. Detracting from performance was the decision not to own CSL, an underweight position in BHP Billiton and an overweight holding in Vocus Group.

High Growth Shares Fund*

The High Growth Shares Fund delivered a return of 6.6% (net of fees) for the six months to 30 June 2018, outperforming the benchmark S&P/ASX 200 Accumulation Index return of 4.3% by 2.3%. Over the 12 months to 30 June 2018 the Fund returned 17.7% (net of fees), outperforming its benchmark by 4.7%. The main contributors to relative performance over the past year were underweight holdings in CBA and Telstra plus an overweight holding in Santos. Detracting from performance was an overweight position in Amcor and an underweight holding in A2 Milk Company.

Listed Property Fund*

The Listed Property Fund delivered a return of 0.6% (net of fees) for the six months to 30 June 2018, underperforming the benchmark S&P/ASX 200 A-REIT Index return of 3.0% by 2.4%. Over the 12 months to 30 June 2018 the Fund returned 10.6% (net of fees), underperforming its benchmark by 2.4%. The main contributors to relative performance over the past year were overweight holdings in Abacus Property and Unibail-Rodamco-Westfield as well as an underweight holding in Dexus. Detracting from performance was an underweight holding in Goodman Group and the decisions not to own Investa Office Fund or Charter Hall.

Antares Investment Returns

Performance to 30 June 2018[1]

		6 mths %	1 yr %	3 yrs % pa	5 yrs % pa	10 yrs % pa	Since Inception % pa
Antares Australian Shares Fund	Net Return	0.0	8.5	6.5	7.8	5.7	8.6
S&P/ASX 200 Acc Index	Gross Return	1.0	10.7	8.6	9.9	7.8	10.5
Inception date: 28/02/1987	Benchmark Return	4.3	13.0	9.0	10.0	6.4	8.9
	Net Excess Return	**-4.3**	**-4.5**	**-2.5**	**-2.2**	**-0.7**	**-0.3**
	Gross Excess Return	**-3.3**	**-2.3**	**-0.4**	**-0.1**	**1.4**	**1.6**
Antares Elite Opportunities Shares Fund	Net Return	2.7	10.9	9.5	9.6	7.0	10.4
S&P/ASX 200 Acc Index	Gross Return	3.5	12.4	11.1	11.2	8.5	11.9
Inception date: 29/11/2002	Benchmark Return	4.3	13.0	9.0	10.0	6.4	9.3
	Net Excess Return	**-1.6**	**-2.1**	**0.5**	**-0.4**	**0.6**	**1.1**
	Gross Excess Return	**-0.8**	**-0.6**	**2.1**	**1.2**	**2.1**	**2.6**
Antares High Growth Shares Fund	Net Return	6.6	17.7	11.2	10.8	7.2	10.5
S&P/ASX 200 Acc Index	Gross Return	7.6	20.0	13.4	13.0	9.3	12.9
Inception date: 02/12/1999	Benchmark Return	4.3	13.0	9.0	10.0	6.4	8.3
	Net Excess Return	**2.3**	**4.7**	**2.2**	**0.8**	**0.8**	**2.2**
	Gross Excess Return	**3.3**	**7.0**	**4.4**	**3.0**	**2.9**	**4.6**
Antares Listed Property Fund	Net Return	0.6	10.6	7.4	9.6	5.5	6.7
S&P/ASX 200 A-REIT Acc Index	Gross Return	1.6	12.8	9.5	11.8	7.6	8.8
Inception date: 20/01/1998	Benchmark Return	3.0	13.0	9.7	12.0	6.0	7.1
	Net Excess Return	**-2.4**	**-2.4**	**-2.3**	**-2.4**	**-0.5**	**-0.4**
	Gross Excess Return	**-1.4**	**-0.2**	**-0.2**	**-0.2**	**1.6**	**1.7**

Disclaimer:

[1] Past performance is not a reliable indicator of future performance. Returns are not guaranteed and actual returns may vary from any target returns described in this document.

[2] Investment returns are based on exit prices, and are net of management fees and assume reinvestment of all distributions.

[3] Gross returns are provided to show performance against the investment objective.

*Closed to new investments

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