

Antares Enhanced Cash Trust

Monthly Investment Report



December 2018

Performance

Period Ended	1 mth	Qtrly	1 yr	2 yr	3 yr	SI*
31 December 2018	%	%	%	% pa	% pa	% pa
Composite Portfolio	0.17	0.54	2.24	2.38	2.44	4.24
Bloomberg Bank Bill Index	0.15	0.48	1.92	1.84	1.91	3.71
Difference	0.02	0.06	0.32	0.54	0.52	0.52

Valuation at month end was \$7,348,976,470.46

Returns are expressed before deducting tax and investment management fees

*Since Inception, Jan 2007.

Portfolio strategy and positioning

- The 1-3yr yield curve has flattened by a further 15bp over the past month as securities out to 12 months were negatively impacted by the 14bp rise in money market yields. We reduced the long duration at 3YR futures yields below 2.0% and plan to further reduce the overweight by selling 3YR futures at yields below 1.75%.
- We continue to maintain good liquidity in all portfolios by demanding a high illiquidity premium from less liquid holdings.

Current positioning:

Duration: 0.20 yrs mdc, 0.07 yrs longer than the benchmark

Curve: Flattener of 1-3yrs vs 3mths 0.04 years mdc

Credit: Spread duration (excluding money market securities) of 0.64 years mdc

Market Outlook

Markets exited 2018 on a very weak note with some key risks front of mind:

- Fed tightening
 - US /China trade conflict
 - Slowing global growth
 - US Company earnings
 - US govt shutdown
 - Brexit
- Market fears of further FED tightening have abated a lot with the FED working hard to pacify investors that the FED are on hold for now; "policy must be forward looking and officials cannot afford to wait for an economic slowdown to take hold before taking action".
 - The US and China have similarly soothed markets somewhat, reassuring investors that both sides are committed to a meaningful trade deal, which is well advanced.
 - US and Global growth expectations got a shot in the arm with the strong December US employment and wages report. But slowing manufacturing and home building in the US along with soft production surveys from Europe and China point to more slowing to come.
 - US company earnings updates are expected to indicate a sharp fall in earnings expectations. Apple set the ball rolling in December with their expectations of slower growth, particularly in China. They mentioned uncertainty on trade as a contributing factor. The risk is that other companies use the Apple precedent to announce larger earnings downgrades than markets are expecting. In contrast, any less negative earnings announcements could add another leg to the recovery in equities.

AUS: A key concern in domestic markets is the upward pressure on short term rates, reflecting bank funding pressures. Furthermore, the banks have increased bond issuance requirements for 2019. Reflecting the tight funding market, CBA raised \$2.5bn via a 5 year bond issue in the 1st week of January. CBA paid well over secondary trading levels to access their 5 year funding at a margin of 113bps to swap. Rising bank spreads seem more reflective of demand/supply dynamics and don't reflect deteriorating credit quality, "at this stage". 5YR CBA CDS trade 40bp lower than the cash bonds.

Antares Fair Value Assessment

Antares's scenario probabilities still prioritise the "steady state" Scenario 3. A key feature is the expectation that in scenarios where China slows appreciably, Australian bonds lose some of their "safe haven" status. In such a scenario the spread on US/AUS 10yr bonds is forecast to widen by over 100bp, more in line with previous AUS underperformance in weak Asian growth environments.

Instrument	Fair Value Range (FV)	Market Price	Mid FV – Market exp (+) /cheap (-)	Change exp (+) /cheap (-)
Cash (6mth forward)	1.30 – 1.50%	1.50%	-0.10%	0
3YB	1.75 – 1.95%	1.95%	-0.10%	-0.15%
10YB	2.50 – 2.70%	2.30%	+0.30%	+0.05%
30YB	3.15 – 3.35%	2.85%	+0.40%	+0.05%
3/10 Spread	0.65 – 0.85%	0.52%	+0.23%	+0.03%
iTraxx (forward contract*)	110 -135	90+10	+22	-0.03%
US 10YR	2.40 – 2.80%	2.70%	-0.10%	-0.15%

Return Attribution

Description	BP's
Duration	+1.5
Curve	+1.3
Sector	-4.2
Yield Enhancement	+4.2
Total Excess Return	+2.8

Key Characteristics

	Trust	Benchmark
Interest Rate Duration (yrs)	0.20	0.12
Running yield + Rolldown	2.57%	1.98%
Credit spread duration (yrs)	0.73	-
Average credit rating	AA-	AA-
Liquidity*	66%	100%

*Liquidity deemed available within 24 hours.

Sector Exposures

Sector	Interest Rate MDC	Credit Spread MDC	MV%
Cash	0.00	0.00	0.05
Corporates Financials Fixed	0.04	0.04	2.35
Corporates Financials FRN	0.02	0.69	24.34
Corporate Others Fixed	0.02	0.02	1.26
Corporate Others FRN	0.00	0.00	0.41
Derivatives Interest Rate	0.05	0.00	0.01
Derivatives CDS	0.00	-0.12	-0.05
RMBS/ABS	0.00	0.10	7.03
Money Market	0.07	0.05	64.61
Total	0.20	0.78	100.00

Credit spread duration excl money market = 0.73 years mdc

Market Movements

- US Equities had their worst December since 1931 and their biggest monthly loss since Feb 2009, with the S&P500 down 9.2% in Dec. The ASX200 fared better and was down a meagre 0.4% over the month, however it was down 9.0% over the Dec quarter.
- Global bonds rallied hard in December on risk aversion, with AUS10yr bond futures up 28bps to 2.32%, 3yr bond futures up 28bps to 1.80% and the yield curve unchanged at 52.5bps. US 10Yr Treasuries rallied 30bps to close at 2.68%.
- BBSW continued to widen and flatten over the month with the 1m BBSW rate 16bps higher at 2.045%(2.5yr high), while 3mBBSW was 14bps higher at 2.09% and 6mBBSW was 9bps higher at 2.22%.
- It was a tough month for credit globally with cash and synthetics both wider. US High Yield widened 110bp to 527. AUS iTraxx widened 8bps over month to close at 95bps.

Australian Rates	December 2018	Month Change	Quarterly Change
RBA Cash Rate	1.500	0.00	0.00
90 Day Bank Bill	2.090	+0.14	+0.15
3 Yr Futures	98.200	+0.28	+0.31
10 Yr Futures	97.680	+0.28	+0.37
3/10 Spread (bps)	52.0	0.0	-6.5
iTraxx Australia 5Y	95.1	+8.6	+20.5
10Yr BEI	1.64	-0.16	-0.22

Global Sovereign Rates	December 2018	Month Change	Quarterly Change
Fed Fund Rates	2.40	+0.20	+0.22
ECB Main Refi Rate	0.00	0.00	0.00
US Sovereign 2 Yr	2.49	-0.30	-0.33
US Sovereign 10 Yr	2.68	-0.30	-0.38
Japan Sovereign 10 Yr	0.00	-0.09	-0.13
German Sovereign 10 Yr	0.24	-0.07	-0.23

Currencies	December 2018	Month Change	Quarterly Change
AUD/USD	0.705	-0.026	-0.018
EUR/USD	1.147	+0.015	-0.014
USD/JPY	109.690	-3.88	-4.01

Equities	December 2018	Month Change	Quarterly Change
ASX200	5646	-0.4%	-9.0%
S&P500	2507	-9.2%	-14.0%

Commodities	December 2018	Month Change	Quarterly Change
WTI Crude	45.4	-5.7	-27.3
Gold	1282.5	+62.0	+91.6

Australian Economic Data	Latest Print	Month Change	Quarterly Change
Employment Change (k)	37.0	+8.3	-6.4
Unemployment Rate (%)	5.1%	+0.1%	-0.2%
Retail Sales (MoM%)	0.4%	+0.1%	+0.1%
Trade Balance Value (m)	1,925	-88	-74
Building Approvals (MoM%)	-9.1%	-7.7%	+0.7%
Consumer Confidence (Westpac)	104.4	+0.1	+3.9
Business Confidence (NAB)	3.2	-1.3	-2.3
Business Conditions (NAB)	10.6	-2.1	-4.3

Australian Economic Data	Latest Quarterly (Q3)	Quarterly Change	1 Yr Change
Private Capital Expenditure (QoQ%)	-0.5%	+0.4%	-0.3%
GDP (YoY%)	2.8%	-0.3%	+0.4%
Inflation (YoY%)	1.90%	-0.2%	+0.0%

Global Economic Data	Latest Print	Month Change	Quarterly Change
US Non-Farm Payrolls (k)	312	+136	+312
US Unemployment Rate (%)	3.9%	+0.2%	+3.9%
US Manufacturing ISM	54.1	-5.2	+54.1
US Non-manufacturing ISM	57.6	-3.1	+57.6
China Manufacturing PMI	49.4	-0.6	+49.4
China Non-Manufacturing PMI	53.8	+0.4	+53.8
German Factory Orders (MoM%)	-1.0%	-1.2%	-1.0%
German Industrial Production (MoM%)	-1.9%	-1.1%	-1.9%

Semis * vs Gov Bonds	December 2018	Month Change	Quarterly Change
3yr (bps)	23.7	-2.92	+3.38
7yr (bps)	41.6	+4.06	+3.94

* Semi calculation comprises an equal weighting of NSWTC and WATC

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Antares has managed fixed interest and cash portfolios for investors since 1990 and currently has over A\$29.7 billion* in funds under management across a range of cash management, fixed income and liability driven investment strategies.

Antares is focused on delivering performance objectives for our clients within a carefully managed and defined risk framework.

*as at 30 September 2018

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