

Antares Income Fund

Monthly Investment Report

December 2018



Fund Performance

Period Ended 31 December 2018	1 Mth %	3 Mth %	1 Yr %pa	2 Yr %pa	3 Yr %pa	SI %pa ³
Antares Income Fund ^{1,2}	0.13	0.39	2.02	2.48	2.59	2.69
Bloomberg AusBond Bank Bill Index	0.15	0.48	1.92	1.84	1.91	2.17
Difference	-0.02	-0.09	0.10	0.64	0.67	0.53

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 Performance inception 4 November 2013.

Investment return objective

The Antares Income Fund aims to provide investors with a regular income and a return (after fees) that exceeds the Bloomberg AusBond Bank Bill Index over rolling three year periods.

Portfolio Review

Performance

The Fund underperformed the benchmark by 2bp after fees for the month of December.

Contributors to performance (relative to the benchmark)

- Credit spreads widened appreciably through the month (5-15bp) which detracted 9bp from returns. This was partially offset from bought protection positions held in the Fund to hedge such risks.
- The Fund's long duration contributed 4bp to the fund's excess return as yields rallied.
- The consistent contributor to the Fund's excess returns was the additional yield earned from the high quality investment grade securities held by the Fund.

Key Activities:

- Continued to buy 180 day NCDs at elevated levels to take advantage of the steep bank bill curve, particularly going into December month end.
- The fund previously added interest rate duration at 97.80 via 3YR futures and some of this was opportunistically taken off as 3YR futures rallied through 98.00.

Current positioning:

Duration: Portfolio duration is 0.37 years mdc, 0.25 years longer than the benchmark.

Curve: Overweight 5 years vs 6 month investments.

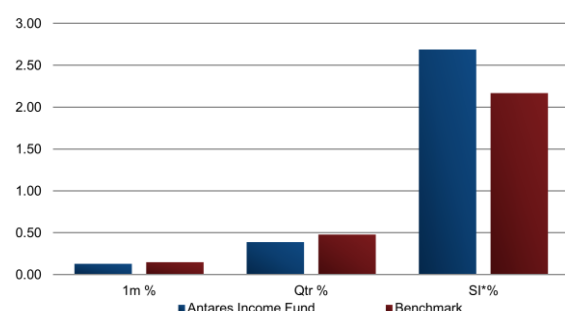
Credit: Spread duration of 1.82 years mdc.

Market Outlook

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

1. Fed tightening
 2. US /China trade conflict
 3. Slowing global growth
 4. US Company earnings
 5. US govt shutdown
 6. 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.

Net return vs Benchmark return (%)



Key characteristics at 31 December 2018

	Fund	Benchmark
Duration (yrs)	0.38	0.12
Running yield + Rolldown (%)	3.01	1.98
Credit spread duration (yrs)	1.82	-
Average credit rating	A+	AA-
Liquidity*	79%	100%
Fund Size (millions)	\$204.3	-

* Liquidity deemed available within 24 hours. Consisting of (1) cash and short term securities that are expected to be able to be liquidated at mid-market yields and thus no transaction costs, and (2) unit holdings of other Antares managed sub funds for with no there is buy/sell spread and next day redemption facility if notified by 2pm.

Distribution History

Distribution date	31 December 2018
Distribution amount	0.61 Cents Per Unit
Next distribution date	31 March 2019

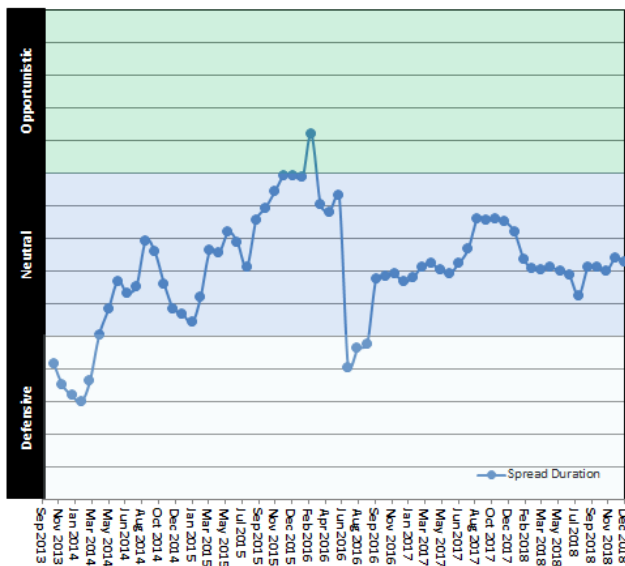
Rating Exposure (by market value %)

AAA	14.0%
AA+	0.0%
AA	7.3%
AA-	42.3%
A+	4.6%
A	3.7%
A-	11.3%
BBB+	8.6%
BBB	8.3%

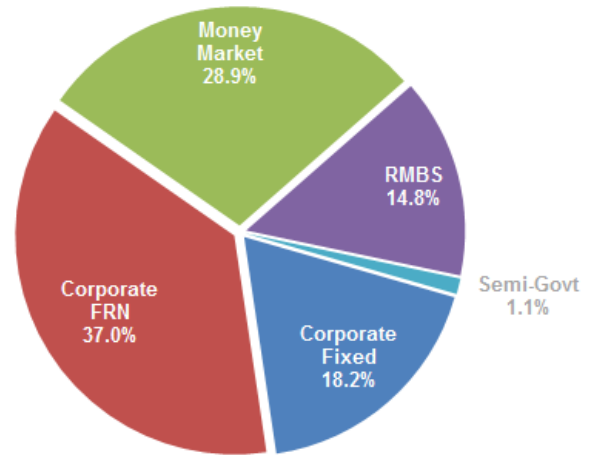
Portfolio strategy and positioning

- 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 plan to further reduce the overweight in 3yr duration by selling 3YR futures at yields below 1.75%.
- We continue to maintain a defensive strategy for the portfolio. To offset the credit risk somewhat, we hold credit protection via Credit Default Swaps (CDS) as well as a long interest rate duration position.
- We continue to maintain good liquidity in the portfolio by demanding a high illiquidity premium from less liquid holdings.

Defensive to Opportunistic



Sector Breakdown (Market Value %)



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 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 were 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 up 9bps at 2.22%.
- Tough month for credit globally with cash and synthetics both wider. 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

About Antares Fixed Income

Antares Fixed Income (Antares) is a specialist fixed interest manager covering a range of domestic and international securities. 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 Sept 2018

Contacts

Client Services

Level 21, NAB House
Sydney NSW 2000
Email: info@nabam.com.au
Phone: 1300 738 355

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