Quarterly Investment Update

Antares Elite Opportunities Fund – December 2020

For adviser use only

Highlights for the quarter

Performance: The Fund returned 14.6% (net of fees) for the December quarter, outperforming its benchmark by 0.9%.

Contributors to performance: Positive contributors – Newcrest Mining (not owned), ANZ, Virgin Money UK; Negative contributors – CBA (underweight), Northern Star, a2 Milk

Stock activity: Buys/additions – IGO, Orora, Medibank, CBA; Sells/reductions – Deterra Royalties, Computershare, Healius, NAB

Fund snapshot

Inception date	18 November 2002
Benchmark	S&P/ASX 200 Total Return Index
Investment objective	The Fund's objective is to outperform the Benchmark (after fees) over rolling 5 year periods.

Investment returns as at 31 December 2020[1]

Period	3 months	1 year	3 years pa	5 years pa	10 years pa	Since inception pa
Net return[2] %	14.6	-2.5	3.0	7.2	6.8	9.9
Gross return[3] %	14.8	-1.8	3.8	8.0	7.6	10.7
Benchmark return %	13.7	1.4	6.7	8.7	7.8	9.0
Net excess return %	**0.9**	**-3.9**	**-3.7**	**-1.5**	**-1.0**	**0.9**
Gross excess return %	1.1	-3.2	-2.9	-0.7	-0.2	1.7

[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.

Contributors to performance

The fund performed well during the December quarter returning 14.6% (net of fees) vs the benchmark return of 13.7%. A significant portion of the value added was concentrated in the month of November as the market swung towards value and cyclical style stocks and away from growth and momentum.

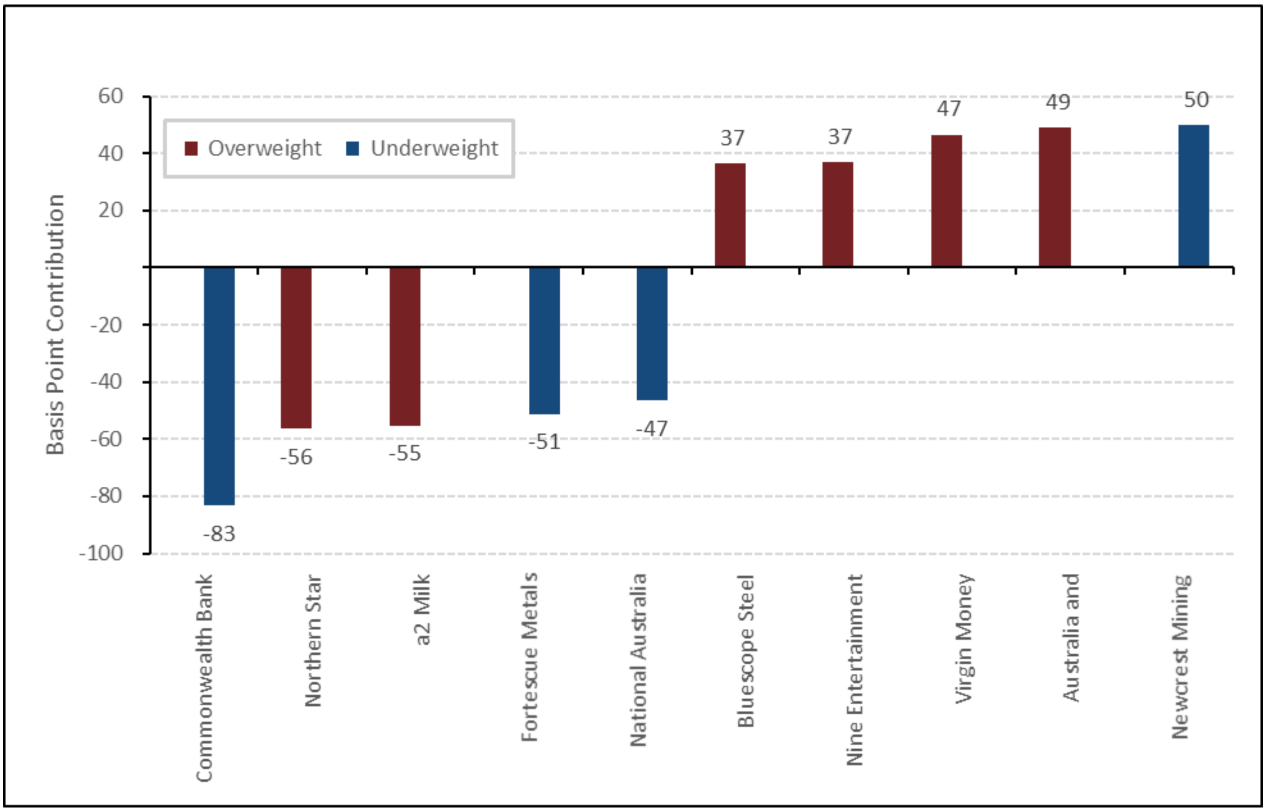
Positive

Adding value to performance was not owning Newcrest Mining and our overweight holdings in Virgin Money (VUK) and ANZ.

- **Newcrest Mining** (NCM) – During the quarter the gold price fell from its recent highs as did the share prices of gold producers. Not owning NCM contributed positively to performance. But the value added was offset by our overweight position in Northern Star (NST) which detracted value.
- **Virgin Money** (VUK) - Our overweight position in VUK added value. VUK reported a result that was broadly in line with expectations. Pleasingly, there appears to be an outbreak of common sense within the UK banking sector with many industry participants highlighting that current mortgage pricing will yield a net interest margin significantly higher than the back book of business would suggest. The resolution of Brexit, a robust balance sheet and general risk appetite also helped.

- **ANZ Banking Group** (ANZ) - Our overweight position in ANZ added value during the quarter. Banks in general performed well post their results. Balance sheets remain strong with collective provisions at cyclically high levels and, as yet, no evidence of spiralling bad debts. Regulatory relief in terms of dividend payout relaxation also helped the sector. Our underweight position in CBA offset our position in ANZ.

Figure 1: Fund attribution – December quarter



Source: Antares; December 2020

Negative

The largest detractors to performance were our underweight position in CBA and being overweight Northern Star (NST) and a2 Milk.

- **Commonwealth Bank** (CBA, underweight) - During the quarter, the banking sector rose on the prospect of an economic recovery and continued fiscal support from federal and state governments which would reduce potential losses. APRA also signaled it would likely remove the caps on bank dividend payout ratios which was positive for the bank sector. This news built on a positive trading update by CBA.
- **a2 Milk Company** (A2M) - Being overweight A2M detracted value. During the quarter the company downgraded earnings guidance. The downgrade largely relates to the impact that Covid has had on the company. This includes the flow-on effect of pantry destocking that will impact FY21 results as well as lower than anticipated sales to retail daigous in Australia, primarily due to the reduced tourism from China and international student numbers.
- **Northern Star** (NST) - During the quarter the gold price fell from its recent highs as did the share prices of gold producers.

Stock activity

Table 1: Stock Activity

Portfolio Trades	Buy	Sell
Core	ORA, CBA, MPL	HLS, NAB
Trading	IGO	DRR. CPU

Buys

Orora (ORA)

ORA was demerged from Amcor in 2013 and specialises in glass (bottles), metals (can) and paper packaging. ORA consists of two groups – The Australasia business, which makes up approximately 2/3rds of the profits is focused on beverage packaging in Australia and New Zealand. The remaining North American division is focused on corrugated sheet manufacturing and packaging material distribution in the US, Canada and Mexico.

1. In Australasia, by virtue of operating within good market structures and primarily servicing the defensive end markets of food and beverage, Orora seeks to deliver GDP based revenue growth enhanced by innovation.
2. In North America, Orora expects to supplement GDP based industry revenue growth with market share gains and increased sales to existing customers via a solutions service and product offering and innovation.

There are number of attributes that have attracted us to ORA. Firstly, ORA recently disposed of its low returning, capital intensive, paper manufacturing business. As can be seen in table 2, this has led to a sharp increase in ROE of the remaining business as the capital liberated has been returned to shareholders. ORA's forecast ROE puts it in the top quartile of all the companies in the ASX/S&P 200 Index.

With the capital-intensive assets removed, the remaining assets require relatively modest amounts of capital over the next few years. Current production volumes are below installed capacity hence over the next few years ORA should enjoy a capex "holiday". The increased free cashflow under ORA's capital framework should be (and is currently being, via buy-back) returned to shareholders. Furthermore, ORA seeks to provide shareholders with a steady income stream through an indicated dividend payout ratio of 60%-80% of net profit after tax.

Table 2: Orora Capex and Cashflow (estimates)

Orora					
	18BC*	**19BC***	**20BC***	**21BC***	**22BC***
Estimated ROE (%)	11.60	13.89	16.62	16.56	17.29
Estimated Capex ($m)	169.80	211.50	121.27	76.33	77.29
Estimated free cashflow ($m)	145.80	86.30	30.27	205.98	206.21
Estimated free cashflow yield (%)	5.8	3.4	1.2	8.2	8.2
	ORA Share Price		$2.72		

Source: Bloomberg; October 2020

ORA's assets are also conservatively geared, with current Debt to EBITDA levels a little over 1x, which is below the stated target of 2-2.5x.

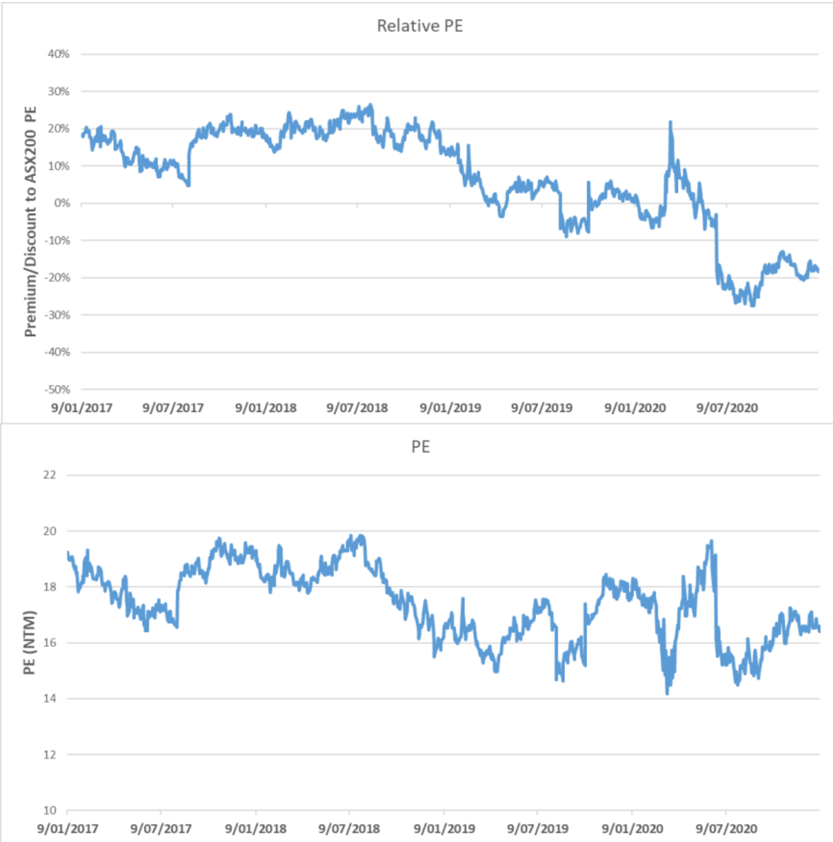
From a business perspective the most appealing aspect is ORA's exposure to beverage can manufacturing. With the environmental pressures increasing on the use of plastics, many beverage manufacturers have turned their attention to the use of aluminium cans. Below is an excerpt from a presentation by Ball Corp, a North American packaging company. As illustrated, cans now command a 67% share of new products being launched by substrate. We believe these trends will only continue and act as a tailwind for ORA's business.

Figure 2: New beverage launch packaging - North America

Source: Ball Corp; December 2020

What makes the investment case compelling is ORA's share price. As illustrated in Figure 3, ORA has de-rated relative to the broader market and now trades at a 10-20% discount to the marked despite having a top quartile ROE. Even compared to its own historical PE the stock is trading towards the lower end of its range. Our target share price is in the mid $3 range.

Figure 3: ORA actual (x) and relative PE Ratio



Source: Bloomberg; January 2020

Pleasingly we initiated our position prior to ORA's AGM and trading update that saw the company deliver a better outlook than expected by the market resulting in an almost 8% increase in share price on the day.

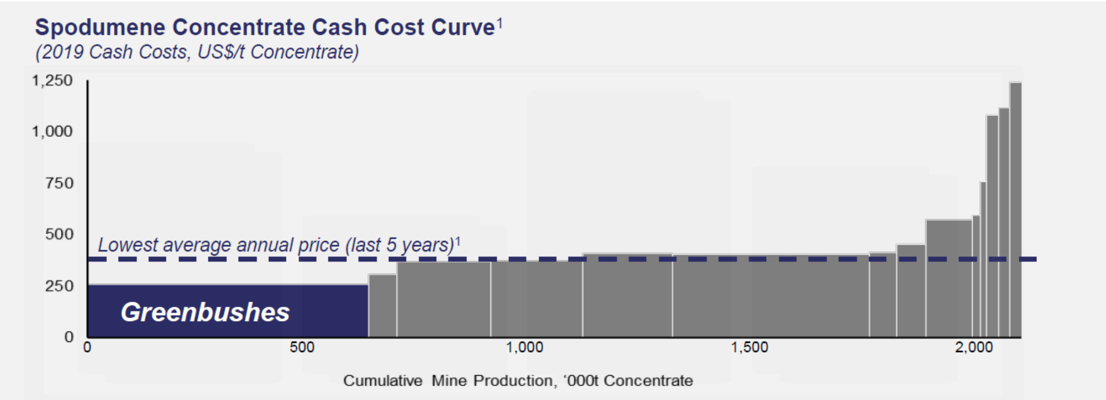
IGO Limited (IGO)

During the quarter IGO undertook a capital raising to purchase some of the worlds greatest Lithium assets - we used the opportunity to increase the portfolio's exposure to the stock. IGO has exposure to a number of the "battery metals", namely nickel, copper and cobalt through its Nova deposit in Western Australia. It also has exposure to gold through its Tropicana Joint Venture with AngloGold Ashanti.

On 9 December, IGO announced its intention to acquire an effective 24.99% indirect interest in Greenbushes, a large, low-cost, hard rock lithium mine in Western Australia and a 49% interest in Australia's first lithium hydroxide plant, with the acquisition funded through a combination of debt, existing cash and an equity raising.

Not only is Greenbushes the world's largest hard rock lithium mine it is also amongst the highest grade and lowest cost mines, all in a low risk country – Australia.

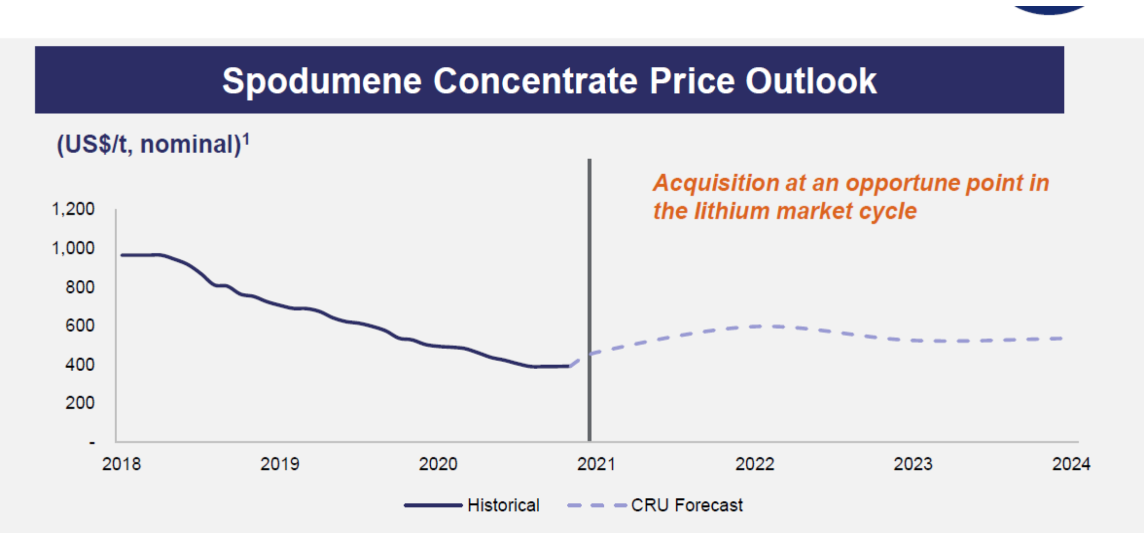
Figure 4: Cost and price of spodumene concentrate



Source: IGO investor presentation, 9 December 2020

The Spodumene price (spodumene is the ore from which Lithium is extracted) has been in a downward trend over the last several years as supply has far out stripped demand. However, we feel that we are at an inflection point. Many mines have been put on care and maintenance yet demand, even on conservative assumptions, is forecast to rise rapidly over the next decade as the world de-carbonises. It appears that IGO have timed their acquisition well, buying their holding from a forced seller that over-geared at the top of the cycle and is likely selling at the bottom of the cycle.

Figure 5: Spodumene concentrate price outlook



Source: IGO investor presentation, 9 December 2020

Switches

Switch out of **NAB into CBA** – During the month we switched our NAB exposure into CBA. Although CBA continues to trade at a premium to NAB the magnitude of the premium has recently reduced given the relative performance of NAB. The primary reason however is the portfolio exposure of the two banks, with NAB having a greater exposure to small business (SMEs) compared to CBA's large exposure to mortgages. Our forward-looking view is that mortgages should outperform SMEs both in terms of volume growth and bad and doubtful charges hence our decision to switch.

Switch out of **Healius** (**HLS**) into **Medibank Private (MPL)** – We have owned HLS for a number of years and our thesis has largely played out. Our view was that the value of the Medical Centre business was not properly reflected in the share price and that the company should be rerated given the remaining businesses of pathology and imaging should command a higher valuation. Earlier this year HLS announced the sale of its Medical Centre business for a higher value than the market expected and more recently the stock has enjoyed a price rerating. HLS has also benefited strongly from the COVID crisis as it is a key player in COVID testing through its pathology business. These tailwinds should start to ease as we enter 2021.

We used the sales proceeds from HLS to initiate a position in MPL. MPL offers an under-geared balance sheet, good management, leverage to increasing interest rates and strong bottom up drivers of industry consolidation and a resurgence of member growth, something that has been absent over the last few years.

Sells

Deterra Royalties (DRR)

On 23 October, DRR began trading on the ASX. DRR is the iron ore royalty business that was demerged from Iluka Resources (ILU). We received DRR shares as a result of our original ILU holding. At the time of the demerger, DRR was trading above our assessed value hence our decision to sell. Although we like the unique attributes of the underlying assets the price at over 20x EBITDA appeared full.

Computershare (CPU)

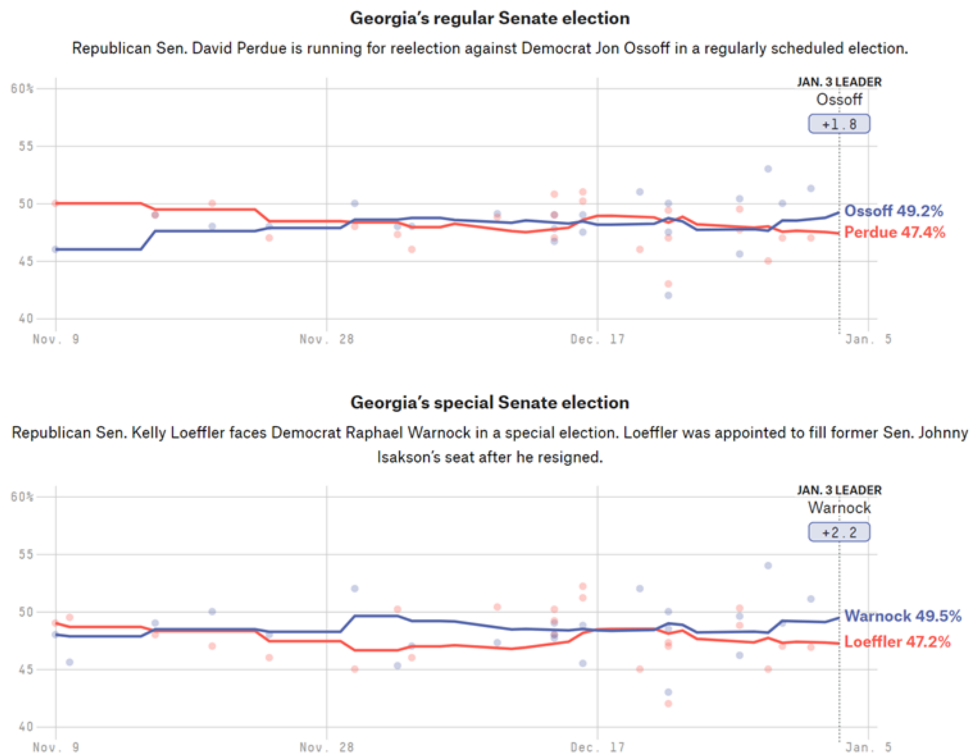
In order to fund our purchase of ORA we exited our position in CPU. Since the covid crisis emerged the external macro environment has continued to deteriorate and although around 80% of CPU's revenues are recurring, transactional revenues have become more challenging to predict. Lower interest rates also pose a headwind for CPU's earnings and with Central Banks intent on keeping rates low for a protracted time we felt it timely to exit our position.

Outlook

Our September 2020 outlook highlighted the US election and the development of a vaccine as two important catalysts that were likely to play out during the December quarter - both events proved to be positive for equity markets resulting in a strong (double digit) return for the December quarter. As we enter 2021 the backdrop for equity markets appears positive. After a prolonged period of elevated risks the outlook appears to be improving, especially with news of a highly effective vaccine now being administered globally. Interest rates, at least in the short term, appear anchored at low levels and corporate profits have enjoyed a "V-shaped" recovery.

At the time of writing, the outcome of the Georgia senate run-off election is as yet unknown and may have important implications for the outlook. A Republican victory would cement the status quo with a likely legislative gridlock as a goldilocks outcome for equities, a "market nirvana" scenario. A Democratic victory would however give Biden greater control to pass through major tax increases and regulatory changes, something that is not currently priced into the market. Although historically a red (Republican) state, recent polls suggest Georgia is turning blue. Some polls now have the Democrats winning both Senate seats.

Figure 6: Georgia Senate election polls

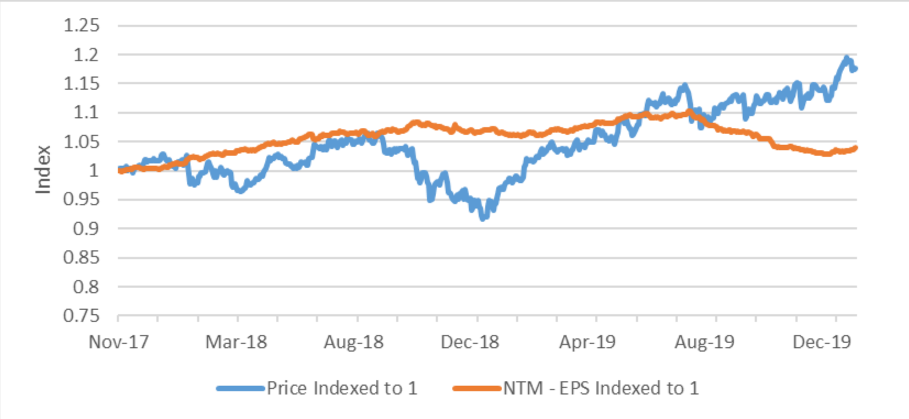


Source: projects.fivethirtyeight.com; January 2020

The possibility of a "blue wave", the surging virus in the US/Europe plus the lack of an immediate US fiscal response will likely create erratic market moves over the next two to three months and has caused us to pause for reflection following such strong December quarter returns. From an Australian perspective the annual price return for our market has once again been positive despite the significant fall in the March quarter. Earnings however still remain depressed, as illustrated in Figure 7, and are expected to be around 5% lower than this time last year.

Moving forward it is difficult to see a continued re-rating of our market - interest rate policy and signalling by the RBA have had the desired impact (reducing the risk premium) and from this point forward we believe that earnings will need to do more of the heavy lifting if our market is to generate positive price returns.

Figure 7: S&P/ASX 200 Price and Earnings



Source: Bloomberg; January 2021

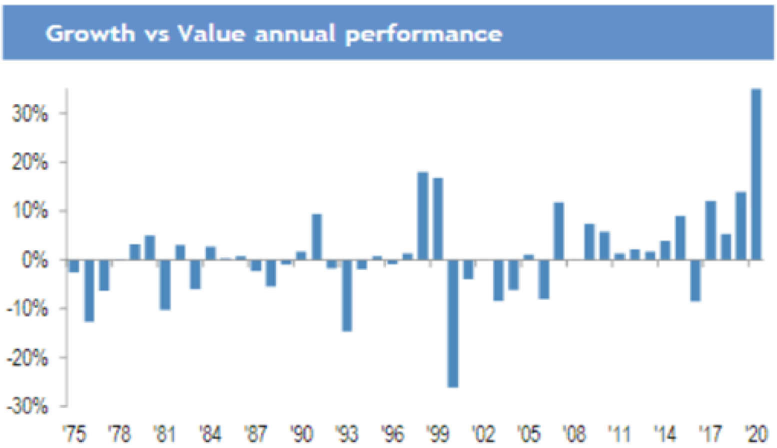
Our positive view for 2021 is also reflected in consensus expectations with many market strategists also positive - prima facie this is concerning to contrarian investors such as ourselves. However, the more important considerations are whether investors are positioned as heavily as consensus views suggests. There still appears to be ample room for investors in increase "risk" within their portfolios. For example, cash positions appear to be well above average levels and have only modestly reduced recently. Furthermore, analysis by JP Morgan (The JP Morgan View – 17 December 2020) indicates that although positioning across asset classes is skewed towards cyclical assets, investors do not hold the most cyclical ones (Equities) in significant size. These data points indicate that there may still be more liquidity to flow to the equity asset class in 2021.

Strategy

Ultimately 2021 should be characterised by above trend growth, ultra-loose monetary policy and supportive fiscal policy. Although there is always the prospect of short-term volatility we have positioned the portfolio to benefit from the reopening of the economy and the vaccine should act as an accelerant. Our portfolio enjoys a cyclical-over-defensive bent, has an increased exposure to small caps and we remain committed to the "Back-To-Work" basket versus the "COVID19 Winners" basket. In the short-term, equities have discounted a lot of good news, which is likely to lower 2021 returns. However, as populations are inoculated and large parts of the global economy reopen, a virtuous cycle of increasing consumer and business confidence would boost investment and GDP and prove a boon for corporate profits.

That being said, the reticence to embrace this potential change is still remarkably high suggesting that the reflation trade has further to run should events continue to play out as we expect. 2020 was clearly an outsized year for growth over value, continuing the trend of growth outperforming value which has been the case for 13 of the last 14 years.

Figure 8: Growth vs Value (global)



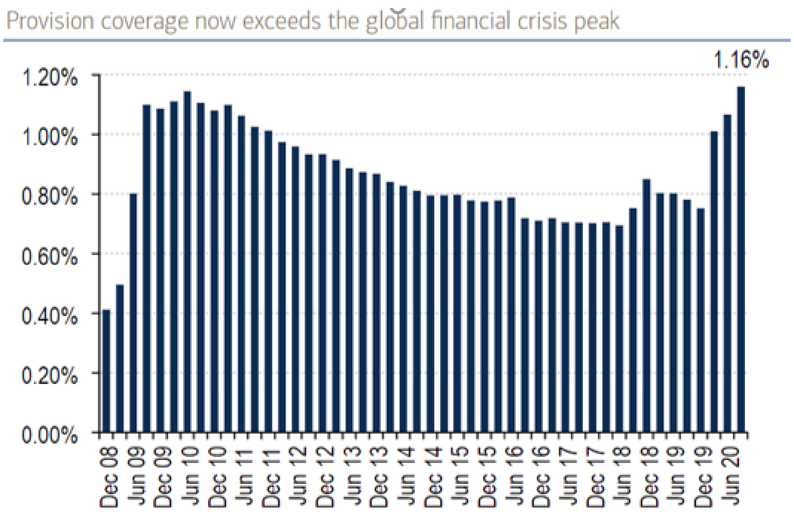
Source: Datastream; January 2021

The potential wildcard of a Democratic victory in the Georgia senate runoff, could produce a knee-jerk reaction with a fall in the USD and a bounce in bond yields. This might weigh on the overall market in the very short term, but it could also be the catalyst for the next leg up in Value rotation.

We prefer businesses that are hit hard by the pandemic (but able to survive) that should benefit from 'normalisation' (Qantas, Star Entertainment, Aristocrat Leisure, Transurban and Atlas Arteria) versus the lock-down beneficiaries such as work-from-home / covid related companies (JB HiFi, Dominos, Healius, Sonic and ResMed).

We prefer high dividend yield stocks especially given interest rates could stay low for longer (modest overweight to Banks and large overweight in Telcos). Within the banking sector we prefer Westpac, ANZ and Virgin Money. We see the driver to the upside being lower than expected bad debt charges. Collective provision levels are higher now than previous cycles yet loss rates are likely to be relatively lower (the most recent property price data indicates modest positive growth).

Figure 9: Global bank provision coverage



Source: Bank of America Global Research estimates, Company reports; December 2020

Lower loss provisions should drive strong EPS growth over the next few years and given the recent regulatory relaxation, dividends (DPS) should grow faster than earnings as payout ratios increase. We expect major banks DPS should grow at 30% pa over FY20-23 vs 17% growth in EPS. Capital continues to be strong and may yet prove to be a further boost to returns over coming years.

Our telco exposure comes from overweight positions in both Telstra (TLS) and Vocus. Our position in Telstra is best described as frustrating. We see valuation support for Telstra at $4 per share versus a current share price of around $3. Our thesis is centred around the value of the “infrastructure” type assets that are embedded within Telstra. During the second half of calendar 2020 we engaged with both management and the board to put forward our view of what needs to be done in order to realise some of the value that we see. Pleasingly TLS made some announcements along this path at their November investor day.

Comments around the dividend at the AGM were also re-assuring and give us confidence that the 16c per share dividend (~5.4% yield at current prices) is sustainable.

We prefer pockets of value cyclicals that still offer favourable risk-reward skews and maintain our overweight positions in Resources (both Metals and Energy).

The funds GICS exposure relative to the benchmark and portfolio fundamentals are presented in table 3.

Table 3: Portfolio GICS exposure - Antares Elite Opportunities Fund

Elite Opportunities at 31 December 2020	Portfolio %	Index %	Over/underweight %
Energy	4.3	3.7	0.6
Materials	26.9	20.3	6.6
Industrials	8.0	7.3	0.7
Consumer discretionary	6.0	7.4	-1.4
Consumer staples	8.1	5.9	2.2
Health care	8.8	10.7	-1.9
Financials ex REITs	22.1	27.8	-5.7
Information technology	0.0	4.5	-4.5
Communication services	11.9	4.0	7.9
Utilities	0.0	1.4	-1.4
Real Estate	2.4	7.0	-4.6
SPI Futures	0.0	0.0	0.0
Cash	1.5	0.0	1.5
Total	**100.0**	**100.0**	**0.0**

Source: Antares Equities, Factset December 2020

The broad portfolio characteristics are presented .

Table 4: Portfolio Statistics - Antares Elite Opportunities Fund

Earning Statistics			
	Portfolio	Benchmark	Active
PE (x)	17.52	17.01	0.50
EPS Growth (%)	7.14	6.65	0.49
ROE (%)	12.90	14.99	-2.09
Div yield (%)	3.08	3.37	-0.30
Payout ratio (%)	119.88	79.87	40.01
Price to Book (x)	2.44	2.58	-0.14
Raw Beta (x)	1.08	1.02	0.05

Source: Antares Equities, Bloomberg December 2020

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