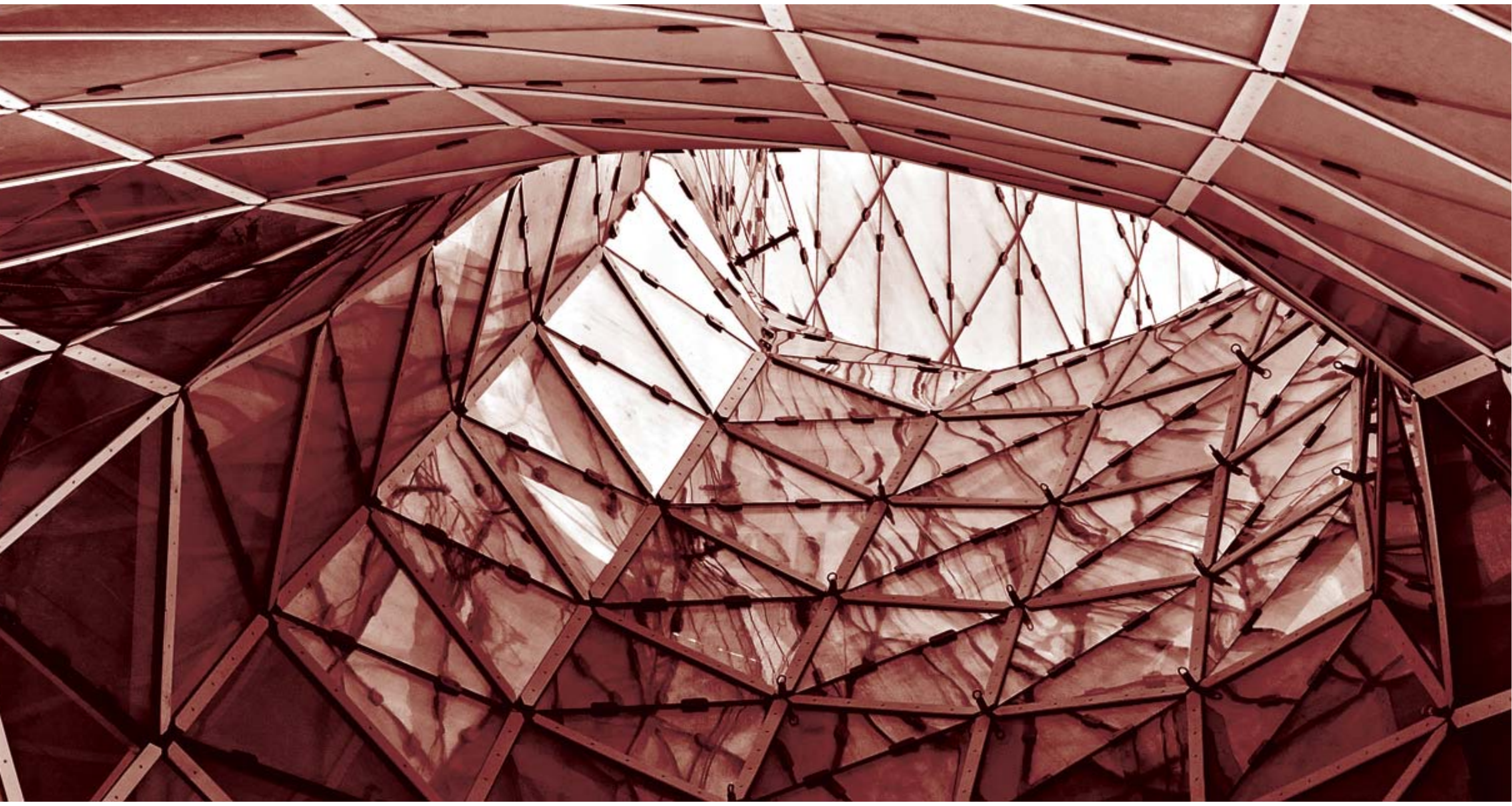
Quarterly Investment Update

December 2018



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China: 5 Days, 5 Cities, 5 Insights and 1 Conclusion

December 2018

In late 2018, Nick Pashias, Antares' Co-head of Equities, travelled through China, as part of an investor trip, to further Antares' understanding of the current business climate and how it relates to our investments; particularly in the resource sector.

He visited Beijing, Tangshan, Shanghai, Shenzhen and Hong Kong, met with over 20 companies and industry experts from the construction, real estate and steel making sectors.

Nick came away more negative on the outlook for raw material demand over the next few months leading into Chinese New Year. His five key insights were:

- The "Winter Cuts", at this stage, are not as bad as last year;
- Property prices are just about to roll over;
- Auto and Appliance demand is weak;
- Where steel margins go, iron ore follows; and
- Infrastructure is the hope, but is it enough?

His detailed summary follows:

The Winter Cuts, at this stage, are not as bad as last year

Although early in the winter period, it seems that Chinese steelmakers are more relaxed about the winter shuts versus our trip at the same time last year. It appears that the closure of mills has been left to the local governments in contrast to last year when the central government demanded closures across the board. Unlike last year there was no talk of pre-emptive closures so as to avoid government scrutiny.

Steel makers this year have been ranked into four groups (A to D) depending on their emission standards, finished product quality and mode of transport to market. Depending on the air quality, different groups will be instructed to curtail production, with group D (the biggest polluters) expected to take the biggest hit to production. Industry experts expect closures this winter period to run at around 10-15% of production compared to 30% last year, leading to more supply, but in a period of softer demand.

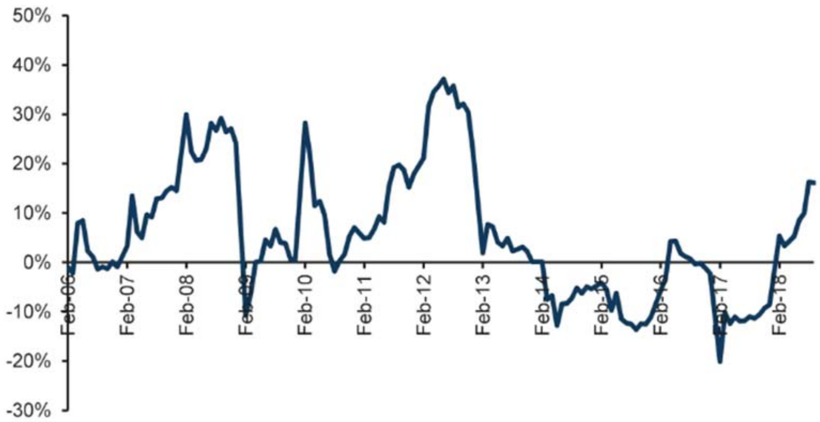
Some even suggested that the relaxed closures were a tool to maintain GDP growth with little regard for air quality.

Another popular theme was the impact of investment in emission control technology which has allowed mills to reduce emissions while maintaining production. Figures 1 and 2 illustrate the industry, aided by high margins over the last twelve months, has invested substantially in capital.

Figure 1: Steel capex in China

Source: WIND, Citi Research; October 2018

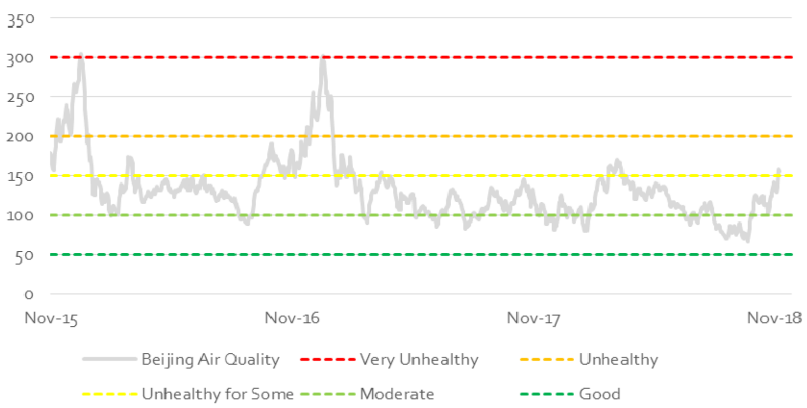
Figure 2: Growth in steel capex (%)



Source WIND, Citi Research; October 2018

On our return to Melbourne we looked at the available data relating to air quality around Beijing. Clearly evident in Figure 3 is the spike in emissions during November/December for 2015 and 2016. More interesting is the absence of any spike during winter 2017, a clear success for the central government. Although early in the current season it appears we are heading into a higher (more polluted) period. Figure 4 illustrates the year on year growth which at this stage has shown a dramatic increase over 2017 levels; indicating that the winter cuts are not potentially being enforced with the same rigour as 2017 and lending some weight to the argument that the steel industry is not curtailing production to sustain broader economic growth at a time of uncertainty.

Figure 3: China air quality index – Beijing (20DMA)



Source: Antares Equities, Bloomberg; November 2018

Figure 4: China Air Quality Index - Beijing Y-o-Y

Source: Antares Equities, Bloomberg; November 2018

Property is about to roll over

With property consuming around 40% of steel demand, it remains the most important sector in setting the price of steel and iron ore prices.

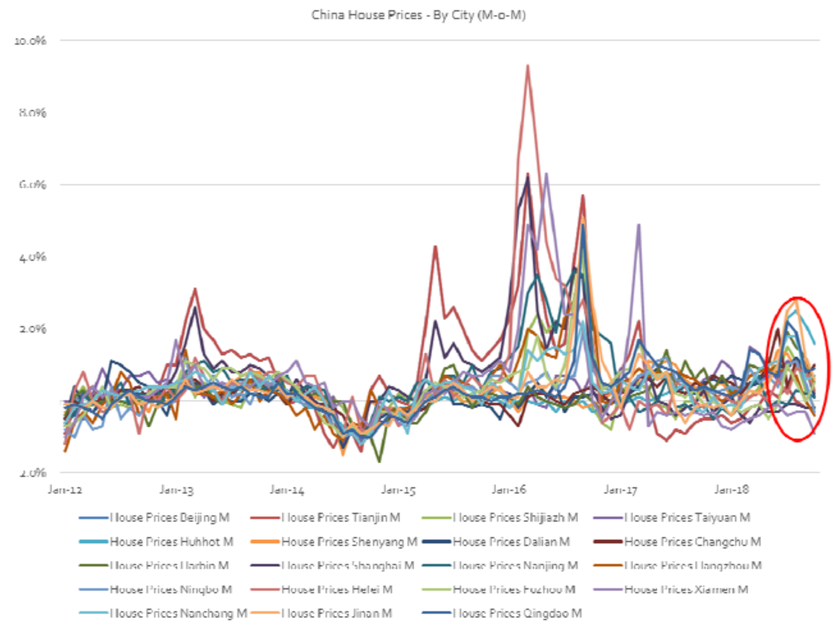
Over the years we have closely scrutinised data relating to property sales, starts, completions etc, but our experience suggests that house prices are the best predictor of property demand.

During the trip we met with a number of industry participants who were all generally cautious on prices. As we know 12-18 months ago the Chinese government embarked on a strategy to contain property prices. These home price restrictions coupled with the current uncertainty around trade wars looks to have generally finally dented demand for property and prices look to have been rolling over in the last few months. We have illustrated month on month growth in home prices around China in Figure 5. The downward trend is evident and clearly shown in Chart 6 that illustrates the high/low/average monthly numbers.

Over coming months we expect this to accelerate. There is anecdotal evidence that property developers are facing a liquidity squeeze and are liquidating inventory at lower prices. There were also stories of increasing land unsold (from local government) - the percentage of land being sold at zero premium to reserve prices is also up 10% on last year.

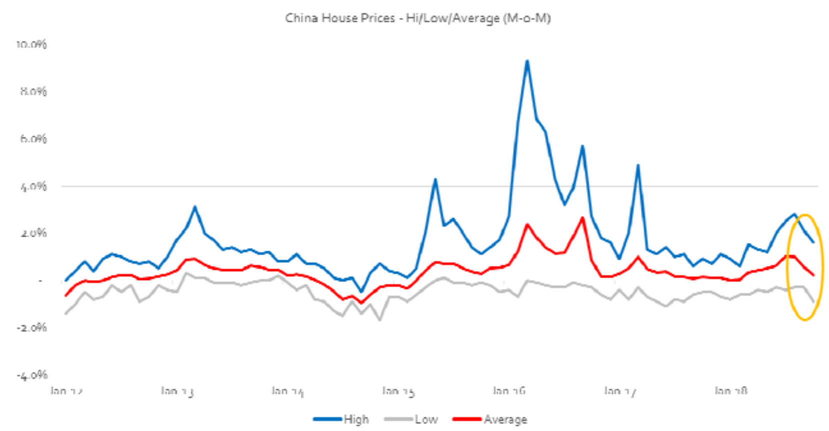
Office and commercial property demand also seems to be declining with new A-grade office supply expected to be down by 30% over the next few years.

Figure 5: China House Prices by City



Source: Antares Equities, Bloomberg; November 2018

Figure 6: China House Prices – Hi/Low/Average (M-o-M)



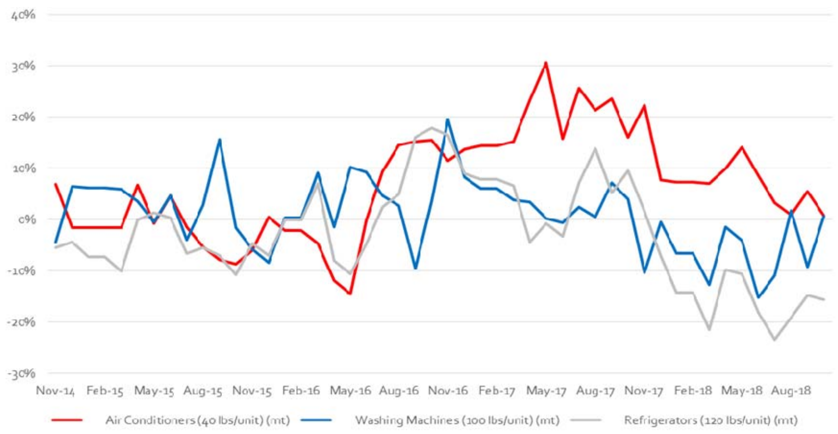
Source: Antares Equities, Bloomberg; November 2018

Auto and Appliance demand is weak

There was universal feedback regarding the weakness in white good and auto demand. Together these sectors make up approximately 10% of Chinese steel demand.

Year on year growth for these sectors is illustrated below. Whitegoods demand has been declining for most of 2018 with refrigerator demand being the weakest, down around 20%.

Figure 7: Whitegoods Demand (Y-o-Y)

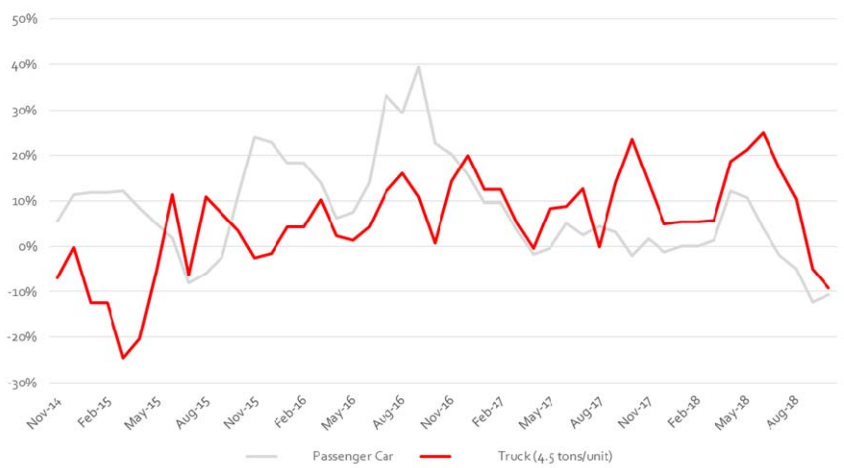


Source: Antares Equities, Bloomberg; November 2018

Following a series of initiatives designed to increase auto demand it looks like there has finally been buyer fatigue with the last data being down around 10% on last year for both passenger and truck vehicles.

Discussions with aluminium producers also suggest Chinese car manufacturers intend to greatly increase the proportion of aluminium in cars from next year.

Figure 8: Vehicle Demand (Y-o-Y)



Source: Antares Equities, Bloomberg; November 2018

More broadly, weakness in appliances and passenger vehicles may indicate that the Chinese consumer is fatigued or reluctant to make some of these larger purchases due to uncertainty relating to the trade war.

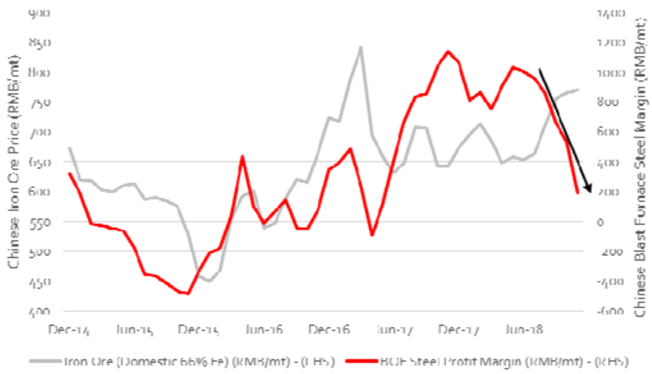
Where steel margins go, Iron Ore follows

A number of the steel mills we met with, particularly those producing hot rolled coil steel (used in appliance and auto manufacturing), were quite negative; which is no surprise given the large drop in margin experienced over the last few months. As illustrated in Figure 9, margins have fallen from around 1,000 RMB/t in June 2018 to 200 RMB/t in November 2018, some even suggested that on a spot price basis the larger State owned steel mills would potentially be loss making.

Over the years we have learned that the price of iron ore, at least in the short term, is not determined so much by supply and demand as it is by the steel mills ability to pay for the raw material. Their ability to pay is driven by their own margin. Figure 10 illustrates this relationship over the last four years. Spread margins lead the iron ore price.

We conducted further analysis on this correlation to determine the lead of steel mill margins ahead of the iron ore price, the analysis is presented in Figure 10 and suggests that there is generally a 1-2 month lag between steel mill spreads and the iron ore price. Figure 9 also suggests there is more room for the iron ore price to fall (at time of writing).

Figure 9: Chinese Iron Ore Price vs China BOF Margin



Source: Antares Equities, Bloomberg; November 2018

Figure 10: Iron Ore vs China BOF Margin Correlation

Source: Antares Equities, Bloomberg; November 2018

One additional note; over the last year or so we have heard BHP, RIO and Vale all suggesting that the discount of low grade material is structural not cyclical. We on the other hand have chosen a wait and see attitude. Figure 11 suggests the wait is over. The discount of low grade material remains cyclical. The determinant of the discount is influenced by the objective of the steel mills. Do they want to maximise production or profits? If production is to be maximised, and profits are high then high grade material is preferred and the discount will expand, however in times of low profits, the value in use of the low grade material is preferred and the discount should close, exactly as it has in the last few weeks.

Figure 11: Low Grade Iron Ore Discount

Source: Antares Equities, Bloomberg; November 2018

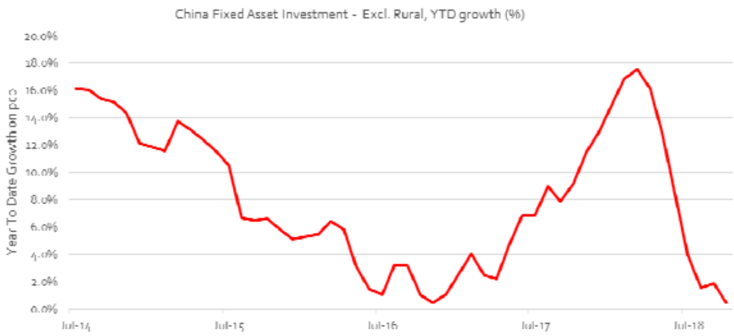
Infrastructure is the hope

Infrastructure spending has been the government's tool of choice over recent years to accelerate growth. Sometimes successfully, sometimes with unintended consequences. It seems we are possibly about to embark on another round of stimulus. The NDRC has recently approved a growing list of projects, not all with available funding.

At this stage it remains unclear how large the stimulus will potentially be but our feeling is that it is smaller than previous campaigns and will unlikely impact the real economy before Chinese New Year.

We visited each of the four largest infrastructure builders in China and although all were hopeful there remains some scepticism about the magnitude and timing of the initiative. The one clear point was that, following the government and local government bond issuance over the last several months, they were now being paid for the work they have done. What remains unclear is the quantum of funds available to deploy into future projects.

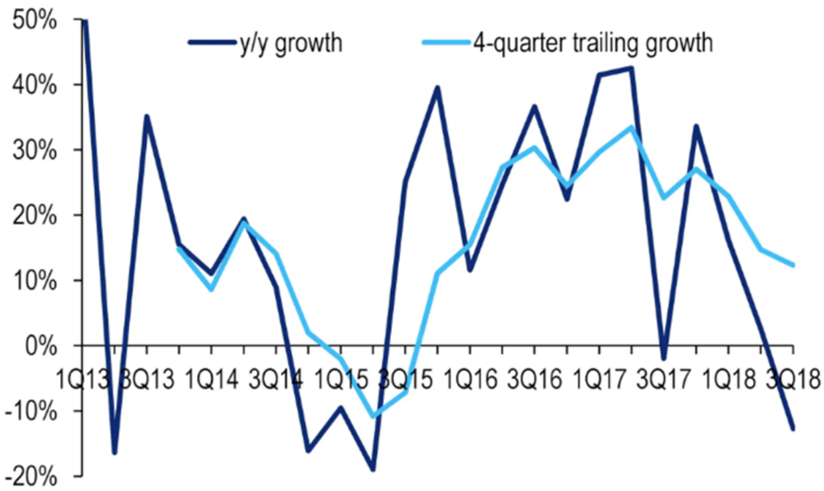
Figure 12: China Fixed Asset Investment – Excl Rural, YTD growth (%)



Source: Antares Equities, Bloomberg; November 2018

Third quarter order book intake from China's largest infrastructure companies is presented in Figure 13. Order intake was down 13% on the same period last year, hardly a ringing endorsement of future growth. Most of the companies we met did expect the fourth quarter (which is the largest quarter) to generally show growth on the previous corresponding period.

Figure 13: Order intake of the construction contractors



Source: Company reports, Citi Research; October 2018

Conclusion: The outlook for commodities is deteriorating

We believe that the demand for commodities is possibly going to deteriorate over coming months, beyond consensus expectations. Although the recent events at the G20 meeting have caused a cease-fire in the trade war between the US and China, there are more negotiations to be had and we expect uncertainty will persist for a while longer. With this backdrop we feel that our observations will continue to play out over the coming months. We continue to invest using the insights generated from our on the ground observations and bottom up fundamental analysis.

Quarterly Investment Update

Antares Australian Equities Fund – December 2018

Highlights for the quarter

Performance: The Fund returned -8.3% (net of fees) for the December quarter, underperforming its benchmark by 0.1%.

Contributors to performance: Positive contributors – Newcrest, Woodside Petroleum and Lendlease Group; Negative contributors – Nine Entertainment, Santos and AMP.

Stock activity: Buys/additions – Aristocrat Leisure, Origin Energy, AMP, Boral, Bluescope, CBA, CYBG, Link, NAB, Nine Entertainment, Stockland, Unibail-Rodamco-Westfield; Sells/reductions – BHP, Computershare, QBE, Qube, Santos.

Fund snapshot

Inception date	3 July 1995
Benchmark	S&P/ASX 200 Accumulation Index
Investment objective	To outperform the benchmark over a rolling 5-year period

Investment returns as at 31 December 2018[1]

Period	3 months	1 year	3 years pa	5 years pa	10 years pa	Since inception pa
Net return[2] %	-8.3	-6.3	6.3	5.4	8.8	9.0
Gross return[3] %	-8.2	-5.6	7.2	6.3	9.7	9.9
Benchmark return %	-8.2	-2.8	6.7	5.6	9.0	8.9
Net excess return %	**-0.1**	**-3.5**	**-0.4**	**-0.2**	**-0.2**	**0.1**
Gross excess return %	0.0	-2.8	0.5	0.7	0.7	1.0

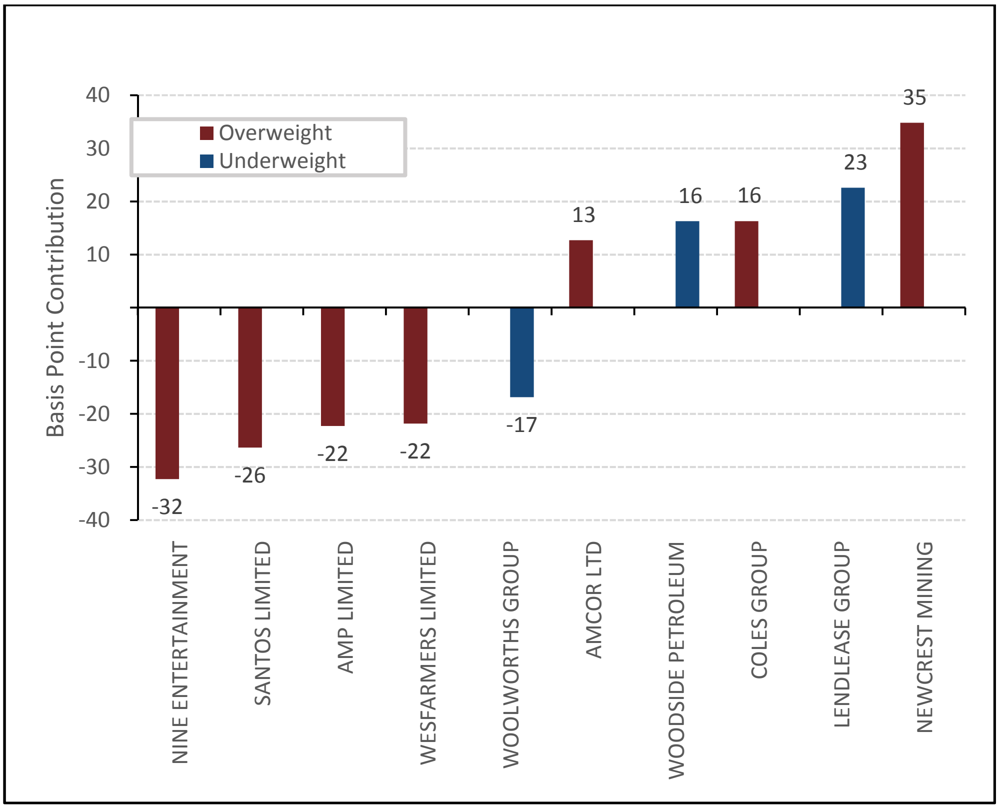
[1] Past performance is not a reliable indicator of future performance. Returns are not guaranteed and actual returns may vary from any target returns described in this document.
[2] Investment returns are based on exit prices, and are net of management fees and assume reinvestment of all distributions.
[3] Gross returns are provided to show performance against the investment objective.

Contributors to performance

Positive

- **Newcrest Mining** (NCM, overweight) – The gold sector rallied in a risk averse market environment. There was no material stock news.
- **Lendlease Group** (LLC, not owned) – LLC came out with a shock market update regarding Australian Engineering and Services. It reported a further deterioration in projects that had previously been flagged as experiencing difficulties, resulting in a further provision of $350m. On a number of levels this appeared to cause a loss of confidence in the company's management. The share price, which had almost reached $22.00 in August 2018, fell to as low as $11.22 during December.
- **Woodside Petroleum** (WPL, underweight) – Woodside fell in sympathy with the falling crude oil price. There was no material stock specific news.

Chart 1: Fund attribution – December quarter



Source: Antares, December 2018

Negative

- **Nine Entertainment** (NEC, not overweight) – refer to the stock activity section.
- **Santos** (STO, overweight) **-** We had sold down a reasonable portion of our holding before the oil price really started to fall heavily, however, the portfolio's remaining position was negatively impacted by the large fall in the crude price
- **AMP** (AMP, overweight) - The sale of the mature businesses appeared to shock the market. The price appeared low, it is a very messy financial structure that was not seen as being a clean exit and that left more stranded costs and less profitability in the remaining business than was previously anticipated. We believe the sale was handled very poorly in terms of explaining the full implications to the market. AMP came out with revised clarifying information a few days later, but the damage to their reputation had already been done, and the market did not appear to be in the mood to give them the benefit of the doubt. The stock looks to be trading at a substantial discount to our sum of the parts valuation.

Stock activity

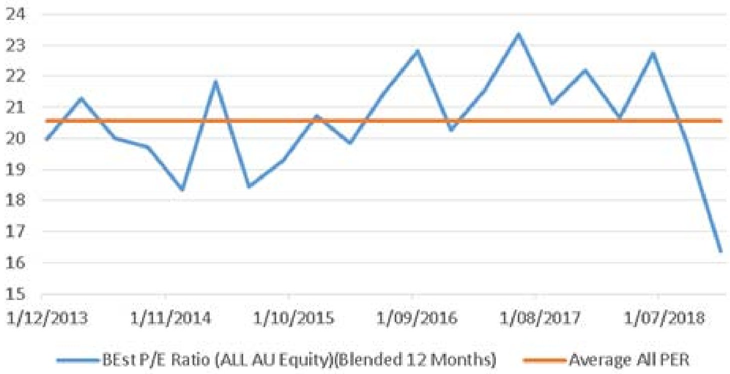
NB: commentary may not be provided on some positions where we have an imminent intention of buying or selling.

Additions

Aristocrat Leisure (ALL)

During the December quarter we added Aristocrat Leisure. ALL is a market-leader in the design and manufacture of slot machines and game content. Through its investment in research and development (R&D) and complemented by strategic acquisitions, the company has been able to grow its share of traditional land-based slot machine markets, as well as successfully leveraging game content into a leading social casino business. The stock has been sold down in the second half of 2018 such that it is trading well below its long term historical average PE ratio of 20.5 times.

Chart 2: Aristocrat PE ratio versus long term average PE (x)



Source: Bloomberg, Antares Equities; December 2018

One reason cited for the sell down is concerns about slowing US consumer spending and the potential for a recession in 2020 as many of ALL's machines and games are sold in the US. We have revised our earnings and price target downwards based on some slowdown in growth and a conservative view on margins but note that ALL's balance sheet is stronger than its peers and the company continues to invest in R&D and acquisitions to provide a platform for growth.

We feel that the market has used these acquisitions to de-rate ALL. We feel this is unjustified given:

- The company has a long term track record of successful content development based on investment.
- 75% of the business remains core land based content where ALL has a significant content advantage and continues to take market share. There is also the potential for sizable new markets in Brazil (estimated 50,000 machines) and Japan (est. 20,000) in the next few years.
- The digital games market is quite fragmented and ALL is well-placed to increase market share as a result of its disciplined investment and spending.

Even after our revised valuation and lower price target, and for the reasons noted, we believe ALL is attractively priced and have added it to our portfolio.

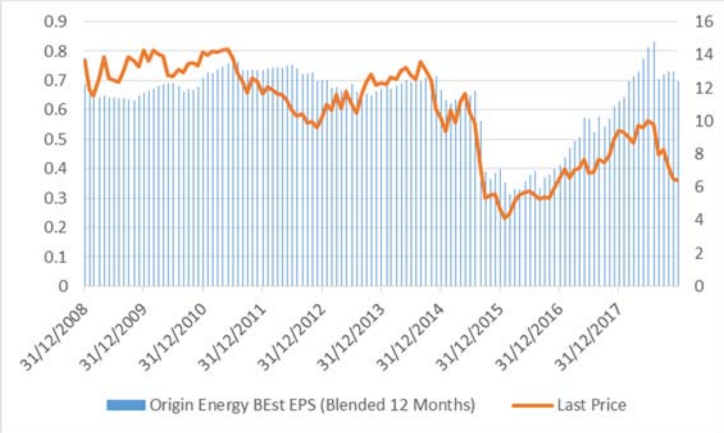
Origin Energy (ORG)

We regarded the big sell-off in Origin as a potential result of both jawboning and action by the federal government on energy prices as well as a plummeting oil price. The combination added to the stock's lack of popularity following the surprise accounting adjustment to profit which management revealed in August 2018. We saw the share price weakness as an opportunity to build a position in ORG as we think sentiment has driven the price well below fair value. This has had the effect of reducing our sector underweight to energy. The following charts show how low ORGs earnings multiple is relative to history. It also suggests that the share price has de-coupled from the market's earnings estimates.

Chart 3: Origin Energy PE Ratio (x) and Standard Deviation Bands

Source: Bloomberg; December 2018

Chart 4: Origin Energy EPS relative to Share Price



Source: Bloomberg; December 2018

Antares valuation methodology suggests a target price of around $10 per share, which generally implies large upside.

Other buys / additions

- **AMP** (AMP) - Our decision to add to our AMP position proved to be too early as the market took exception to the sale of the company's life insurance and NZ wealth advice businesses. We used the subsequent sell off to add more to our position as our stressed valuation, which incorporates significant falls in earnings, implies a target price of over $3.00 per share. AMPs new Managing Director commenced in December 2018 and we expect that he will totally re-engineer the company's culture and business focus.
- **Boral** (BLD) - It was a brutal quarter for BLD's share price, partly because of a weak trading update, but also because building material companies listed on the US exchanges were heavily sold down. We had held a small weighting, which we increased in the severe weakness.
- **BlueScope Steel** (BSL) - We built the small position we had at the start of the quarter into a more meaningful position as BSL's share price plunged. Antares has a current target price of around $20.00 per share, yet the stock was sold down to the low $11 range per share.
- **Commonwealth Bank** (CBA) -We built up CBA early in the quarter on the belief that it is still an extremely valuable business and holds the premier banking position in Australia. CBA was the first to experience regulatory and legal problems, therefore we believe its remediation of these issues is likely more progressed than the other major banks.
- **CYBG** (CYB) - CYBG shocked the market with a result that foreshadowed much lower net interest margin guidance. The market reaction was ruthless. Adding to the negative sentiment towards the company, Brexit publicity became increasingly toxic, with some dire predictions of a massive UK recession in the event of a hard Brexit. We believe the more the UK market falls and UK pound falls the more likelihood of some Brexit resolution. We note that in the US after the GFC, the TARP program was initially voted down in Congress, yet after markets panicked it was subsequently passed. Before the result, Clydesdale had been somewhat of a glamour stock in that it was not an Australian bank, and was seen to have multiple growth options. We think the extremity of the share price move (almost down 50% for the quarter) reflects a potential change in holders from "growth" type shareholders to more "value" type shareholders, with the caveat that with Brexit uncertainty, many shareholders are just not prepared to take on the stock, irrespective of discount.
- **Link Administration Holdings** (LNK) - We believe Link has excellent multi-year future double digit growth in attractive business segments –
  - they are a beneficiary of funds flow into industry super funds; and
  - Pexa is a valuable business that is just starting to become profitable and may develop oligopoly like characteristics. Nonetheless, the current negativity around Australian residential housing will likely cloud market sentiment to this business in the short term.
- **National Australia Bank** (NAB) - The stock trades on a 2019 PE ratio of 10x and a yield of over 8% fully franked. We expect earnings will potentially grow by 18% in 2019 (off a low base which included write offs), and grow by 6% in 2020. There is a lot of bad news already factored into the share price,
- **Nine Entertainment Co Holdings** (NEC) - We added as the NEC price dropped during the cyclical sell off, which was compounded by its online real estate advertising business, Domain, providing a poor trading update. While the latter fuelled the criticism of those who did not like the merger with Fairfax, we believe that the logic for the two companies

combining will eventually be apparent in both higher revenue and cost savings. This is another stock which is selling at over a 50% discount to our assessed valuation.

- **Stockland (SGP) –** We added to our position early in the quarter as the stock was sold down to well below NTA in a REIT market trading at much higher implied multiples.
- **Unibail-Rodamco-Westfield** (URW) - The stock has been totally unloved since the Westfield merger. We think it has suffered from both disgruntled Unibail holders who did not want the US REIT exposure from Westfield, and also from Brexit related uncertainty, even though the UK is only 6% of URW total assets. French riots also added to the negative sentiment. We note the divergence in performance between URW and the large US REIT Simon Group. A 2019 yield of 8.4% seems compelling given the quality malls owned by the company.

Sales / reductions

- **BHP Group (BHP)** - We reduced some of our BHP holding into the market strength surrounding the off market buyback. Our belief that China may be slow to recover and the slowing global growth outlook is not suggestive of resource company outperformance. BHP's share price performance was strong in a weak market, which was helped by the buyback and special dividend. We also note that falling commodity prices mean that resource companies, in general, are no longer the beneficiary of upgrades. Another issue to consider is that typically both BHP and RIO produce "late cycle" commodity exposure. As such when commodity markets recover, generally base metal exposures will move first before iron ore and coking coal, and likewise in slowdowns smaller resource stocks earnings can fall before we see an impact on the bulk producers.
- **Computershare (CPU)** -The Company's share price has performed very well over the last few years, but its rerating pushed the valuation to a level where we prefer other stocks. The recent fall in US interest rates, and any Fed signal of a pause in interest rate rises in 2019 could see the market reassess the rating it places on Computershare's margin income.
- **QBE Insurance Group (QBE)** - We began reducing QBE in late October 2018 and November 2018 as its relative outperformance was covering some of the inherent risks in the stock. With large price falls elsewhere we reinvested the proceeds in other stocks. One of our concerns was how the market would treat equity related earnings in the investment book which could cause earnings to be downgraded. As the quarter progressed, the fall in US bond rates which had been a thematic help for QBE became a headwind, and there was a large sell off in December.
- **Qube Holdings (QUB)** - We had a small holding in Qube which had outperformed the market and was on a high PE but we sold and switched into Aristocrat believing it offers higher growth and a lower multiple.

Strategy and outlook

Note

In many places in the following commentary we refer to Price earnings (PE) ratios. We use this as a short form proxy, or basic rule of thumb, for discounted cash flow valuations.

Over time, equity prices should equate roughly to the net present value of future cash flows. As such there are two main components of equity prices and thus asset values:

1. Cashflow (For companies this is related to earnings growth)
2. The interest rate used to discount the future cash flows. The more uncertain and risky the assets' cashflows, the higher the discount rate should be.

The following commentary focuses on issues relating to both cashflows and interest rates.

Overview

Before we can consider the outlook it is important to understand where we have been, and question why some share prices have fallen so much.

Potential explanations include:

- No material fundamental reason - it is simply a healthy correction prompted by negative sentiment that went a bit further than expected.
- Trade war fears - in particular fears of an escalation between the US and China.
- European issues - some major European banks continue to look very weak.
- Higher US interest rates - are crimping consumer spending, especially on large items like housing and cars. It is thought that monetary policy works with a 12 to 18 month lag, so the impact we are currently seeing on markets could be related to

interest rate policy moves 12 months ago. As such, even if we get no more rate rises, the effects of the December 2018 US rate rise may not be felt until late 2019 or even mid-2020, meaning tightening is already baked in for 2019.

- Quantitative tightening - is sucking the liquidity out of the US economy and manifesting itself in tight monetary conditions in both emerging markets and the US. The problem with this issue is that it is likely to continue even if rates do get put on hold in 2019, meaning the liquidity environment could potentially remain negative.
- Valuations became too stretched on an historical basis - hence valuation reversion.
- Fears of growth slowing in all major regions of the globe, ie US, Europe, Japan and China.
- The change in control of the US Congress - will make stimulative legislation harder to get through. With the impact of the tax cuts rolling off and with higher interest rates, US economic numbers will likely be much lower going forward.
- The market is predicting a recession in 2019.
- Trump may be impeached sometime after the Democrats take control of the “House” in January 2019.
- The White House is looking chaotic, with large staff turnover, and commentary on all manner of subjects causing concern.
- As the sell-off lengthened, algorithmic trading, especially in equity markets, has accentuated volatility, thereby heightening losses and creating uncertainty.
- Increasing earnings downgrades.

Our view is that it is likely all of these have potentially contributed to the sell-off in various ways.

However, of most importance have been

1. Slowing growth expectations, in part due to the unrepeatability of some one-off benefits such as the US tax cuts, and the increasing concern that we are very late in the economic cycle. Most developed countries are heavily geared, hence the natural result of years of increasing debt is that past growth has been higher as debt expanded, and therefore as debt and interest is repaid, growth going forward will likely be negatively impacted.
2. The effect of monetary tightening that is both quantitative tightening and higher interest rates in the US.

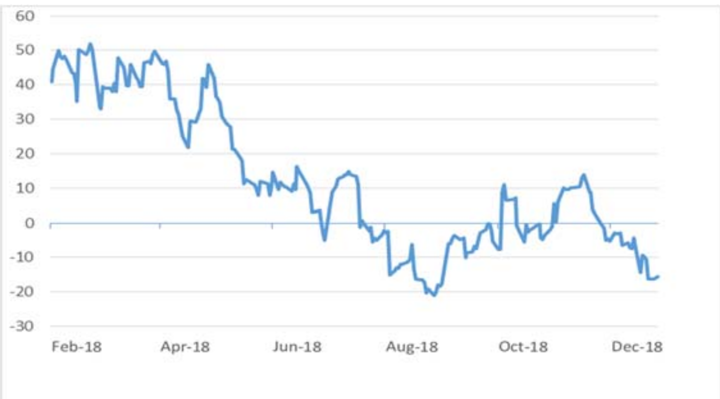
In particular, high PE growth stocks, and cyclicals seem to have suffered the worst of the sell-off. From here we assume:

- If the sell-off is related to a growth slowdown, which does not develop into a recession, the effect on equity earnings will be somewhat muted and therefore the market would be expected to stabilise, and in many cases, the sell-off will represent an overreaction.
- If the sell-off is correctly signalling a recession, then the likely earnings downgrades to follow would suggest further downside to equity prices.

At the time of writing some of the interesting economic signals include

1. The Citi US economic surprise index shows clear deterioration over the course of 2018.

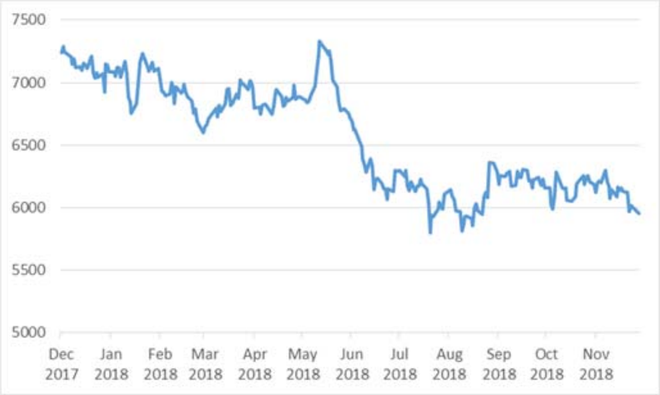
Chart 5: Citi US Economic Surprise Index



Source: Bloomberg; December 2018

2. The copper price has historically been considered a good gauge of global industrial production. Since June 2018 the price appears to be foreshadowing economic weakness.

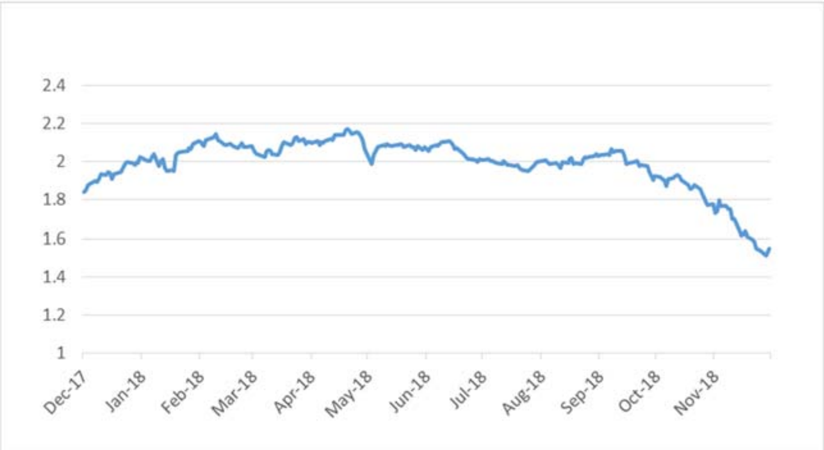
Chart 6: Copper price (US$/t)



Source: Bloomberg; December 2018.

3. Chart 7 (US 5 year breakeven inflation) may appear esoteric, but it can simply be described as the bond markets view of inflationary expectations in the US. (It is basically the difference between the nominal yield on a bond and the real yield on an inflation linked bond. An example is the TIPS, or Treasury inflation protected security). We can see they have been falling since October 2018, which has coincided with the markets concerns about growth in 2019. This is important because one of the previous fears the market had was of runaway inflation which would lead to higher interest rates. Currently, expected inflation is well below the Fed's target level of 2%, a level which they have previously signalled as being too low.

Chart 7: US 5 year breakeven inflation (%)

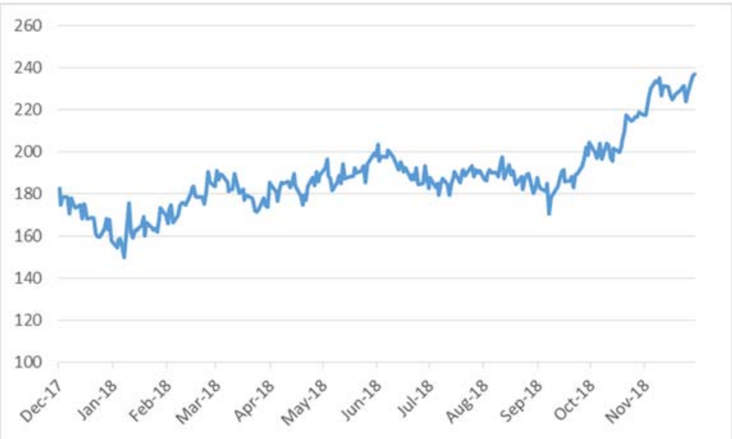


Source: Bloomberg; December 2018

4. While inflation expectations have been falling, bond investors have been pushing up the yields on lower rated corporate paper, as evidenced in Chart 8 (US Corporate BAA 10 year yield spread - the yield on US BAA corporate bonds versus US 10 year Treasury securities). As inflation expectations have reduced, we assume the blowout in corporate paper is the potential result of heightened default risk and tighter liquidity conditions.

   This chart points to worries about a growth slowdown that may result in higher corporate defaults.

Chart 8: US Corporate BAA 10-year yield spread (bps)



Source: Bloomberg; December 2018

This is a critically important issue, as the impact of higher interest rates affects share prices in two main ways

- Earnings will be reduced due to higher debt repayments; and
- Investors may change the discount rate they use in seeking appropriate returns, which will have a negative valuation impact.

Australian Equities

Domestically we can now say for the first time in several years that the Australian market Price Earnings ratio is below average. This is suggestive of above average longer term returns, on the assumption that earnings hold up.

Chart 9 tells us that since 2005, the average 1 year forward PE multiple of the Australian equity market has been 14.0 times. Obviously the market only trades at this level for a fraction of the time period, it is usually moving higher or lower. At the start of 2018 we were 1 standard deviation above the average, and have now moved below average. Since 2005 we see that the market has only traded really cheaply in episodes of panic such as the GFC and the European (Greek-related) crisis and slow global growth.

Chart 9: S&P/ASX 200 Price Earnings ratio with standard deviation bands (x).

Source: Bloomberg; December 2018

If we look at the sell-off in the quarter we can break up the really poor performing stocks into several categories. Some stocks fit into multiple categories.

De-rated growth stocks – Seek, Aristocrat Leisure, Domino's, Real Estate.com, Cochlear and CSL. Based on historic multiples, the valuation of many growth stocks still remains above average.

Earnings downgrade related sell offs - Adelaide Brighton Cement, Corporate Travel, Lovisa, Lend Lease, Clydesdale V/Bank, AMP, Medibank Private, Viva Group, Caltex Australia. Downgrades have been dealt with particularly harshly, with most of the stocks mentioned falling much further than the downgrades would suggest. This looks like the market has de-rated these stocks on the expectation of further problems.

Cyclicals-Australian related - CSR, Nine, Seven West, Super Cheap, Perpetual Trustees. Australia is currently undergoing a bout of extreme negativity towards residential property. Should house prices stabilise in 2019, many sectors of the market that have been negatively impacted would be expected to see a relief rally, such as banks, retail, residential related building materials and other discretionary consumer related businesses.

Cyclicals-US related - BlueScope Steel, James Hardie, Boral, Flight Centre, Janus Henderson. There are mixed signals coming out of the US. The US has seen a sharp slowdown in large consumer spending items being new home starts and auto sales. On the flip side, wages growth seems strong and consumer retail spending over Christmas was robust.

Commodity price related - ALS, WorleyParsons, Beach Petroleum, Oil Search, Santos. The biggest commodity impacted over the quarter was oil. OPEC felt the need to cut production, which is a signal they think the globe is in oversupply.

Brexit related - Unibail-Rodamco-Westfield, Janus Henderson, CYBG. This is perhaps one of the more extreme scare stories we have witnessed in recent years. We are not surprised that consumers and investors have been rattled by some of the profoundly bearish prognostications. Time will tell if this is another Y2K scare story. We believe it is highly unlikely Brexit could now be worse, or even as bad as feared given the hyperbole coming from “remainers”.

From the above list we can see that it wasn’t just one factor the market became concerned about but several issues.

Better performing sectors and stocks included:

- BHP and RIO - helped by buyback activity
- Gold stocks - perceived safe havens in uncertainty
- Corporate activity - Spotless, Healthscope, Navitas, Graincorp
- Defensives-Infrastructure - eg Sydney Airport and Transurban
- Defensives-Staples - eg Woolworths
- Defensives-Some, but not all Healthcare - Ramsay, ResMed, Healthscope,
- Defensives - Most REIT’s (although Unibail-Rodamco-Westfield performed very poorly)
- Defensives – Utilities - eg AGL, AusNet, Spark Infrastructure

The above analysis would suggest the market went into a typical “risk off’ mode where perceived defensive stocks outperformed.

Outlook

One wild card for 2019 will be a likely new government in Australia. The current government has not been kind to many segments of the market and to large companies in general, so change may not be as severe as some expected. We also note that many of the stocks likely to be impacted by Labor’s policies such as reduced franking benefits in the case of some superannuation funds, changes to capital gains tax, more bank scrutiny, and caps on private health insurance rate rises, have already been severely de-rated, hence a lot of bad news is already priced in. The yield on these stocks remains quite attractive relative to cash and bonds even without the benefit of franking, although we expect some negative publicity and commentary around the election will further hurt sentiment for these stocks.

In general, we believe there have been several cases where share prices have fallen well below what might have been expected. This is typical of a risk off environment where any perceived earnings risk is sold and often reinvested in more “safe” earnings.

The sell-off, has largely been anticipatory and has left many stocks at substantial discounts to Antares internal, research driven valuations. As such, we have been adding to some of these stocks over the quarter.

Areas of interest for further research investigation include:

- Where market hyperbole may have exceeded likely base case outcomes, eg Brexit, Australian Housing.
- Where stocks have been sold down heavily, due to downgrades that are unlikely to result in permanent business impairment.
- Stocks that have been sold off in anticipation of extreme bad news, eg US consumer related stocks.
- Where are we in the earnings cycle and are earnings and margins sustainable?
- We also note that most multi-year bull markets generally bring excesses, and poor practices such as sloppy and misleading accounting treatments, and debt levels moving towards the top end of target ranges. Both of these will be important areas of focus for our stock research going forward.
- The final report from the Hayne Royal Commission is likely to result in volatile moves by impacted (or not impacted) stocks.

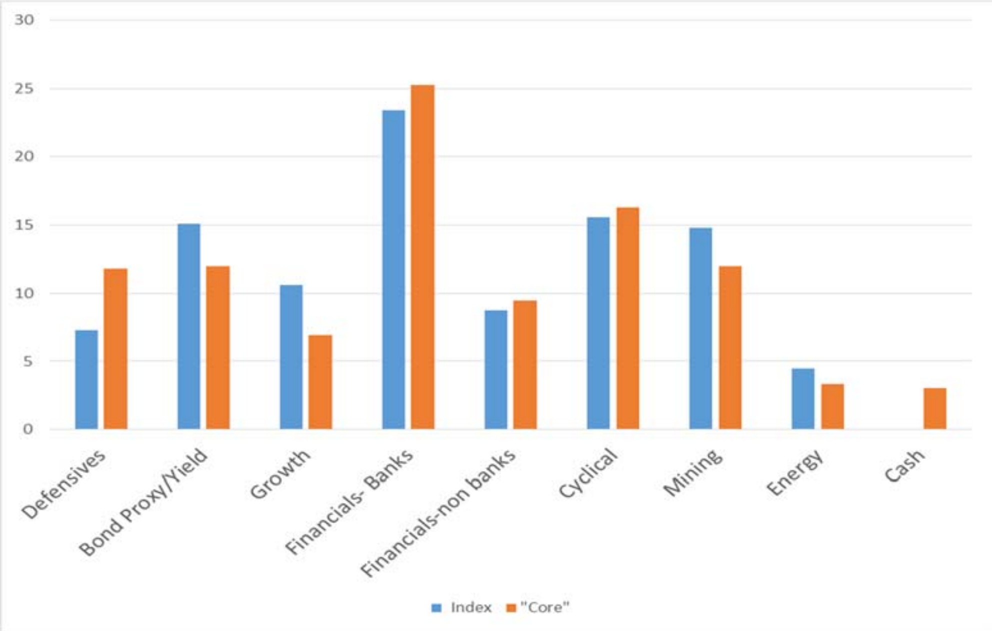
Given the prospect of a growth slowdown, even if it is mild, we would expect some soft earnings results to be reported in February (with some early confessions in January). Equally important will be the companies’ outlook statements.

In uncertain markets, it is likely that shares will face conflicting bouts of good news and bad news which will create large up and down moves over the coming quarter. Many stocks are down between 20-50% since the market peaked in August 2018. This was not expected by shareholders in such a short period. Human nature suggests investment behaviour can become erratic, and algorithm trading accentuates trends. Often a severe capitulation event that so scares investors that they give up hope and sell, is required to make a medium or long term market bottom, some may argue the past quarter was such a circumstance.

A source for optimism is that the sell-off has created extreme value in some areas, and a much more attractively priced market overall. Valuations are excellent long term indicators of long term expected returns, but are unreliable in forecasting short term returns.

The portfolio's thematic sector exposure is as follows:

Chart 10: Australian Equity Sector Exposure (%)



Source: Antares; December 2018

Quarterly Investment Update

Antares Dividend Builder– December 2018

Highlights for the quarter

Performance: The Fund returned -6.8% (net of fees) for the December quarter, outperforming its benchmark by 1.5%. The Fund's focus on delivering dividend income continued in the December quarter.

Contributors to performance: Positive contributors – Sydney Airport, Spark Infrastructure Group and Lendlease Group; Negative contributors – Woolworths Group, AMP, Viva Energy REIT.

Stock activity: Buys/additions – AGL Energy, Star Entertainment Group, AMP and Harvey Norman; Sells/reductions – Spark Infrastructure Group, Crown Resorts, Sydney Airport and Wesfarmers.

Fund snapshot

Inception date	6 September 2005
Benchmark	S&P/ASX 200 Industrials Accumulation Index
Investment objective	Deliver higher levels of tax effective dividend income than the benchmark

Investment returns as at 31 December 2018[1]

Period	3 months	1 year	3 years pa	5 years pa	10 years pa	Since inception pa
Net return[2] %	-6.8	-9.1	1.6	4.5	10.5	6.6
Gross return[3] %	-6.6	-8.6	2.2	5.1	11.2	7.3
Benchmark return %	-8.3	-4.2	3.9	6.2	10.7	6.9
Net excess return %	**1.5**	**-4.9**	**-2.3**	**-1.7**	**-0.2**	**-0.3**
Gross excess return %	1.7	-4.4	-1.7	-1.1	0.5	0.4

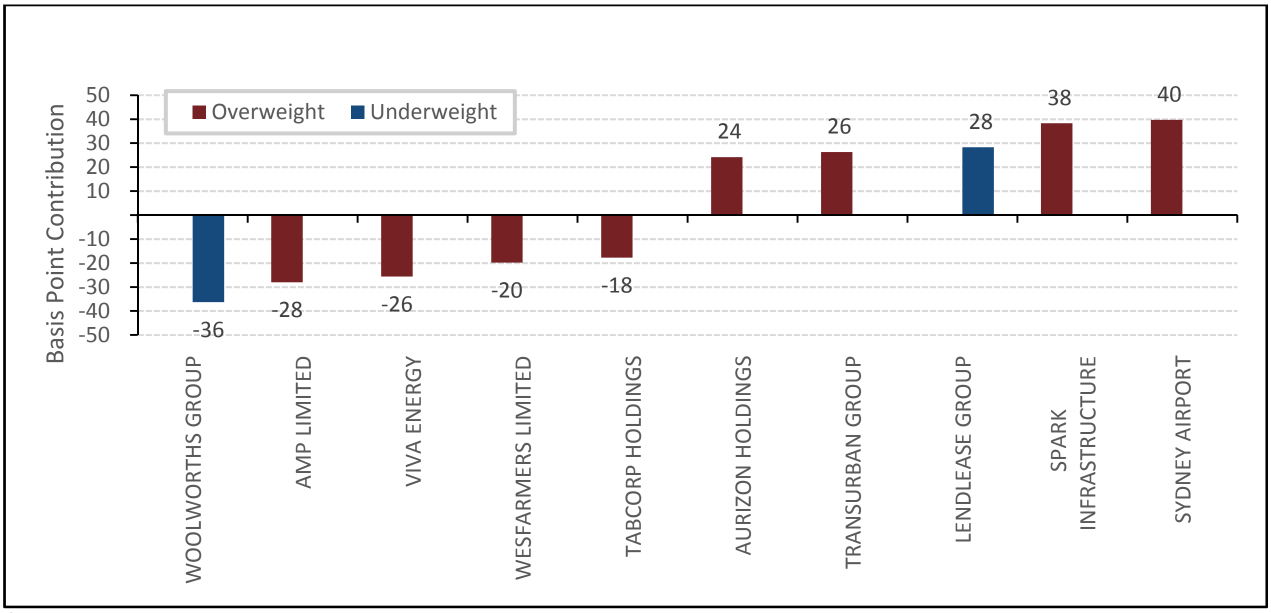
[1] Past performance is not a reliable indicator of future performance. Returns are not guaranteed and actual returns may vary from any target returns described in this document.
[2] Investment returns are based on exit prices, and are net of management fees and assume reinvestment of all distributions.
[3] Gross returns are provided to show performance against the investment objective.

Contributors to performance

Positive

- **Sydney Airport** (SYD, overweight) – SYD benefited from the market's switch to defensive cashflow streams. There was no material company news.
- **Spark Infrastructure Group** (SKI, overweight) – SKI benefited from the market's switch to defensive cashflow streams. Some regard Spark as a potential takeover target for CKI after their bid for APA Group is likely to be disallowed by the Treasurer.
- **Lendlease Group** (LLC, not owned) – LLC came out with a shock market update regarding Australian Engineering and Services. It reported a further deterioration in projects that had previously been flagged as experiencing difficulties, resulting in a further provision of $350m. On a number of levels this appeared to cause a loss of confidence in the company's management. The share price, which had almost reached $22.00 in August 2018, fell to as low as $11.22 during December.

Chart 1: Fund attribution – December quarter



Source: Antares, December 2018

Negative

- **Woolworths Group** (WOW, not owned) – WOW benefited from the market's thematic move to defensives. There was no material stock news.
- **AMP** (AMP, overweight) - The sale of the mature businesses appeared to shock the market. The price appeared low, it is a very messy financial structure that was not seen as being a clean exit and that left more stranded costs and less profitability in the remaining business than was previously anticipated. We believe the sale was handled very poorly in terms of explaining the full implications to the market. AMP came out with revised clarifying information a few days later, but the damage to their reputation had already been done, and the market did not appear to be in the mood to give them the benefit of the doubt. The stock looks to be trading at a substantial discount to our sum of the parts valuation.
- **Viva Energy Group** (VVR, overweight) –VVR disappointed with another refiner margin update that showed refiner margins and hence refining profits were well below prospectus forecasts, ie a large downgrade. This is very disappointing occurring so close to listing, however, we believe this to be an unusual circumstance and that margins should revert back to normal eventually. We also note management have no control over international refiner margins.

Stock activity

NB: commentary may not be provided on some positions where we have an imminent intention of buying or selling.

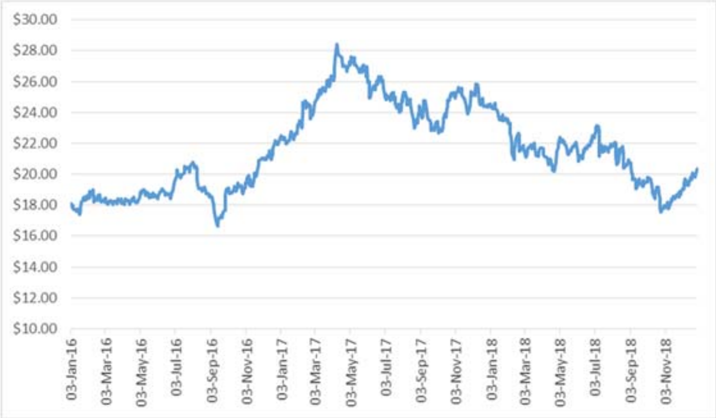
Additions

Buy: AGL Energy

During the December quarter, the Fund initiated a new position in AGL Energy (AGL). AGL is one of Australia's largest integrated energy companies, with wholesale and retail operations across Australia. It is the largest owner of electricity generation capacity in Australia, as well as having the lowest cost position in electricity generation. It is also a top three player in electricity and gas energy retailing.

Since peaking in early 2017, AGL's share price has significantly underperformed the broader share market. This is despite AGL reporting solid earnings growth over the past five years, with underlying net profit after tax surpassing $1b during FY18. What has been positive for AGL's current earnings is also a source of pain right now – namely elevated wholesale electricity prices. After the rapid closure of a major power plant in March 2017 (the Hazelwood plant, not owned by AGL), wholesale electricity prices took a material step-up across the National Energy Market over 2017 and 2018. Although favourable for incumbent industry participants like AGL, the development has also created a public backlash and heightened political scrutiny.

Chart 2: AGL share price



Source: Antares Equities; Bloomberg; January 2019

The energy industry has been the subject of numerous regulatory reviews in recent times, culminating in proposals to effectively re-regulate retail electricity prices and to give the Commonwealth Government the power to order asset divestment by energy companies if market power abuse can be established (amongst many other proposals). Given its size and key role in the electricity market, AGL has been particularly targeted by politicians and the press. At the height of the regulatory furore, AGL announced the surprising (and immediate) departure of CEO Andy Vesey, thus adding to the layers of uncertainty surrounding the company.

In addition to the regulatory developments, AGL's share price appears to have also been pressured by forecasts that electricity prices will decline in the future due to new renewable energy projects coming online (and proposed government initiatives to drive more investments in generation capacity). The company's share price has fallen to a level where we think much of the risk is priced in. We believe AGL will remain highly free-cashflow generative even if retail price re-regulation occurs. This is now looking more difficult after one of the Commonwealth Government's own advisers recommended against the effective price re-regulation. AGL will also likely refrain from major capital expenditures in an environment of unfavourable and uncertain regulatory developments. AGL's capital structure is sound, and the company has emphasised it still has capacity to utilise more debt while remaining in target gearing range.

AGL's Chief Financial Officer, Brett Redman, was recently chosen to become the new CEO. We believe the appointment has been viewed positively by the market, as Redman is generally well regarded by the investment community.

AGL's forecast dividend yield for FY19 is now close to 8% (grossed-up), and there is a possibility that it will use the spare debt capacity to fund further capital management initiatives (An announcement could come during its 1H2019 results).

Chart 3: AGL dividend yield vs S&P/ASX200 Industrials (pre grossing up for franking credits):

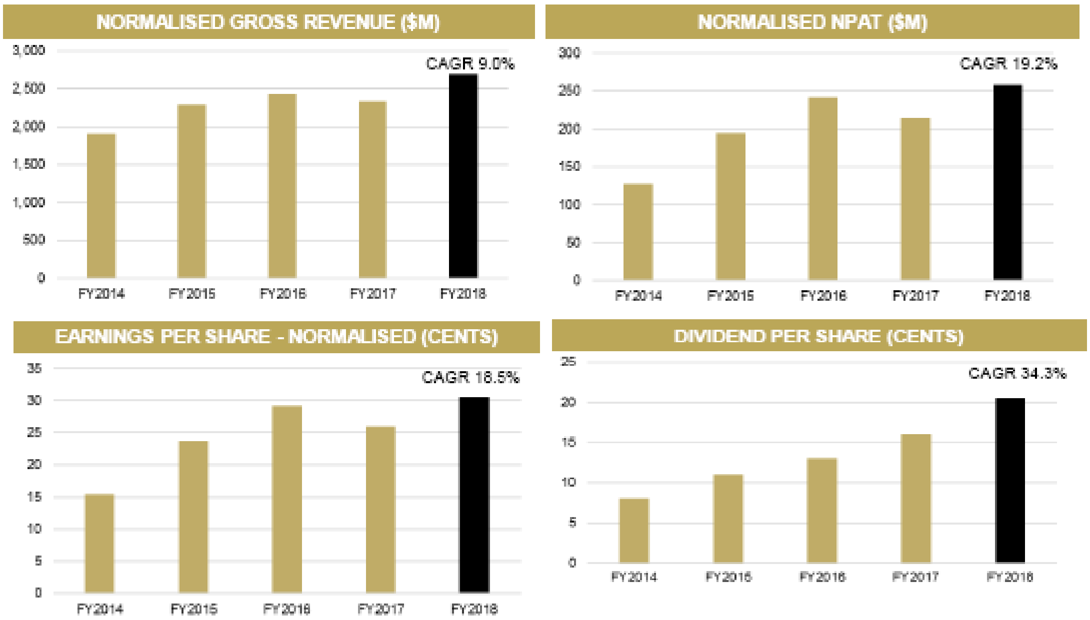
Source: Bloomberg; January 2019

Buy: Star Entertainment Group

During the December quarter, the Fund initiated a new position in The Star Entertainment Group (SGR). SGR owns and operates casinos in Sydney, Brisbane and the Gold Coast (The Star Sydney, Treasury Hotel and Casino Brisbane and The Star Gold Coast). In FY18, these three casinos accounted for close to 50% of Australia's overall casino revenues.

SGR's casinos are located in cities with solid demographic characteristics and good tourism growth. It has delivered solid earnings and dividend growth over the past few years, on the back of robust market conditions, market share gains and investments into property enhancements and expansions. (The exception was FY17, when Australia's overall VIP market suffered due to Crown Resorts' legal problems in China pertaining to its VIP business.) Based on the Board's confidence in its recent financial performance and outlook, SGR's dividend payout ratio was increased during FY18 - from 50% of statutory net profit after tax, to at least 70% of normalised net profit after tax.

Chart 4: Star Entertainment results and distributions



Source: SGR FY2018 results presentation; August 2018

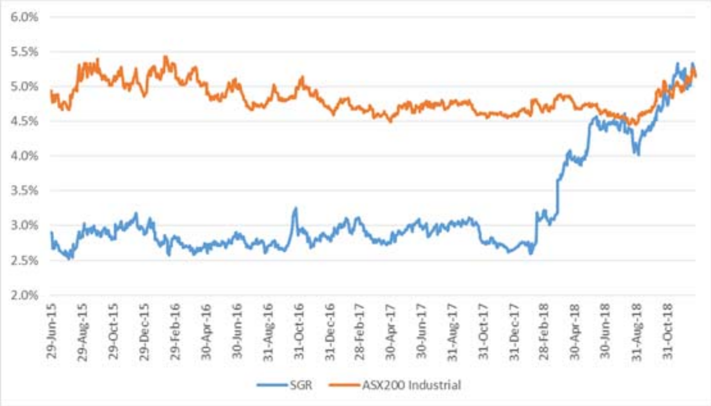
SGR's share price, however, has materially underperformed the broader share market during CY18. Sources of the poor share price performance include concerns over a number of factors:

- The possible impact of a major private gaming room refurbishment at the Star Sydney (given the room's importance to revenue and earnings);
- The macro-economic environment, particularly the housing market decline and potential effect on consumer discretionary spending;
- A VIP business slowdown (based on recent trends in Macau);
- The possibility of a further budget increase for the Queens Wharf Brisbane integrated resort project; and
- The possibility of a second, competing casino being allowed at the Gold Coast (not a new concern, but one which has picked up momentum again during 2018).

In addition, SGR conducted an equity placement in May 2018 during which it issued new shares to project investment partners Far East Consortium and Chow Tai Fook. This was part of their expanded strategic partnership, and gives Far East Consortium and Chow Tai Fook 10% equity ownership of SGR collectively.

We believe that at current share price levels, much of the risks and concerns surrounding SGR have been absorbed. In addition, SGR is offering a very solid dividend yield (estimated FY19 grossed-up yield of over 7%), with dividend growth expected to continue in line with earnings.

Chart 5: SGR dividend yield vs S&P/ASX200 Industrials (pre grossing up for franking credits):



Source: Bloomberg; December 2018

While we think the equity placement was at a price which under-valued SGR, we view the strengthened strategic partnership positively as we think Chow Tai Fook and Far East Consortium offer relevant hotel and property development/management experience and exposure to Asia's high net worth segment. In addition, these partners' involvement with SGR is also allowing SGR to participate in growth projects in a less capital intensive manner (and to pursue projects which it would not have been able to undertake alone). We also note the intention of Chow Tai Fook and Far East Consortium to increase their stakes in SGR via on-market share purchases (potentially up to an additional 10%), conditional on relevant regulatory approvals being received.

Other buys / additions

- **AMP** (AMP) - Our decision to add to our AMP position proved to be too early as the market took exception to the sale of the company's life insurance and NZ wealth advice businesses. We used the subsequent sell off to add more to our position as our stressed valuation, which incorporates significant falls in earnings, implies a target price of over $3.00 per share. AMPs new Managing Director commenced in December 2018 and we expect that he will totally re-engineer the company's culture and business focus.

  Harvey Norman (HVN) – HVN was added to the Portfolio. We were encouraged by HVN's FY18 result that was reported in August 2018:

    - Sales increases were better than its peers, suggesting the company has been winning market share (based on ABS stats);
    - HVNs offshore businesses maintained momentum; and
    - The company is back to expansion mode

  - Our base valuation of $4.94 per share is well above the HVN share price, and the company's NTA of $2.80 per share also provides a good back stop to its share price. HVN is trading on a PE ratio of 10 times, and a prospective yield of around 8% which we think undervalues a high quality business.
  - In the short term, HVN can surprise with margin uplift as discounting has reduced in the improved retail environment.
  - The overseas business is a potential key earnings catalyst as it has been gaining momentum, yet is largely ignored by the market.
  - We have assumed a progressive recovery in the off-shore business particularly as a result of a decline in losses from Ireland and normalising margins in Asia. The key offshore driver/contributor is NZ where HVN has recently shown good results. Sales growth is expected to be closer to 4.5% over the long term as a result of store openings and a potential expected ramp up in same store sales growth. We have seen improvements in HVNs offshore businesses since 2009 which has increased our confidence in the company's ability to execute well on retailing business.

Sales / reductions

- **Spark Infrastructure Group** (SKI) – We reduced the large position we had in Spark for the following reasons:
    - EPS are expected to fall after 2020 due to a change in the company's taxation position. Also in 2020 a regulatory reset will undoubtedly put pressure on allowed rate of return if other recent regulatory rulings are used as a guide eg Aurizon's final determination.
    - Victorian Power Network Regulated Asset base growth has dropped from an historic 5% average to around 3% currently.
    - Finding further cost savings in the business will be difficult.
    - There is a risk that like other companies that have foreseen a growth slowdown, acquisitions are made to try and cover the earnings slowdown.
    - Distributions will be less likely to be stabilised or smoothed going forward.
- **Crown Resorts** (CWN) - We reduced our position in CWN during the quarter. We used part of the proceeds to switch into fellow casino operator, Star Entertainment, for higher expected dividends. CWN has substantially outperformed Star Entertainment despite Star having superior long term growth potential in our view and a more diversified portfolio.
- **Sydney Airport**-(SYD) - We reduced our holding in SYD during the quarter. Sydney Airport has performed well, but its weighting in the portfolio reached a sizing that became out of line with its risk/return trade off, hence we reduced the position.
- **Wesfarmers** (WES) - We reduced Wesfarmers pre the Coles demerger as we felt it had become fairly fully valued with the success of the "Little Shop" unlikely to create a permanent uptick in sales momentum. Also such demergers can create indigestion as the two separate companies have very different return profiles, thereby creating the potential for disruptive turnover in the early days of listing.

Strategy and outlook

Note

In many places in the following commentary we refer to Price earnings (PE) ratios. We use this as a short form proxy, or basic rule of thumb, for discounted cash flow valuations.

Over time, equity prices should equate roughly to the net present value of future cash flows. As such there are two main components of equity prices and thus asset values:

1. Cashflow (For companies this is related to earnings growth)
2. The interest rate used to discount the future cash flows. The more uncertain and risky the assets' cashflows, the higher the discount rate should be.

The following commentary focuses on issues relating to both cashflows and interest rates.

Overview

Before we can consider the outlook it is important to understand where we have been, and question why some share prices have fallen so much.

Potential explanations include:

- No material fundamental reason - it is simply a healthy correction prompted by negative sentiment that went a bit further than expected.
- Trade war fears - in particular fears of an escalation between the US and China.
- European issues - some major European banks continue to look very weak.
- Higher US interest rates - are crimping consumer spending, especially on large items like housing and cars. It is thought that monetary policy works with a 12 to 18 month lag, so the impact we are currently seeing on markets could be related to interest rate policy moves 12 months ago. As such, even if we get no more rate rises, the effects of the December 2018 US rate rise may not be felt until late 2019 or even mid-2020, meaning tightening is already baked in for 2019.
- Quantitative tightening - is sucking the liquidity out of the US economy and manifesting itself in tight monetary conditions in both emerging markets and the US. The problem with this issue is that it is likely to continue even if rates do get put on hold in 2019, meaning the liquidity environment could potentially remain negative.
- Valuations became too stretched on an historical basis - hence valuation reversion.

- Fears of growth slowing in all major regions of the globe, ie US, Europe, Japan and China.
- The change in control of the US Congress - will make stimulative legislation harder to get through. With the impact of the tax cuts rolling off and with higher interest rates, US economic numbers will likely be much lower going forward.
- The market is predicting a recession in 2019.
- Trump may be impeached sometime after the Democrats take control of the "House" in January 2019.
- The White House is looking chaotic, with large staff turnover, and commentary on all manner of subjects causing concern.
- As the sell-off lengthened, algorithmic trading, especially in equity markets, has accentuated volatility, thereby heightening losses and creating uncertainty.
- Increasing earnings downgrades.

Our view is that it is likely all of these have potentially contributed to the sell-off in various ways.

However, of most importance have been

1. Slowing growth expectations, in part due to the unrepeatability of some one-off benefits such as the US tax cuts, and the increasing concern that we are very late in the economic cycle. Most developed countries are heavily geared, hence the natural result of years of increasing debt is that past growth has been higher as debt expanded, and therefore as debt and interest is repaid, growth going forward will likely be negatively impacted.
2. The effect of monetary tightening that is both quantitative tightening and higher interest rates in the US.

In particular, high PE growth stocks, and cyclicals seem to have suffered the worst of the sell-off. From here we assume:

- If the sell-off is related to a growth slowdown, which does not develop into a recession, the effect on equity earnings will be somewhat muted and therefore the market would be expected to stabilise, and in many cases, the sell-off will represent an overreaction.
- If the sell-off is correctly signalling a recession, then the likely earnings downgrades to follow would suggest further downside to equity prices.

At the time of writing some of the interesting economic signals include

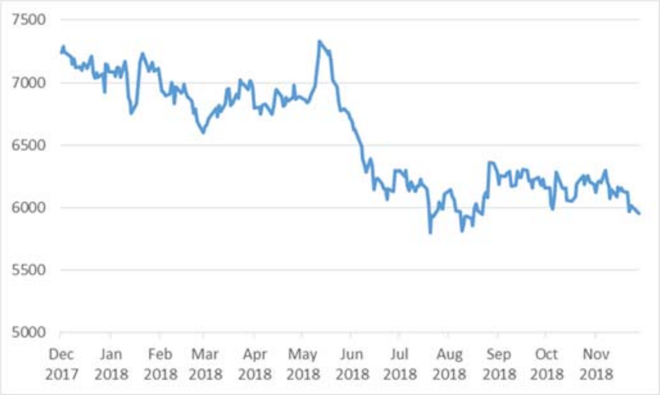
1. The Citi US economic surprise index shows clear deterioration over the course of 2018.

Chart 6: Citi US Economic Surprise Index

Source: Bloomberg; December 2018

2. The copper price has historically been considered a good gauge of global industrial production. Since June 2018 the price appears to be foreshadowing economic weakness.

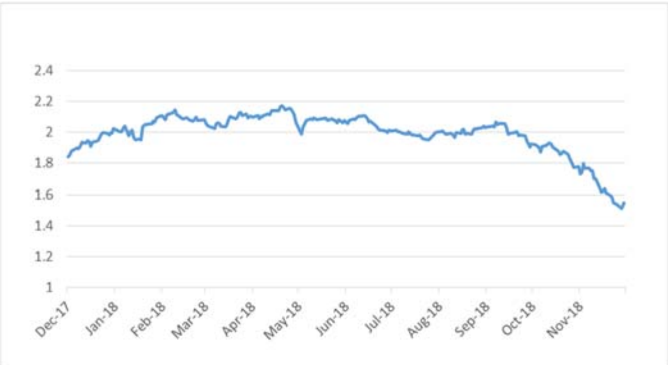
Chart 7: Copper price (US$/t)



Source: Bloomberg; December 2018.

3. Chart 8 (US 5 year breakeven inflation) may appear esoteric, but it can simply be described as the bond markets view of inflationary expectations in the US. (It is basically the difference between the nominal yield on a bond and the real yield on an inflation linked bond. An example is the TIPS, or Treasury inflation protected security). We can see they have been falling since October 2018, which has coincided with the markets concerns about growth in 2019. This is important because one of the previous fears the market had was of runaway inflation which would lead to higher interest rates. Currently, expected inflation is well below the Fed's target level of 2%, a level which they have previously signalled as being too low.

Chart 8: US 5 year breakeven inflation (%)



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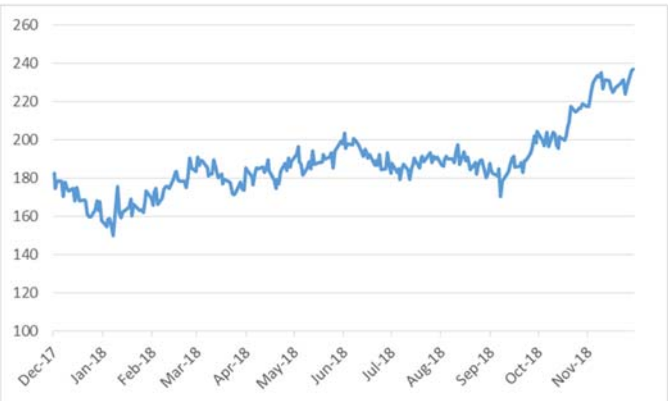

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Commodity price related - ALS, Worley Parsons, Beach Petroleum, Oil Search, Santos. The biggest commodity impacted over the quarter was oil. OPEC felt the need to cut production, which is a signal they think the globe is in oversupply.

Brexit related - Unibail-Rodamco-Westfield, Janus Henderson, CYBG. This is perhaps one of the more extreme scare stories we have witnessed in recent years. We are not surprised that consumers and investors have been rattled by some of the profoundly bearish prognostications. Time will tell if this is another Y2K scare story. We believe it is highly unlikely Brexit could now be worse, or even as bad as feared given the hyperbole coming from "remainers".

From the above list we can see that it wasn't just one factor the market became concerned about but several issues.

Better performing sectors and stocks included:

- BHP and RIO - helped by buyback activity
- Gold stocks - perceived safe havens in uncertainty
- Corporate activity - Spotless, Healthscope, Navitas, Graincorp
- Defensives-Infrastructure - eg Sydney Airport and Transurban
- Defensives-Staples - eg Woolworths
- Defensives-Some, but not all Healthcare - Ramsay, ResMed, Healthscope,
- Defensives - Most REIT's (although Unibail-Rodamco-Westfield performed very poorly)
- Defensives – Utilities - eg AGL, AusNet, Spark Infrastructure

The above analysis would suggest the market went into a typical "risk off' mode where perceived defensive stocks outperformed.

Outlook

One wild card for 2019 will be a likely new government in Australia. The current government has not been kind to many segments of the market and to large companies in general, so change may not be as severe as some expected. We also note that many of the stocks likely to be impacted by Labor's policies such as reduced franking benefits in the case of some superannuation funds, changes to capital gains tax, more bank scrutiny, and caps on private health insurance rate rises, have already been severely de-rated, hence a lot of bad news is already priced in. The yield on these stocks remains quite attractive relative to cash and bonds even without the benefit of franking, although we expect some negative publicity and commentary around the election will further hurt sentiment for these stocks.

In general, we believe there have been several cases where share prices have fallen well below what might have been expected. This is typical of a risk off environment where any perceived earnings risk is sold and often reinvested in more "safe" earnings.

The sell-off, has largely been anticipatory and has left many stocks at substantial discounts to Antares internal, research driven valuations. As such, we have been adding to some of these stocks over the quarter.

Areas of interest for further research investigation include:

- Where market hyperbole may have exceeded likely base case outcomes, eg Brexit, Australian Housing.
- Where stocks have been sold down heavily, due to downgrades that are unlikely to result in permanent business impairment.
- Stocks that have been sold off in anticipation of extreme bad news, eg US consumer related stocks.
- Where are we in the earnings cycle and are earnings and margins sustainable?
- We also note that most multi-year bull markets generally bring excesses, and poor practices such as sloppy and misleading accounting treatments, and debt levels moving towards the top end of target ranges. Both of these will be important areas of focus for our stock research going forward.
- The final report from the Hayne Royal Commission is likely to result in volatile moves by impacted (or not impacted) stocks.

Given the prospect of a growth slowdown, even if it is mild, we would expect some soft earnings results to be reported in February (with some early confessions in January). Equally important will be the companies' outlook statements.

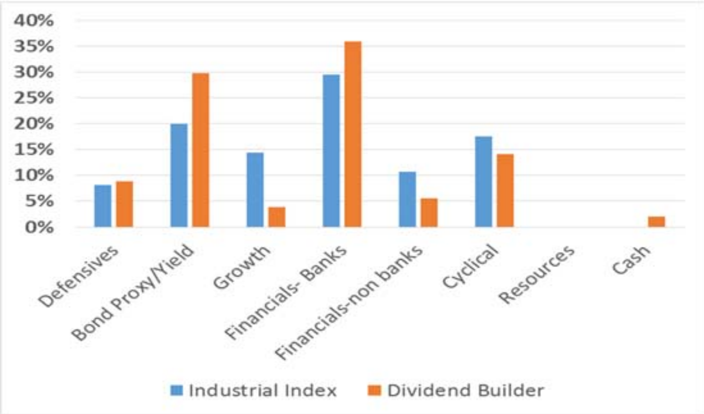
In uncertain markets, it is likely that shares will face conflicting bouts of good news and bad news which will create large up and down moves over the coming quarter. Many stocks are down between 20-50% since the market peaked in August 2018. This was not expected by shareholders in such a short period. Human nature suggests investment behaviour can become erratic, and algorithm trading accentuates trends. Often a severe capitulation event that so scares investors that they give up hope and sell, is required to make a medium or long term market bottom, some may argue the past quarter was such a circumstance.

A source for optimism is that the sell-off has created extreme value in some areas, and a much more attractively priced market overall. Valuations are generally excellent long term indicators of long term expected returns, but are unreliable in forecasting short term returns.

In the last two quarterly reports we have spoken extensively about thematic style factors affecting returns, especially growth versus value, hence we will not cover that issue again.

The portfolio's stylised sector exposure is as follows:

Chart 11: Dividend Builder sector exposure (%)



Source Antares, December 2018

The portfolio is consistently meeting its yield objective, and long term return objective, notwithstanding a difficult last 18 months.

The current yield on the portfolio based on Bloomberg consensus estimates is approximately 6.38% versus the estimated All Industrials benchmark yield of 5.15%. Note that these numbers do not include the value of franking (hence they are not grossed up).[1]

This yield compares favourably with the RBA cash rate of 1.5% and the 10 year bond rate of around 2.36%.

[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.

Quarterly Investment Update

Antares Elite Opportunities Fund – December 2018

Highlights for the quarter

Performance: The Fund returned -11.8% (net of fees) for the December quarter, underperforming its benchmark by 3.6%.

Contributors to performance: Positive contributors – Graincorp, Northern Star and Healthscope; Negative contributors – CBA, Healius and Santos.

Stock activity: Buys/additions – Aristocrat Leisure, ANZ, Telstra, Boral, AMP BlueScope Steel, Coles; Sells/reductions – BHP, Healthscope, Vocus, Incitec Pivot, Woodside Petroleum.

Fund snapshot

Inception date	18 November 2002
Benchmark	S&P/ASX 200 Accumulation Index
Investment objective	The Fund's objective is to outperform the Benchmark by 4% per annum (before fees) over a rolling 5 year period.

Investment returns as at 31 December 2018[1]

Period	3 months	1 year	3 years pa	5 years pa	10 years pa	Since inception pa
Net return[2] %	-11.8	-6.5	6.6	6.1	9.5	10.1
Gross return[3] %	-11.6	-5.9	7.3	6.8	10.3	11.0
Benchmark return %	-8.2	-2.8	6.7	5.6	9.0	8.7
Net excess return %	**-3.6**	**-3.7**	**-0.1**	**0.5**	**0.5**	**1.4**
Gross excess return %	-3.4	-3.1	0.6	1.2	1.3	2.3

[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.

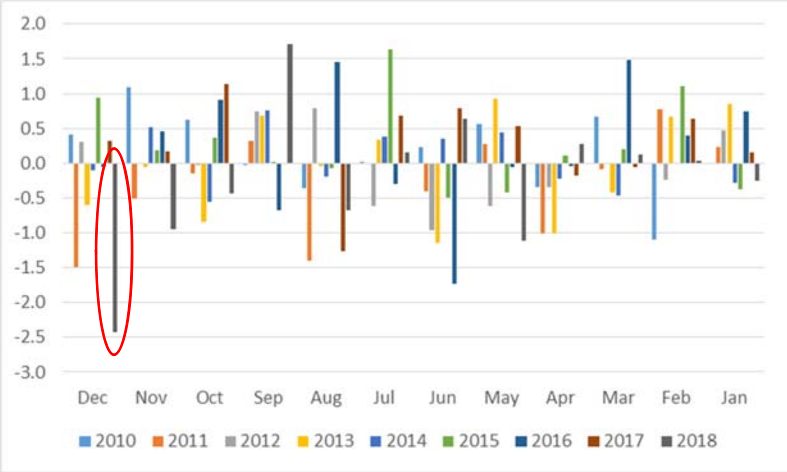
[3] Gross returns are provided to show performance against the investment objective.

Contributors to performance

Portfolio overview

The December quarter proved to be a very disappointing one for the fund. Our return of -11.8% underperformed the benchmark return of -8.2% by 3.6% (net of fees). This represents one of the poorest quarters of relative performance for the Fund since its inception over 16 years ago. Particularly disappointing was the month of December. As illustrated below, December's relative return of -2.3% was the worst month over the last eight years.

Chart 1: Relative % monthly performance for the Elite Opportunities Fund 2010 - 2018



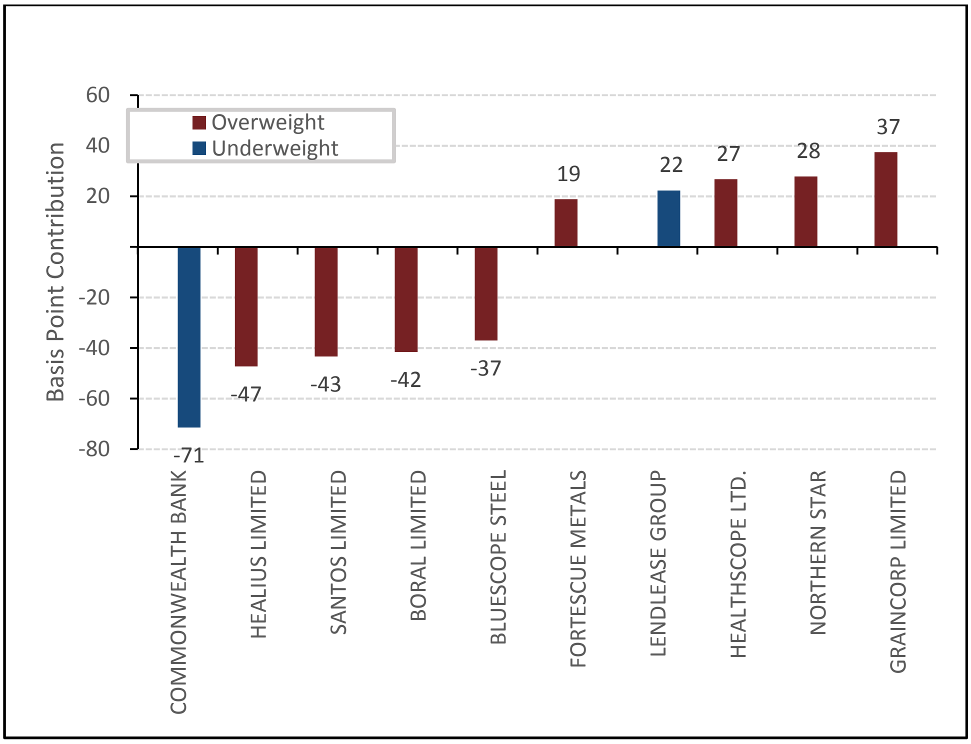
Source: Antares; January 2019

Unlike some poor performance quarters where one or two stocks with company specific negative news dominate the attribution, the December quarter's negative contributors came from a number of stocks and sectors.

Negative

- **CBA** (CBA, not owned) – CBA fared better than most banks with less negative news flow during the quarter and being seen to be further progressed in its remediation programs.
- **Healius** (HLS, overweight) - The stock (formerly called Primary Healthcare) was the subject of broker earnings and recommendation downgrades over the quarter. Also impacting the share price was the announcement that the company would compensate certain past and present employees for incorrect payments under the modern awards since July 2011. The company has provided $18m for total remediation costs. The fall in the HLS share price resulted in Jangho, its largest shareholder, announcing an indicative, non-binding bid for the company in early 2019.
- **Santos** (STO, overweight) - The fall in the oil price saw Santos shares decline over the quarter.

Chart 2: Fund attribution – December quarter



Source: Antares, December 2018

Positive

- **Graincorp** (GNC, overweight) – Adding value for the quarter was the Fund's holding in **Graincorp** which received an indicative, non-binding takeover bid from Long Term Asset Partners.
- **Northern Star** (NST, overweight) – The Fund's position in NST also added value for the quarter as the market flocked to the safety of gold. NST also announced a material increase in its resource base over the quarter that please investors.

Stock activity

The Fund differentiates between Core and Trading stocks. During the quarter we bought and sold the following stocks:

Table 1: Stock Activity

	Buy	Sell
Core	ANZ, TLS, BLD, ALL	BHP, HSO
Trading	BSL, AMP, COL	VOC, IPL, WPL

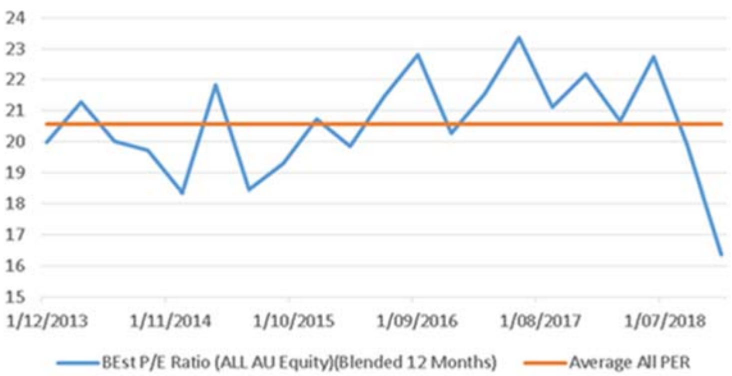
Note: Stocks in green are new additions to the portfolio and stocks in red represent those that have been sold out of the portfolio.

Buys / additions

Aristocrat Leisure (ALL)

During the December quarter we added Aristocrat Leisure. ALL is a market-leader in the design and manufacture of slot machines and game content. Through its investment in research and development (R&D) and complemented by strategic acquisitions, the company has been able to grow its share of traditional land-based slot machine markets, as well as successfully leveraging game content into a leading social casino business. The stock has been sold down in the second half of 2018 such that it is trading well below its long term historical average PE ratio of 20.5 times.

Chart 2: Aristocrat PE ratio versus long term average PE (x)



Source: Bloomberg, Antares Equities; December 2018

One reason cited for the sell down is concerns about slowing US consumer spending and the potential for a recession in 2020 as many of ALL's machines and games are sold in the US. We have revised our earnings and price target downwards based on some slowdown in growth and a conservative view on margins but note that ALL's balance sheet is stronger than its peers and the company continues to invest in R&D and acquisitions to provide a platform for growth.

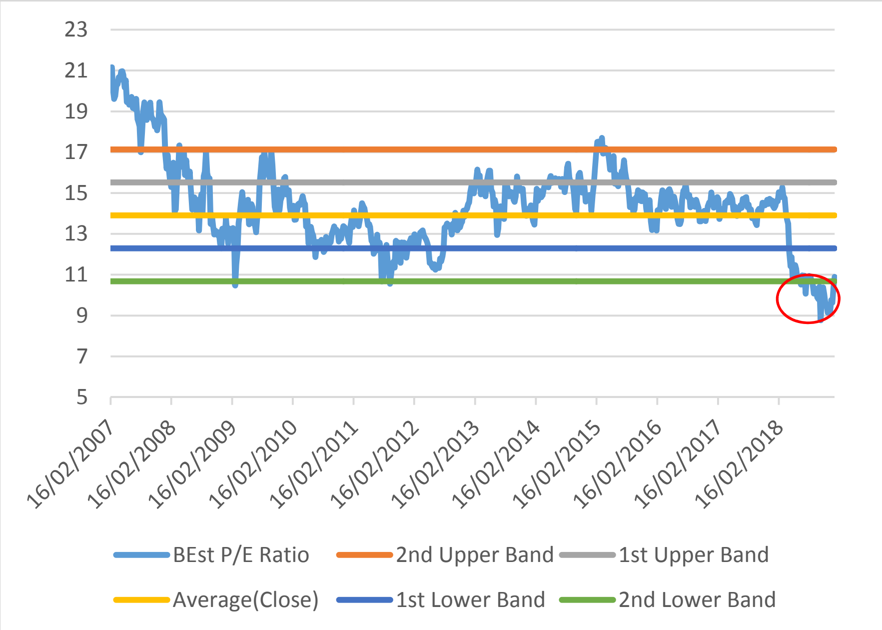
We feel that the market has used these acquisitions to de-rate ALL. We feel this is unjustified given:

- The company has a long term track record of successful content development based on investment.
- 75% of the business remains core land based content where ALL has a significant content advantage and continues to take market share. There is also the potential for sizable new markets in Brazil (estimated 50,000 machines) and Japan (est. 20,000) in the next few years.
- The digital games market is quite fragmented and ALL is well-placed to increase market share as a result of its disciplined investment and spending.

Even after our revised valuation and lower price target, and for the reasons noted, we believe ALL is attractively priced and have added it to our portfolio.

AMP (AMP) - Our initial purchase of AMP was on 23 October 2018 at a price of around $3.25. At the time, the stock was trading on a sub 10x PE multiple, something it had not experienced for over a decade. Clearly there were risks acociated with our investment but we felt the potential reward offered compensated for the risk. In recognition of these risks and those faced by the broader industry we introduced the stock as a “trading stock”, which caries with it a lower active weight. In further recognition of the uncertainty we did not go to our full indicative active position of 1.5%.

Chart 3: Historic AMP PE multiples (x)



Source: Antares, Bloomberg; January 2019

Unfortunately our purchase proved to be premature as the company announced the sale of various businesses that left the company with materially lower earnings, causing the share price to also fall and thereby keeping the PE at around 10x.

Given the company-changing events over the quarter, there is little to be gained by recounting our initial investment rationale and we are better served discussing the announced transaction and our current reasons for owning the stock.

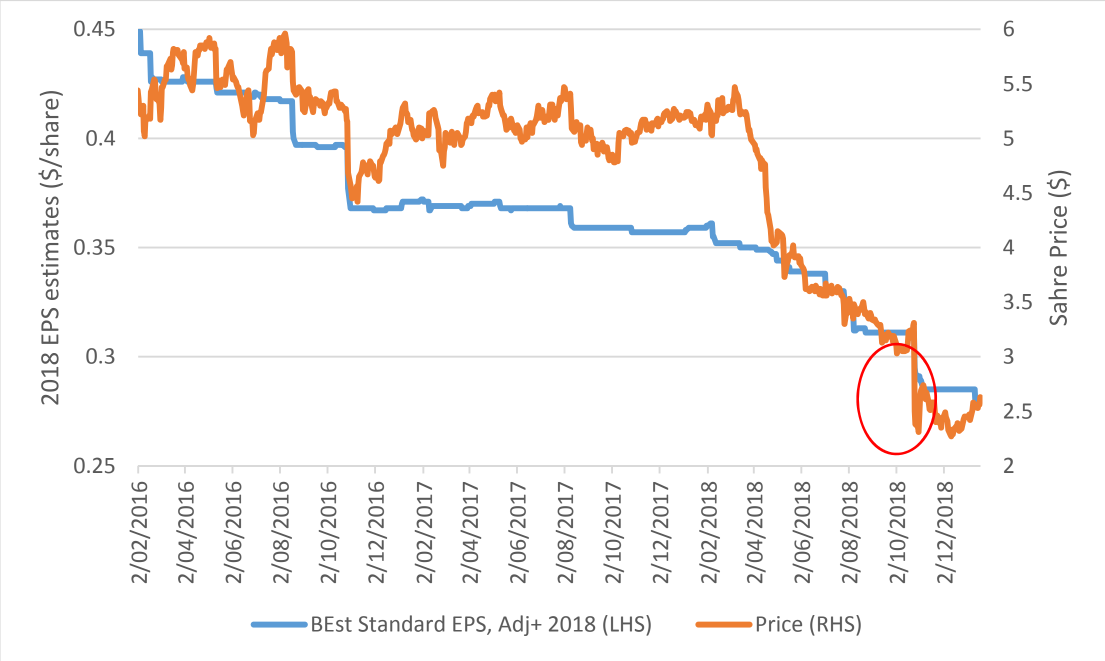
Firstly to the transaction. On 25 October 2018, the company announced it had agreed to sell its wealth protection and mature businesses, as well as its intention to divest via IPO the New Zealand wealth management and advice business. Although the headline number for the sale announcement of $3.45b was in line with our expectation there were a number of features that we believe diluted the value to shareholders. These generally included:

- Consideration was made up of cash and non cash components
- There are after-tax separation costs of $320m
- Capital dis-synergies of $160m
- AMP group Debt-Equity rebalancing of $300m
- AMP Life Equity-Hybrid Replacement; $500m

When all is said and done the $3.45b sale price reduces to a net number of $2.17b, and of this, only $1.055b is cash with the remaining $1.115b in “income generating equity investments”. Over the two day period (25 and 26 October), AMP’s market value fell by over $2.7b suggesting that the market had not only written off the entire value of the equity investments but also around 30% of the cash proceeds.

The sale of the assets will also see AMP generate lower profits going forward, unfortunately there was no announced buyback to help ameliorate the earnings per share dilution that comes with lower earnings (see red circle in the following chart).

Chart 4: AMP share price and 2018 earnings estimates



Source: Antares, Bloomberg; January 2019

Why do we continue to own AMP given all the stock specific and industry issues? The answer, as is often the case, is that our view of the value of company is higher than the current share price.

Following is a valuation undertaken by UBS to try to ascertain what assumptions need to be made to get an AMP share price of $2.50. What stands out to us are the very low implied multiples. Although there will be significant brand damage to AMP we feel this is reflected in the lower earnings stream and should not be doubled up by applying a lower multiple.

Table 2: AMP Sum of Parts Valuation

	12-mth fwd NPAT	A$m	Implied PE	Capital	UBS $/shr	Comment
WM	292	3,170	10.8	934	1.26	DCF implies 10.8x reflecting lower medium-term earnings
AMP Capital	160	1,801	11.2	415	0.72	PE reflects 50% of base fees on flat internal AUM
Bank	161	1,862	11.6	931	0.74	Valuation slightly above bank sector given higher ROE
New Zealand Wealth	41	488	12.0	0	0.19	Assuming range of 10-14x
Head office costs	-107	-1,289	12.0	-51	-0.51	
External debt	-43	-1,112	25.8	-1,112	-0.44	
Other capital	151	2,014	13.3	2,014	0.80	Pro forma post divestments and $1bn buyback
Group total (ex-impairments)	**655**	**6,934**	**10.6**	**3,131**	**2.75**	Share count post $1bn buyback
Impairments / One-offs		-650				Litigation, one-off & break-up costs
Group total (UBSe)	**655**	**6,284**	**9.6**	**3,131**	**2.50**	

Source: AMP disclosures; UBS

Source: UBS; 26 October 2018

Based on our assumptions, and incorporating an ESG discount our assessed value is generally around $3.50 per share.

Coles Group (COL) - As part of the previously announced Wesfarmers demerger, the Coles Group was spun out of Wesfarmers and introduced into the portfolio. We will continue to hold our position and asses its attractiveness relative to other opportunities in the market place. At this stage COL is trading at a modest discount to our target price.

Sells / reductions

Healthscope (HSO) - Over the quarter HSO was the recipient of two indicative, non-binding takeover proposals. This has seen the HSO share price perform well over the period and we used the opportunity to exit our position. Although the stock continues to trade below the indicated bid range, we feel there is a large degree of risk associated with either bid being successful. Furthermore, our bottom up analysis suggests that the hospital sector is continuing to experience a period of relatively modest demand and HSO's flagship growth project, the Northern Beaches Hospital, has had a very difficult ramp up period.

Woodside Petroleum (WPL) - Following a period of strong share price performance we exited our Woodside holding. Woodside appears to have performed well on the back of a stronger oil price, helped by a weaker Australian dollar that saw the Australian Dollar Oil price rise to multi year highs.

Furthermore many of the stock specific growth projects (Browse/Scarborough) we felt were not in the price when we initiated position although, these now seem to be better understood by the market and this appears to be reflected in the share price.

Incitec Pivot (IPL) - Following a period of relatively strong share price performance we used the opportunity to exit our position in IPL. Our position in IPL was premised on the expansion of its US nitrogen business coupled with a cyclical recovery in its traditional US explosives business particularly within its Quarry and Construction division. Over the last few years these catalysts have played out with the share price reflecting some of the hard work undertaken by IPL.

Outlook and strategy

Outlook

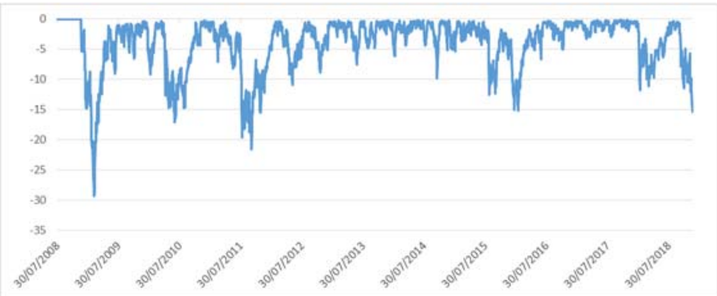
Amid continued volatility in markets we remain focused on the bottom up analysis of our companies, however we cannot ignore the market's concern centred on the US Fed and China.

Regarding the Fed, the question remains as to its flexibility on the path that it has set for quantitative tightening and higher rates. Pleasingly, for our positioning, comments emanating from the Fed in early 2019 indicate that there is at least some recognition that future rate rises will potentially be driven by data

On China, the question is, when will growth stabilise? Past easing measures, at this stage, have not yet stabilised Chinese growth and high frequency data suggests that consumers continue to shy away from big ticket purchases. We remain of the view that weakness will persist at least until the Chinese new year (Feb 2019). Further stimulus announcements in early 2019 (auto sector) suggest that the government is determined to at least stabilise growth.

The US economy continues to demonstrate robust consumption growth and a strong labour market. However recent tightening in financial conditions has caused pockets of weakness in the economy, and indeed the market. The sell-off in the US equity market over the quarter was the worst since 2011 (which had been driven by Euro area weakness, Greek risk of default). As illustrated in the following Chart, the US market is down around 15% from its most recent high.

Chart 5: S&P 500 drawdown (%)



Source: Antares, Bloomberg; January 2019

(A drawdown is the peak-to-trough decline during a specific recorded period of an investment, quoted as the percentage between the peak and the subsequent trough.)

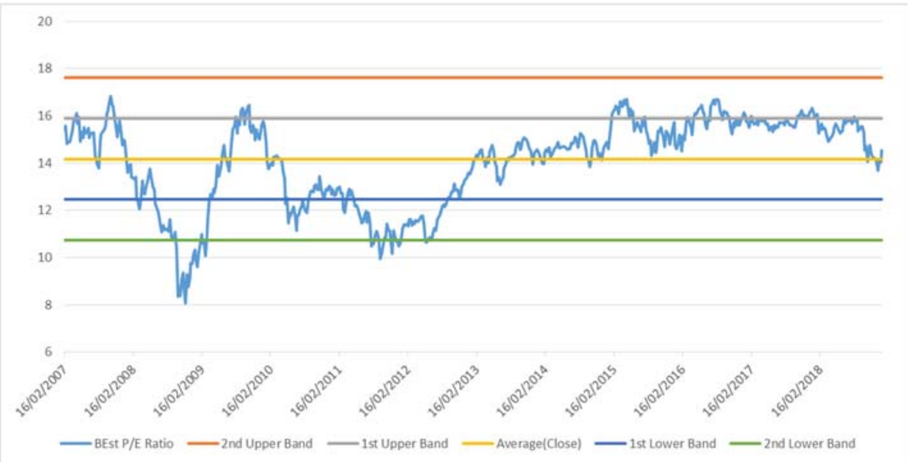
Bearing the brunt of the selloff were the cyclical sectors. The Auto and Housing sectors were some of the hardest hit during the selloff. Although there were genuine reasons for the sell-off, related to full valuations, slowing growth (from a high level), and increasing global risks (discussed earlier), the sell-off currently seems particularly savage in light of robust global growth.

Chart 6: S&P 500 sub sector performance for 2018 (rebased to 100)

Source: Antares, Bloomberg; January 2019

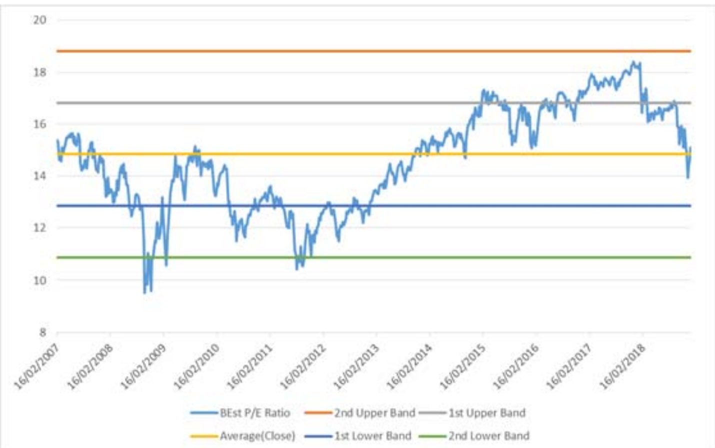
The sell-off has now restored some value to both the Australian and US markets with both currently trading around their long term averages (~11 year which includes the GFC period). PE multiples are at the lowest point than almost any time over the last five years, which at face value appears reassuring. The question however is, will earnings hold up?

Chart 7: Australia S&P/ASX 200 PE ratio (x)



Source: Antares, Bloomberg; January 2019

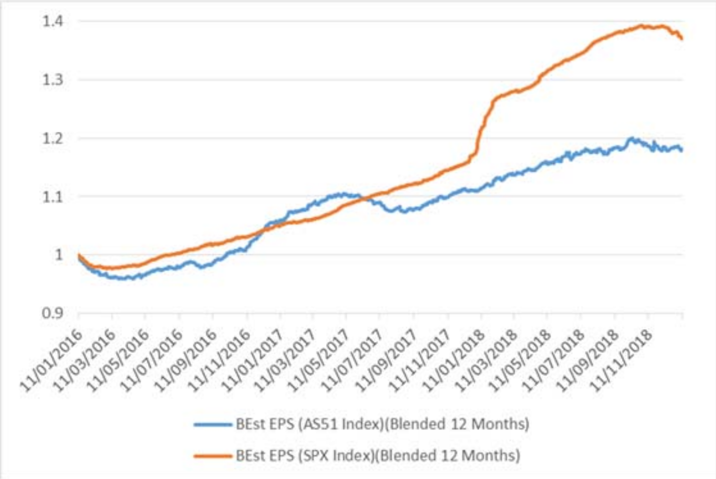
Chart 8: US S&P 500 prospective PE (x)



Source: Antares, Bloomberg; January 2019

At this stage, earnings in both the US and Australia appear to have stalled. The following chart highlights the earnings trajectory of both markets (indexed to 1 for comparison). Over the last few months earnings have stalled (stopped growing/increasing) and very recently have started to fall in the US. The future trajectory of earnings, as always, will play a critical role to the direction of markets.

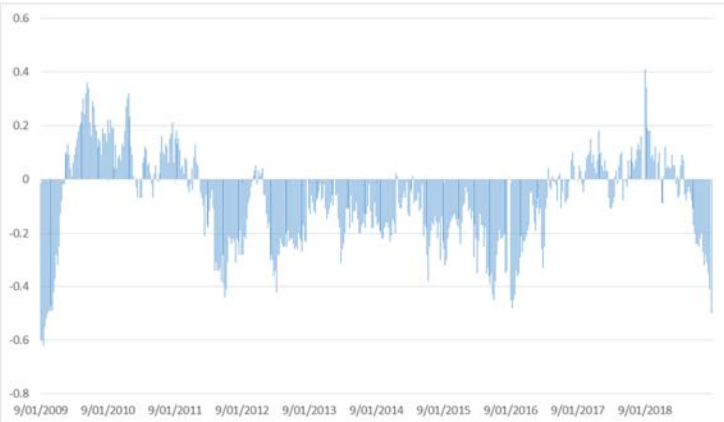
Chart 9: Australia and US earnings trajectory



Source: Antares, Bloomberg; January 2019

On a global basis, the earnings trend is more alarming. Below is a chart that measures the number of equity analysts revisions - upgrades (positive) and downgrades (negative) - globally. As can be seen there have recently been a large number of downgrades versus upgrades.

Chart 10: Global earnings revisions (%)



Source: Citi; January 2019

The upcoming reporting season and outlook statements will offer a guide for future earnings trends. Soft results and uncertain outlooks will likely see accelerating earnings cuts, while outlook statements suggesting that the real economy is doing fine will likely see a return to risk assets and higher market levels. The very early results and confessions coming from the US, at this stage, remain inconclusive. The recent Apple announcement indicated weakness in China (not the US) and some traditional "bricks and mortar" retailers offered poor results and outlooks. Homebuilders however indicated a return of consumers looking to buy a home.

Additionally, what we are looking for, in order for risk appetite to return, is for the Fed to signal its flexibility around its balance sheet normalisation and its path for future rate increases as well as signs that Chinese growth has stabilised. Until there is more clarity on both fronts, risk aversion may persist as the market grapples with the continued uncertainty of Brexit, US political leadership and closer to home, the Federal Election and the final report from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (due by 1 Feb 2019).

Strategy

The underlying positioning of the portfolio changed little over the quarter. There were a number of stocks that entered the portfolio (Coles, AMP and Aristocrat Leisure) and an equal number that exited (Healthscope, Incitec Pivot and Woodside Petroleum) however these did little to change the basic orientation of the portfolio. The main change was to reduce our energy exposure.

Table 3: Elite Opportunities Portfolio - composition by GICS sector

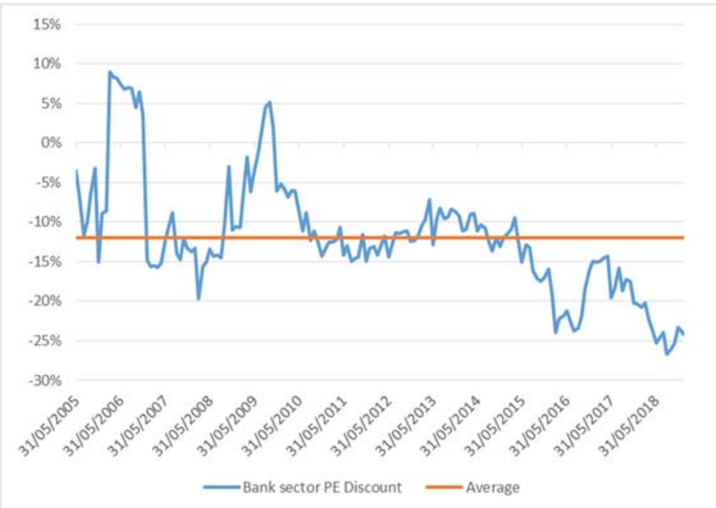
Elite Opportunities at 31 December 2018	Portfolio %	Index %	Over/underweight %
Energy	5.8	5.4	0.4
Materials	17.4	18.2	-0.8
Industrials	4.9	8.0	-3.1
Consumer discretionary	12.8	6.3	6.5
Consumer staples	4.3	5.8	-1.5
Health care	3.9	8.7	-4.8
Financials ex REITs	31.5	32.6	-1.1
Information technology	5.4	2.1	3.3
Communication services	6.7	3.5	3.2
Utilities	0.0	2.0	-2.0
Real Estate	0.0	7.4	-7.4
Cash	3.3	0.0	3.3
SPI Futures	4.0	0.0	4.0
Total	**100.0**	**100.0**	**0.0**

Source: Antares; January 2019

The largest sector positions in the fund remain our underweight positions in the REIT and utilities sectors - combined these represent an approximate 9% underweight.

Within the Financials Ex-REITS sector we remain overweight both diversified financials and insurance and underweight banks. We have however increased our weighting to the bank sector (although we remain over 3% underweight). Our focus on valuations has made being significantly underweight difficult to maintain as share prices have corrected. The banks are trading at over 25% discount to the broader industrial market versus a long term average of 12%, an extreme event if the last 13 years are a guide.

Chart 11: S&P/ASX Bank Sector Relative Discount to S&P/ASX Industrials 200



Source: Antares; Bloomberg; January 2019

The basic fundamental characteristics of the portfolio are presented below. The fund remains below market in terms of PE and EV/EBITDA, in line with the market yield at around 5%, but below market ROE, largely driven by our underweight position in growth companies.

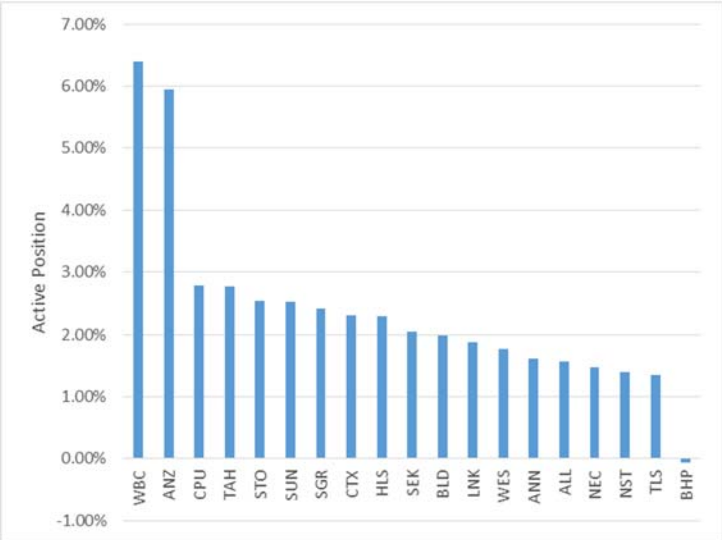
Table 4: Elite Opportunities Fundamentals

Characteristic	Portfolio %	Benchmark %	Difference%
Forward PE ratio	14.3	17.3	-3.0
Forward EV/EBITDA ratio	8.2	9.5	-1.3
Forward ROE	14.5	17.4	-2.9
Forward dividend yield	5.1	5.0	0.1

Source: Antares, Bloomberg; January 2019

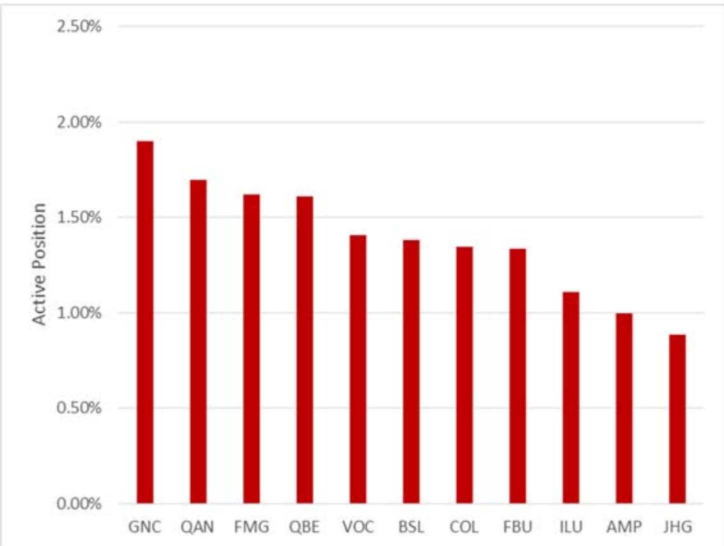
The exposure to core and trading stocks are presented in the following charts. Of the core stocks our position in ALL continues to be built. Our position in AMP remains modest and will likely remain so until further clarity and conviction can be made around the outcome of the Royal Commission and our initial assessment of the new management team. Our position in BHP continues to be reduced.

Chart 12: Elite Opportunities Core stocks



Source: Antares; January 2019

Chart 13: Elite Opportunities Trading stocks



Source: Antares, January 2019

Quarterly Investment Update

Antares Ex-20 Australian Equities Strategy – December 2018

Highlights for the quarter

Performance: The Strategy returned -15.0% (net of fees) for the December quarter, underperforming its benchmark by 3.9%.

Contributors to performance: Positive contributors –Lendlease Group, Goodman Group and Fortescue Metals Group; Negative contributors – CYBG, Afterpay Touch Group and BlueScope Steel

Stock activity: Buys/additions – Aristocrat Leisure, WorleyParsons; Sales/reductions – CYBG, Orica

Portfolio snapshot

Inception date	27 May 2015
Benchmark	S&P/ASX 200 Accumulation Index excluding the S&P/ASX 20 Accumulation Index
Investment objective	The Model Portfolio's objective is to outperform the Benchmark (before fees) over a rolling 5 year period.

Investment returns* as at 31 December 2018[1]

Period	3 months	1 year	3 years pa	5 years pa	7 years pa	Since inception pa
Net return[2] %	-15.0	-9.6	7.8	-	-	7.5
Gross return[3] %	-14.9	-8.8	8.7	-	-	8.4
Benchmark return %	-11.1	-6.4	9.4	-	-	7.1
Net excess return %	**-3.9**	**-3.2**	**-1.6**	**-**	**-**	**0.4**
Gross excess return %	-3.8	-2.4	-0.7	-	-	1.3

[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] Performance is based on the income and market value of the Model Portfolio and is net of fees. The performance of individual portfolios may differ to the performance of the Model Portfolio due to cash flows, portfolio reweighting and timing issues.
[3] Gross returns are provided to show performance against the investment objective.
*Performance is based on the income and market value of the Antares Ex-20 Australian Equities SMA Model Portfolio.

Performance and market update

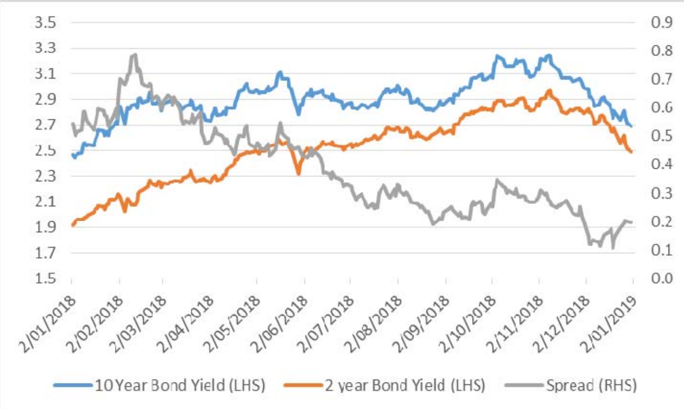
The portfolio posted a return of -15.0% (net of fees) in the December quarter. This was a disappointing outcome. Further, it is also behind our benchmark's return of -11.1%.

There has been much talk during the past few weeks about the markets' performance over the previous quarter. We do not believe we can add much insight to that which has already been written – to us it seems that most participants are generally searching for the various causes: increased algorithmic trading, various strategies around hedging in mixed portfolios etc. The reality is that the Australian market recorded a decline of 8.2% (including dividends paid), making it the worst quarter for equities since September 2011. As poor as this was, it was still materially better than returns generated by the main US benchmark, the S&P 500, which returned -14.0% for the quarter, which was also its worst return since September 2011.

While the drivers of short term volatility are not readily apparent to us - we are not short-term traders - there were a number of factors that hurt sentiment towards global equity markets generally. These included the continuing Sino-American trade issues, the sharp fall in oil prices (despite Iranian sanctions), the loss of Congress by the Republican Party in the November 2018 mid-term elections in the US, the ongoing tightening of US monetary conditions and the general slowdown in economic conditions, most apparent in China and Europe. Interestingly, these factors all contain some relationship to growth expectations.

Essentially the market looks to have reacted to this confluence of events by saying that growth expectations were far too high and have been wound back materially. This is evident in a global sense by the rapid change in the direction of longer term bond rates in the United States. As the chart below highlights, the US 10-year bond rate was heading higher until the end of the September 2018 quarter. Around November 2018 it began to decline materially from its peak of 3.2%; it has now fallen back to levels seen at the start of 2018 – around 2.6%. This is despite four interest rate rises from the US Federal Reserve over the same period.

Chart 1: US bond yields (%) – a proxy for growth



Source: Antares, Bloomberg; January 2019

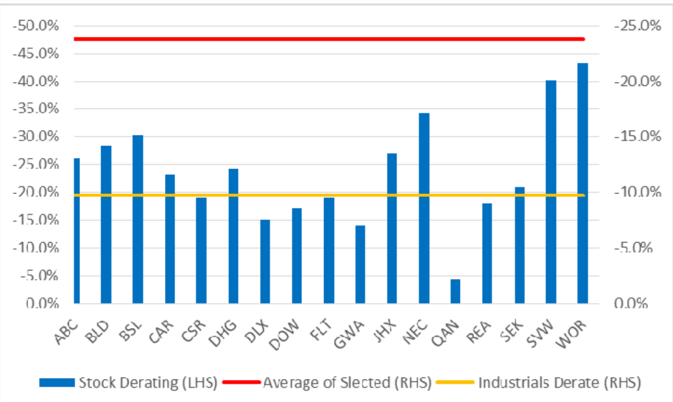
The inference is clear. Longer term rates are falling, as the market believes that growth may have peaked. While short-term rates may continue to go up in response to more immediate data (eg the continuing strong jobs data in the US), this may lead to lower growth beyond the near term horizon by creating monetary conditions that are potentially too tight.

This is highlighted by the so-called "flattening yield curve" which the above chart also highlights. The "spread", charted on the right-hand axis of the above chart, has fallen materially. This "spread" is the gap between the 10 year bond rate and the shorter term two year rate. At the start of the year, despite the lower rates then available, the "spread" showed that the gap was around 0.8%. In other words, longer term rates were 0.8% higher than short term rates. The market seemed to be expecting growth to drive rates up relative to short term levels at that time. By December 2018, the "spread" had compressed to just over 0.2%. Hence the market was now indicating that it expected longer term growth rates to slow materially.

To put this into the context of our local market, we can see a similar impact in the price that the market has been willing to pay for the earnings of certain "economically sensitive" companies. We have not invested into all of these companies, but the portfolio generally takes a constructive view of economic growth and markets. So these are the types of companies in which we typically seek to invest.

As the following chart shows, the average price the market is prepared to pay for these earnings (as measured through their one year forward price earnings ratio) has fallen markedly through the December quarter. We have compared the fall in the price earnings ratio of the general S&P/ASX 200 Industrials average. These prices have fallen very hard, as the market is indicating that future growth prospects were being priced too highly.

Chart 2: Derating of selected Industrials (Inverted)



Source: Antares, Bloomberg; January 2019

Essentially the market is generally indicating that the future earnings of these businesses, mainly from the construction and media segments, are now worth around 25% less than they were three months ago. Their earnings are expected to be much weaker than those of the general market. While the overall market has corrected by 10%, these prospects are seen as particularly bleak.

It is this area that has hurt the Portfolio most. The Portfolio owns several of these companies, and despite re-affirmation of guidance, or in the case of Downer, increased guidance on the back of new contract wins, the shares have fallen as described.

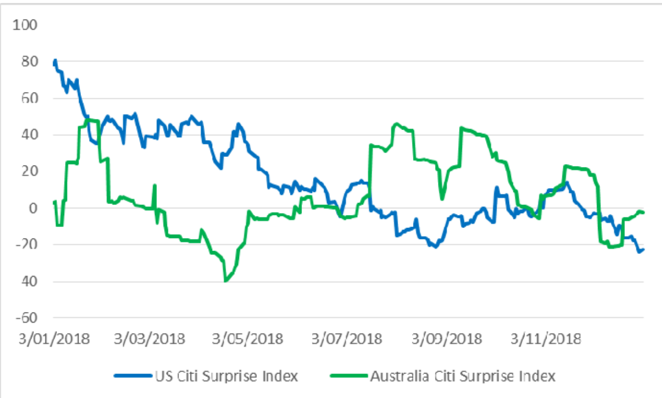
We are not so sure this is correct. We feel that many investments in this area are underpinned by growth outside the cyclical impact. Downer, as mentioned, has won new contracts in the rail and mining services space. Channel Nine (NEC) is far less exposed to the cyclical TV market than historically given the growth of its digital on demand offerings, as well as the merger with Fairfax. The synergies here will be material. Dulux (DLX) has confirmed guidance, even noting the market has slowed. Further DLX has only once seen a year of negative volume growth in the past decade, which occurred in the aftermath of the so-called GFC in 2008. Likewise Qantas (QAN) has seen a material fall in its major cost of doing business. So we are perplexed as to why the shares should be trading down.

Outlook

In the meantime, economic data in Australia and the United States looks robust. Yes, we are aware that house price weakness may seep into the choices of domestic consumers. And this is obviously impacting the share prices of the companies related to this, as cited above. Yet conditions remain at worst benign. We think growth is slowing, certainly, but to us the market is bracing for a housing-led recession in Australia. With changes to negative gearing on the horizon, this may yet happen, but it has been predicted many times by the market, and is yet to occur. Employment is high and wages are grinding higher. In our opinion, these are not generally conditions for a housing bust.

This is not to say that the outlook is rosy. As the charts show, economic data in both the United States and Australia is now starting to surprise on the downside. As the two economic surprise indices from each country show on the chart below, economic data is now beginning to miss estimates. While conditions remain robust, this remains something to watch.

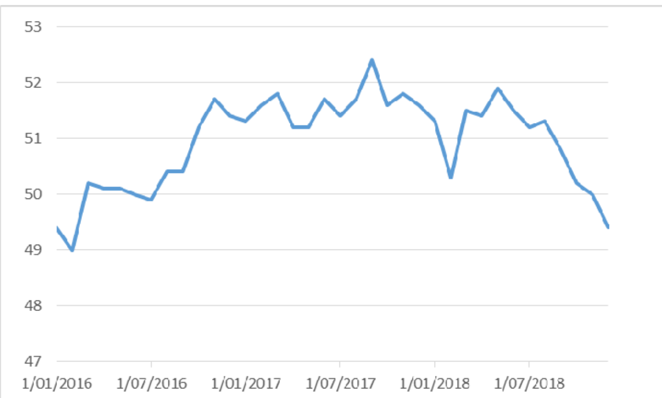
Chart 3: Economic Surprise Indices



Source: Citi; January 2019

Similarly, economic data in China is also deteriorating, for example even the official index of manufacturing activity is now indicating a contraction of activity:

Chart 4: Chinese PMI



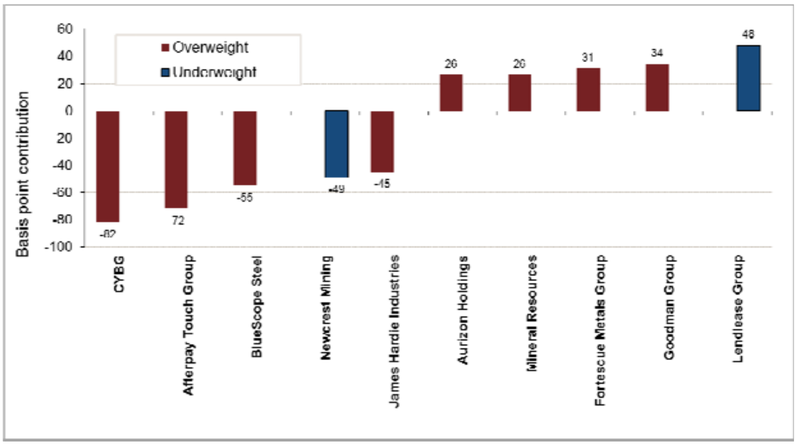
Source: Antares, Bloomberg; December 2018

We have highlighted the risks that are appearing. It is as well to remain balanced here as in the outlook there are also certain factors that have become supportive to consumers in most countries. Longer term interest rates have fallen, and for countries like Australia with high levels of floating rate mortgages, we expect some support to consumers to emerge. Further, oil prices have corrected markedly as has been well-documented in the media. The impact on consumers in western countries is material. For example, in Australia the average family consumes approximately 300 litres of petrol per month. With prices now $0.25c+ per litre lower, this represents a saving of $75.00. (Source: ABS)

So on balance we are more cautious on the outlook, but we do not feel the need to make wholesale changes. Our investments are generally designed to provide value through an economic cycle, and while cyclical weakness can provide increased volatility, as we are now seeing, this can also provide potential increased opportunity as well.

Stock attribution

Chart 5: Portfolio attribution – December quarter



Source: Antares, December 2018

Positive

Our best contributor for the quarter was **Fortescue Metals Group** (FMG). While the company released operating data over the period in line with market expectations (its September 2018Quarterly production report), two factors supported the share price despite falling iron ore prices. The first was the announcement (and commencement) of a US$500m share buyback, indicating the company sees value in its own stock. Secondly, and more interestingly, as steel spreads have fallen (the gross profit steel makers achieve over the cost of raw materials of iron ore and coking coal) the discount applied to FMG's lower grade iron ore has contracted. Steel makers have less profit to buy better quality (and so more expensive) iron ore and look to buy lower grades instead. This means FMG's realised price is actually better than that generally expected by the market.

Goodman Group (GMG) also performed well. There was little specific news, with GMG's AGM commentary being in line with expectations. However, GMG benefitted from the defensive stance in the market due to its industrial property derived earnings, coupled with its very solid balance sheet, which were seen as a haven in the sell-off.

Aurizon Holdings (AZJ) enjoyed a solid quarter relative to the market. Like GMG, AZJ benefitted from its defensive characteristics, with over half of its revenue and operating profit subject to a regulated outcome. Hence it is relatively protected from the impact of changes to demand and supply balances. One piece of good news in this respect was a slight increase in the allowed return AZJ can earn from its major regulated asset, the Central Queensland Coal Network. News flow around this stock had been poor despite strong demand for coal, the haulage of which is AZJ's dominant business.

The Portfolio does not own gold miners or pure real estate investment trusts and these sectors benefitted in the volatile conditions from risk aversion in the market. Not owning these stocks was the significant cause of the portfolio's underperformance in the quarter. Stocks which the Portfolio owns that did not perform as well as expected are discussed in the following section.

Negative

Our biggest detractor for the quarter was **CYBG** (CYB) following its disappointing result released in November 2018. The company has recently completed a major acquisition of Virgin Money in the United Kingdom, and we had anticipated synergy benefits and cost of funds advantages to stem from this acquisition. Instead, CYB issued guidance on its forward net interest margin that was materially below its current and expected future levels. Given how recently the acquisition had been completed, and it was the impact of Virgin Money's operations that caused this issue, we were concerned about the level of due diligence undertaken by CYB. We sold our position in CYB accordingly.

Shares in **Nine Entertainment Co Holdings** (NEC) fell a great deal during the quarter. The company held its AGM in November 2018 and re-affirmed its FY19 guidance. It also completed the merger with Fairfax Media (FXJ). FXJ also provided a trading update prior to the merger which showed some weakness in its rural media assets, mainly due to the drought, as well as a poor quarter from the 60% of Domain (DHG) held by FXJ. Property listing volumes have been weak, as has been well documented and this accounts for some of the weakness in the combined group's share price. As noted above, the market has significantly de-rated the shares of NEC, as well as other economically sensitive Australian focused businesses (in other words, the price the market is prepared to pay for their earnings fell dramatically). The market appears to be pricing in a major decline in NEC's earnings. We see some weakness, but feel that synergy targets have been understated in the lead up to the merger and will provide some compensation for any loss of advertising revenue. Further, much of NEC's group revenues are now provided by various on-demand digital streaming businesses. We feel the shares generally look very attractive at current levels.

Another major detractor for the quarter was **AfterPay Touch Group** (APT). There were several reasons for its decline. The first was the negative sentiment towards technology companies generally, as evidenced by the fall in the Nasdaq in the US, which was down 17.6% during the quarter. The other factor was the lingering negative sentiment towards APT over regulatory questions. This was heightened by the announcement from the opposition Labor Party it would hold a Senate inquiry into the unregulated lending segment of the financial industry, including "buy now, pay later" firms such as APT. We have looked heavily at the regulatory situation in our investment thesis on APT, and while we can never be certain, we believe its model to be benign. APT offers little chance of harm to its customers, as its model is not punitive, with fees clearly disclosed, debts not enforced at law, and no impact on a customer's credit rating in the event of default. Nevertheless, there is a political aspect in this inquiry and so we are cognisant of unexpected outcomes such things can produce. We continue to believe that the long-term viability of the model is under-appreciated by the market, and the opportunity available in the considerably more liberal economy of the US offers far greater upside than near term regulatory risk in Australia. We note APT already has signed up over 1,000 retailers in the US in just 4 months of operating there, compared to 20,000 retailers in Australia in four years.

Stock activity

Buys / additions.

We added a small position in **Aristocrat Leisure** (ALL) during the month. ALL had been a stalwart in the portfolio, but we sold the stock last year given concerns about its strategy to invest heavily into the digital part of its business and a belief that earnings in its core land-based business were peaking. The latter was an incorrect conclusion and we have come to view the digital investment in a more positive light given recent research. With the share price having been weak for reasons that are unclear to us, we have added a small position to the portfolio

We took a small position in **WorleyParsons** (WOR) opportunistically following its acquisition of Jacobs Engineering's petro chemical business. This required a large equity raising, in which we participated. We like the acquisition, as we think it expands WOR's offering by providing further "downstream" capability. With the ability to provide a full suite of consulting services to the petroleum industry becoming more important to reduce costs and complexity, we currently see this as a strategically sound acquisition.

Sells / reductions

As noted in our discussion of **CYBG** above, we sold our position after its poor result.

We sold our position in **Orica** (ORI) as further information came to light about the underperformance of its Western Australia joint venture, Burrup. With a WA market facing oversupply in the near term in any event, we feel it will be hard for ORI to make the plant profitable, even once production comes on line as planned due to pricing pressure. We have also lost patience with ORI's management, given that the business seems to face recurring issues in its production facilities. We wonder if ORI may have been underspending on essential capital expenditure, thus requiring a catch-up sometime soon.

Quarterly Investment Update

Antares High Growth Shares Fund – December 2018

Highlights for the quarter

Performance: The Fund returned -11.5% (net of fees) for the December quarter, underperforming its benchmark by 3.3%.

Contributors to performance: Positive contributors –Lendlease Group, Northern Star, Domino's Pizza Enterprises; Negative contributors – BlueScope Steel, Boral, Santos.

Stock activity: Buys/additions – APA Group; Sells/reductions –Sydney Airport, Telstra.

Fund snapshot

Inception date	7 December 1999
Benchmark	S&P/ASX 200 Accumulation Index
Investment objective	To outperform the benchmark by 5% p.a. (before fees) over a rolling 5-year period

Investment returns as at 31 December 2018[1]

Period	3 months	1 year	3 years pa	5 years pa	10 years pa	Since inception pa
Net return[2] %	-11.5	-4.1	7.3	6.8	9.9	10.4
Gross return[3] %	-11.3	-3.1	8.4	7.9	11.2	11.9
Benchmark return %	-8.2	-2.8	6.7	5.6	9.0	7.6
Net excess return %	**-3.3**	**-1.3**	**0.6**	**1.2**	**0.9**	**2.8**
Gross excess return %	-3.1	-0.3	1.7	2.3	2.2	4.3

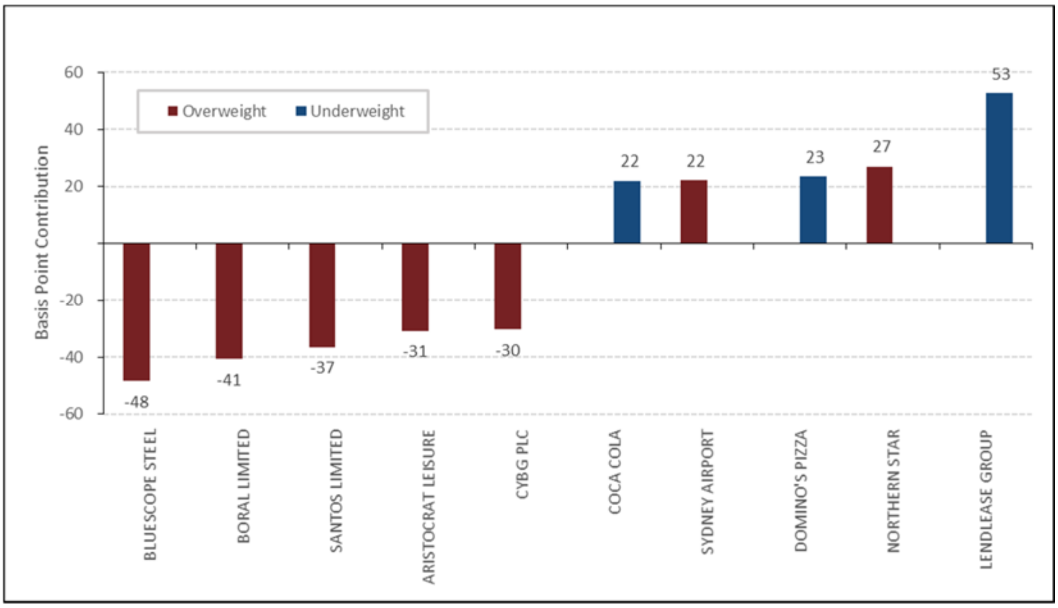
[1] Past performance is not a reliable indicator of future performance. Returns are not guaranteed and actual returns may vary from any target returns described in this document.
[2] Investment returns are based on exit prices, and are net of management fees and assume reinvestment of all distributions.
[3] Gross returns are provided to show performance against the investment objective.

Contributors to performance

Positive

- **Lendlease Group (LLC, underweight)** – LLC fell more than 40% during the quarter after releasing a very disappointing market update in early November. LLC revealed that further under-performance in its Engineering and Services business from a small number of previously identified projects would result in an impairment of $350 million on a post-tax basis. LLC cited a range of issues including lower productivity at NorthConnex, wet weather, access issues and remedial work due to defective design. Given the magnitude of the share price fall, we decided to buy back our short position to lock in significant profits.
- **Northern Star (NST, overweight)** – NST was a strong contributor to fund performance once again as it rallied 11% on the back of a stronger gold price and a continued re-rating post the highly accretive Pogo acquisition in Alaska. NST was also supported late in the period by a very positive exploration update from its Australian operations which paves the way for a substantial increase in inventory and mine lives.
- **Domino's Pizza Enterprises (DMP, underweight)** – DMP declined 23% over the quarter as it was impacted by broad based selling of high PE multiple stocks and a slightly disappointing AGM update. DMP revealed at its AGM in November that same store sales growth is currently tracking just below FY19 guidance of 3-6%. Numerous media articles regarding franchisee litigation and insider selling by executives also appeared to weigh heavily on sentiment.

Chart 1: Fund attribution – December quarter



Source: Antares, December 2018

Negative

- **BlueScope Steel (BSL, overweight)** – BSL declined 35% during the quarter as cyclical stocks suffered from broad-based and often indiscriminate selling. Earnings expectations for BSL hardly moved over this period as the company re-affirmed profit guidance at their AGM and announced an additional $250m share buyback as the balance sheet approaches its $200-400m net cash goal.
- **Boral (BLD, overweight)** – BLD fell 28% as it suffered from similar negative sentiment towards cyclicals as BSL, along with concerns over the weakening US and Australian housing markets. BLD cautioned at their AGM that FY19 earnings were likely to be skewed to the second half as a result of adverse weather conditions and several project delays.
- **Santos (STO, overweight)** – STO fell nearly 25% yet actually outperformed the oil price which plunged more than a third during the quarter having posted a four-year high in early October. Energy prices were weighed down by record US production which boosted stockpiles as the US-China trade war escalated. STO delivered another strong quarterly activities report and also successfully completed the highly accretive Quadrant Energy acquisition in late November.

Stock activity

NB: commentary may not be provided on some positions where we have an imminent intention of buying or selling.

Increased

- **APA Group (APA)** – The Fund initiated a long position in early November below $8.60 after the stock plunged 10% on news Australia Treasurer Josh Frydenberg planned to block the proposed takeover by the CK Asset Holdings consortium. It was deemed the acquisition would be contrary to the national interest as it would result in an undue concentration of foreign ownership by a single company group in Australia's most significant gas transmission business. APA is a high quality, defensive growth stock with a 5.5% yield which could potentially attract further M&A interest.

Short covering

- **IOOF Holdings (IFL) –** Having been under pressure since the commencement of the Royal Commission into misconduct in the Banking, Superannuation and Financial Services Industry earlier this year, IFL plunged more than 40% in two days to $4.30 after some unprecedented regulatory intervention. APRA announced it would impose licence conditions on IFL for failing to act in the interest of superannuation members and would also seek to disqualify five IFL directors and executives. We decided to cover the balance of our short position at around $4.35 when sentiment was extremely negative and the stock subsequently recovered to $5.17 by quarter end.

Reduced / exited

- **Sydney Airport (SYD)** – We significantly reduced our overweight position in mid- December as falling bond yields helped SYD rally back towards $7. We felt it was quite fully valued at these levels, especially on a relative basis after the broader market correction. We are also concerned about slowing international and domestic passenger momentum, along with potentially heightened regulatory risks associated with the upcoming Federal Government review of Australian airports.

- **Telstra (TLS)** – It was yet another eventful and volatile quarter for TLS which only reinforced our view that it is ideally suited to an active trading approach. As outlined in the September quarterly report, we initiated a long position at around $3 after the FY18 result beat expectations, then added to our overweight on news of the TPG and Vodafone Australia merger proposal as it would be very positive for industry returns. By late November, TLS had held up well during the market correction and we felt there was too much complacency ahead of the preliminary ACCC decision on the TPG/Vodafone merger, so we exited at around $3. The ACCC expressed concerns with the deal in late December and TLS drifted back to $2.85 by quarter end.

Active trading

- **CSL Limited (CSL) –** As outlined in the September quarterly report, we decided to take some profits and moved from overweight to slightly underweight after a massive rally in recent years to well above $200. CSL had re-rated to 33x forward earnings as industry demand growth remained robust and competitors materially underinvested.

  Longer term risks from alternative therapies and the de-rating of growth stocks led us to take some profits, however we feel these risks are now well and truly priced in. We steadily accumulated the stock into weakness and moved back overweight at around $183 as we feel valuation support has been restored and earnings risk is to the upside.

Outlook

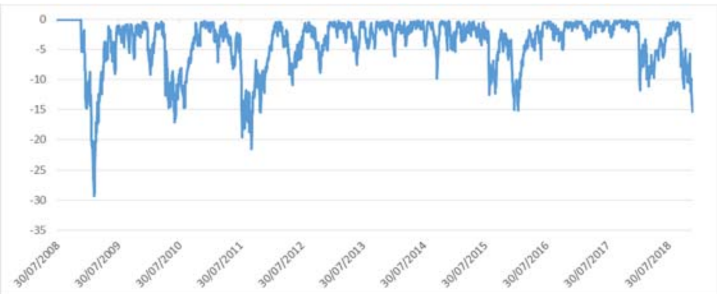
Amid continued volatility in markets we remain focused on the bottom up analysis of our companies, however we cannot ignore the market's concern centred on the US Fed and China.

Regarding the Fed, the question remains as to its flexibility on the path that it has set for quantitative tightening and higher rates. Pleasingly, for our positioning, comments emanating from the Fed in early 2019 indicate that there is a least some recognition that future rate rises will be driven by data.

On China, the question is, when will growth stabilise? Past easing measures, at this stage, have not yet stabilised Chinese growth and high frequency data suggests that consumers continue to shy away from big ticket purchases. We remain of the view that weakness will persist at least until the Chinese new year (Feb 2019). Further stimulus announcements in early 2019 (auto sector) suggest that the government is determined to at least stabilise growth.

The US economy continues to demonstrate robust consumption growth and a strong labour market. However recent tightening in financial conditions has caused pockets of weakness in the economy, and indeed the market. The selloff in the US equity market over the quarter was the worst since 2011 (which had been driven by Euro area weakness, Greek risk of default). As illustrated in the following Chart, the US market is down around 15% from its most recent high.

Chart 2: S&P 500 drawdown (%)



Source: Antares, Bloomberg; January 2019

(A drawdown is the peak-to-trough decline during a specific recorded period of an investment, quoted as the percentage between the peak and the subsequent trough.)

Bearing the brunt of the selloff were the cyclical sectors. The Auto and Housing sectors were some of the hardest hit during the selloff. Although there were genuine reasons for the selloff, related to full valuations, slowing growth (from a high level), and increasing global risks (discussed earlier), the selloff seems particularly savage in light of robust global growth.

Chart 3: S&P 500 sub sector performance for 2018 (rebased to 100)

Source: Antares, Bloomberg; January 2019

The selloff has now restored some value to both the Australian and US markets with both currently trading around their long term averages (~11 year which includes the GFC period). PE multiples are at the lowest point than almost any time over the last five years, which at face value appears reassuring. The question however is, will earnings hold up?

Chart 4: Australia S&P/ASX 200 PE ratio

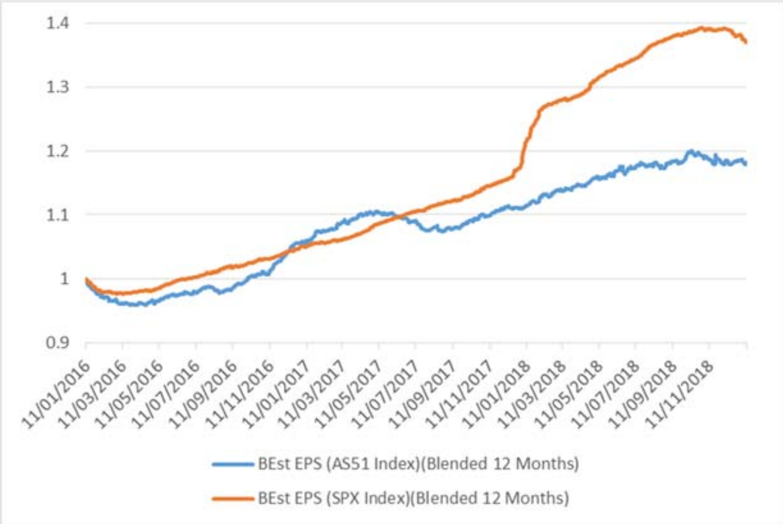
Source: Antares, Bloomberg; January 2019

Chart 5: US S&P 500 prospective PE

Source: Antares, Bloomberg; January 2019

At this stage, earnings in both the US and Australia appear to have stalled. The following chart highlights the earnings trajectory of both markets (indexed to 1 for comparison). Over the last few months earnings have stalled (stopped growing/increasing) and very recently have started to fall in the US. The future trajectory of earnings, as always, will play a critical role to the direction of markets.

Chart 6: Australia and US earnings trajectory



Source: Antares, Bloomberg; January 2019

On a global basis, the earnings trend is more alarming. Below is a chart that measures the number of equity analysts revisions - upgrades (positive) and downgrades (negative) - globally. As can be seen there have recently been a large number of downgrades versus upgrades.

Chart 7: Global earnings revisions (%)

Source: Citi; January 2019

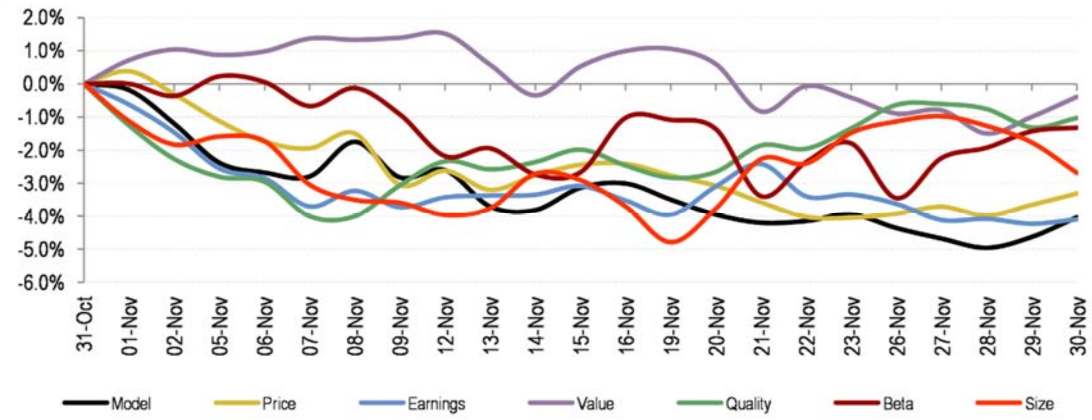
The upcoming reporting season and outlook statements will offer a guide for future earnings trends. Soft results and uncertain outlooks will likely see accelerating earnings cuts, while outlook statements suggesting that the real economy is doing fine will likely see a return to risk assets and higher market levels. The very early results and confessions coming from the US, at this stage, remain inconclusive. The recent Apple announcement indicated weakness in China (not the US) and some traditional “bricks and mortar” retailers offered poor results and outlooks. Homebuilders however indicated a return of consumers looking to buy a home.

Additionally, what we are looking for, in order for risk appetite to return, is for the Fed to signal its flexibility around its balance sheet normalisation and its path for future rate increases as well as signs that Chinese growth has stabilised. Until there is more clarity on both fronts, risk aversion may persist as the market grapples with the continued uncertainty of Brexit, US political leadership and closer to home, the Federal Election and the final report from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (due by 1 Feb 2019).

Strategy

The December quarter presented some of the most challenging conditions since the GFC as global equity markets fell heavily on massive outflows which saw liquidity dry up and volatility surge dramatically. Fundamentals were largely ignored in this environment as flows and positioning took centre stage as shown by the fact that most investment styles and quant factors underperformed, especially in November.

Chart 8: All major investment styles suffered a long/short loss in November



Source: FactSet, Bloomberg, S&P/ASX, J.P. Morgan; January 2019

Fund performance was boosted by numerous successful short and underweight positions including Lendlease, Domino's Pizza, Coca-Cola Amatil, Woodside Petroleum, IOOF and TPG Telecom. However, these were heavily outweighed by greater exposure to overweight positions in poorly performing cyclicals such as BlueScope Steel, Boral, Santos, Aristocrat Leisure, CYBG and Janus Henderson.

Despite the disappointing absolute and relative performance during the quarter, longer term fund performance remains very strong with net annual returns of around 7% over three and five years, and at least 10% pa over seven years, ten years and since inception nineteen years ago. We will continue to seek out undervalued opportunities based on our bottom-up research, regardless of their style classification. This is an approach we have adhered to for nearly two decades.

We remain focussed on the Fund's three key strategies of short selling, enhanced long positions and active trading, backed by our in-house proprietary stock research, robust portfolio construction and disciplined risk management. The Fund was quite actively managed once again as PE dispersion remains elevated and volatility surged quite dramatically.

We continue to sustain high active share (a measure of how much the fund deviates from benchmark) to maximise exposure to our highest conviction stock calls. The Fund's active share has risen to around 68%, which is towards the high end of our 60-70% target range. Our overall short exposure has reduced as we bought back several positions that were heavily oversold and remains well diversified across 15 to 20 individual stock short positions.

Our key industrial overweight positions are largely unchanged and include Caltex, Tabcorp, Star Entertainment, Medibank Private, CSL, Aristocrat Leisure, Orora, Computershare, Link Administration and Incitec Pivot. Many of these companies generate significant offshore earnings and we believe are all undervalued with healthy earnings prospects. We remain significantly underweight expensive "bond proxy" stocks such as REITs, however we did initiate overweight positions in APA Group and Unibail-Rodamco-Westfield due to the compelling value on offer in both stocks.

We remain underweight banks as the headwinds for the sector continued to build. The fall-out from the Royal Commission has progressed from being largely sentiment related to more direct financial implications as the major banks revealed "fee for no-service" provisions. Very large underweight positions in CBA and NAB are partially offset by smaller overweights in ANZ and WBC which offer superior relative value and less exposure to any adverse findings in the Royal Commission's final report.

We are now relatively neutral resources with an overweight to energy via Santos and Oil Search largely offset by an underweight exposure to metals and mining stocks. We exited Rio Tinto and moved materially underweight BHP as support from the iron ore price and capital management mean both stocks are now quite fully valued in our view. We now see materially better value in several of the pure play metals and mining stocks including BlueScope Steel, Alumina, Fortescue Metals and Iluka Resources.

Quarterly Investment Update

Antares Listed Property Fund – December 2018

antares

Highlights for the quarter

Performance: The Fund returned -5.6% (net of fees) for the December quarter, underperforming its benchmark by 3.7%.

Contributors to performance: Positive contributors –VitalHarvest, Sydney Airport and Convenience Retail; Negative contributors – Unibail-Rodamco-Westfield, Stockland and Peet.

Stock activity: Buys/additions – Abacus Property Group and Viva Energy; Sells/reductions – nil.

Fund snapshot

Inception date	28 February 1994
Benchmark	S&P/ASX 200 A-REIT Accumulation Index
Investment objective	To outperform the benchmark over a rolling 5-year period.

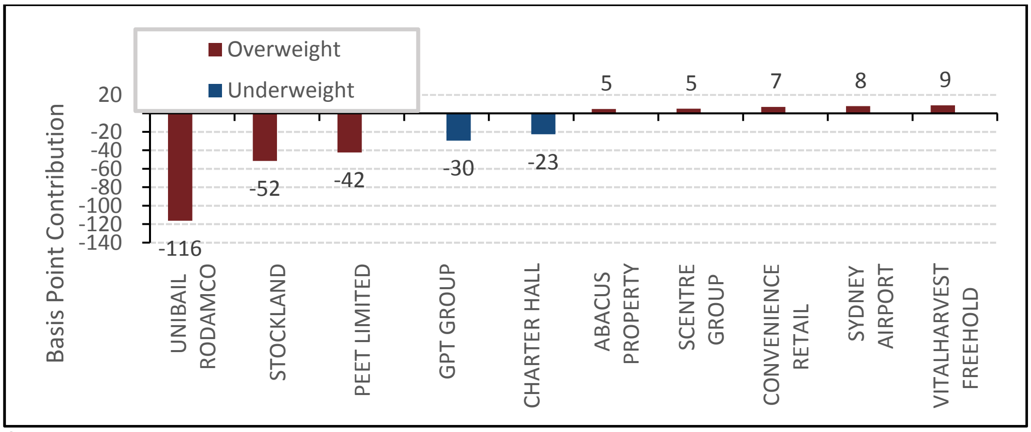
Investment returns as at 31 December 2018[1]

Period	3 months	1 year	3 years pa	5 years pa	10 years pa	Since inception pa
Net return[2] %	-5.6	-4.2	4.3	10.2	9.5	7.8
Gross return[3] %	-5.4	-3.5	5.1	11.0	10.3	8.6
Benchmark return %	-1.9	2.9	7.2	12.3	10.4	7.6
Net excess return %	**-3.7**	**-7.1**	**-2.9**	**-2.1**	**-0.9**	**0.2**
Gross excess return %	-3.5	-6.4	-2.1	-1.3	-0.1	1.0

[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.

Contributors to performance

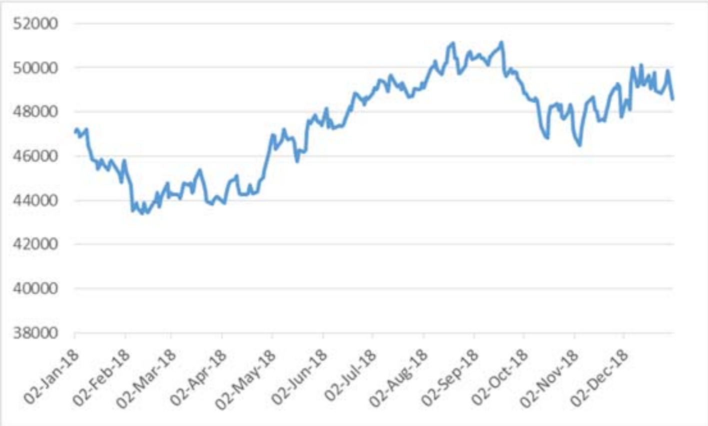
Chart 1: Fund attribution – December quarter



Source: Antares, December 2018

The Australian REIT sector (as represented by the S&P/ASX 200 A–REIT Accumulation Index) delivered a total return of 2.9% for the 12 months to 31 December 2018.

Chart 2: S&P/ASX200 A-REITs index, 12 months to 31 December 2018



Source: Bloomberg, December 2018

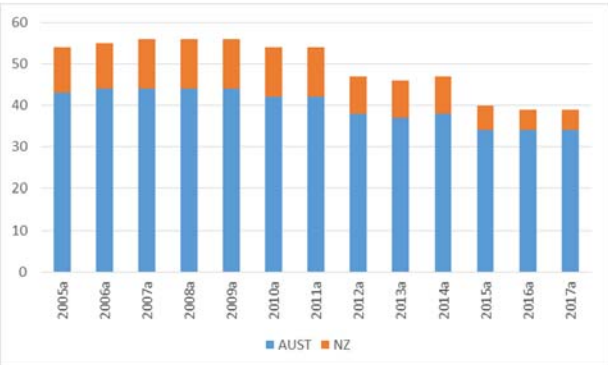
Against this backdrop, the Antares Listed Property Fund delivered a total return net of fees for the year of -4.2%[1]. Disappointingly, this was well below the benchmark return for the year.

Stock reports

Scentre Group

We recently met with SCG and visited a number of their assets in New Zealand. By way of background, New Zealand is only a small part of SCG's overall shopping centre portfolio. SCG currently own five assets in New Zealand, alongside their 34 Australian shopping centres.

Chart 3: Scentre Group Shopping Centres



Source: Company reports, Antares Equities; December 2018

However in terms of SCG's current shopping centre developments, the largest project is the NZ$790m redevelopment of the Newmarket Shopping Centre in Auckland. The project involves 52,000 sqm of new retail space to accommodate 150 new stores. The major retail tenants of the centre include David Jones, Farmers department store, Countdown supermarket and Event Cinemas. The new centre is projected to finish by the end of 2019.

SCG management consider Newmarket to be akin to Westfield Bondi Junction in Sydney and Westfield Doncaster in Melbourne in terms of location and demographics. Management believe that Newmarket will attract international tourists and are trying to attract luxury brands as tenants in the centre.

The project has involved knocking down the entire existing mall, as can be seen in our photos. Overall we came away reasonably confident of the future success of this development in terms of its expected contribution to SCG's future Net Tangible Asset (NTA) backing and distribution growth.

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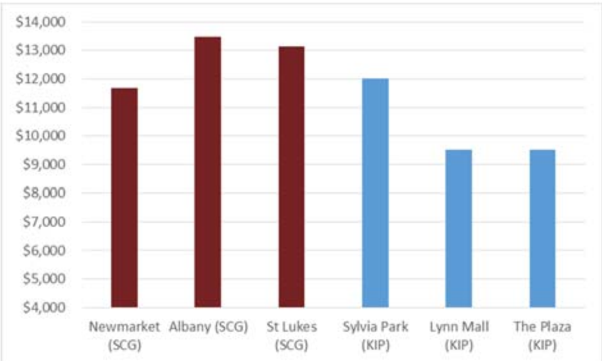
Figure 1: Newmarket Shopping Centre development works

Source: Antares Equities; October 2018

The SCG meetings and site visits also included a trip to the SCG owned Westfield Albany shopping centre. Located on the north shore, Westfield Albany appears to be the dominant shopping centre in this area. Its specialty retail sales per sqm compares favourably to the other major New Zealand shopping centres - Newmarket and St Lukes, which are owned by SCG; and Sylvia Park, Lynn Mall and The Plaza, which are owned by the New Zealand listed 'Kiwi Property Group' (KPG).

Chart 4: Comparison of NZ Specialty Retail Sales



Source: Company reports; Antares Equities; December 2018

Westfield Albany appeared to be having another strong year, with strong tenant demand and little vacancy. A large development project could be undertaken in 2-3 years time, although SCG haven't confirmed any details yet.

Figure 2: Westfield Albany (NZ)

Source: Antares Equities; October 2018

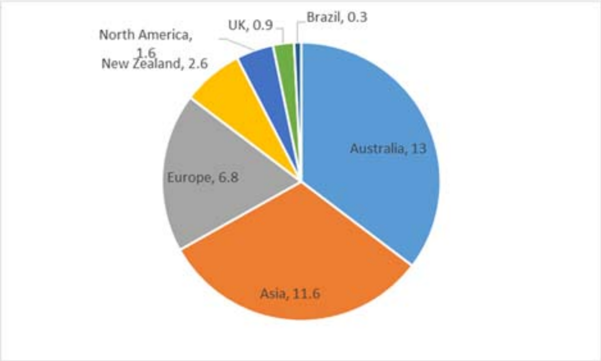
Overall we continue to believe that SCG represents good value, with a high quality portfolio, disciplined management, a solid balance sheet and distribution payout ratio. It remains a core holding in our portfolio.

Goodman Group (GMG):

During our visit to New Zealand we also took the opportunity to visit GMG management at their largest asset – the Highbrook Business Park outside of Auckland.

Like SCG, New Zealand only forms a relatively small part of GMG's overall portfolio. But it has been a very strong performer over a long period, primarily due to the terrific location of Highbrook.

Chart 5: Goodman Group geographic asset composition



Source: Company reports, Antares Equities; December 2018

Figure 3: Goodman Group – New Zealand

Snapshot[1]	
Assets under management	A$2.6bn
Stabilised properties	13
Investment GLA (sqm)	0.9m
Occupancy	99%
Managed Partnerships	2
People	61

Source: Company Reports, June 2018

Industrial real estate in Auckland is a supply-constrained market. Tenant demand has also been strong, with just 2% vacancy currently across the market. The Highbrook estate is 140 ha in total, and is about 80% developed out. At current development rates this means there are about three years of supply remaining.

Viva Energy REIT (VVR):

During the quarter we added VVR to the portfolio. VVR is a petrol station REIT, having listed on the ASX in mid-2016. VVR owns over 440 petrol stations across Australia. The stations are branded as 'Coles Express', and are being operated by Coles as part of an alliance agreement between Coles and Viva Energy. The total portfolio is worth over $2.3b.

Figure 4: Viva Energy Portfolio

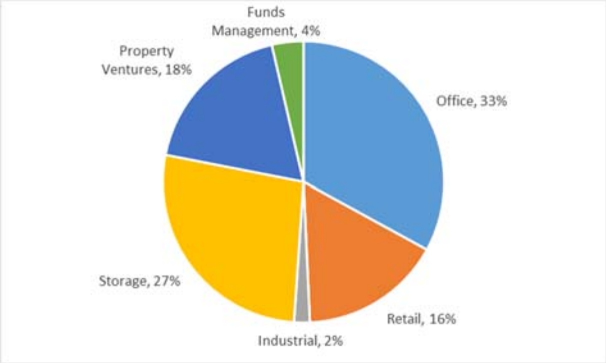
Source: Company Reports, August 2018

VVR's balance sheet is solid with gearing currently at 31%. The structure is clean, and management appear sensible and disciplined. We regard the 100% distribution payout ratio as fine given the triple net leases in place. We purchased VVR at or below its $2.20 per security NTA, which we think currently seems very reasonable given the continued valuation support for petrol stations in the direct market.

Abacus Property Group (ABP):

During the quarter we also added ABP to the portfolio. ABP is a small-cap diversified REIT, which has proven itself to be a shrewd, disciplined and nimble property investor over the long term.

Chart 6: ABP Portfolio Split – June 2018



Source: Company reports; June 2018

ABP's most recent reported NTA per security was $3.18, which we think is conservative given the potential upside from the Storage portfolio and the Camelia development site in NSW. We purchased the stock at an expected dividend yield of around 5.5%, which currently looks attractive given the strong balance sheet and potential future distribution growth.

Outlook and strategy

Overall, we continue to believe that the A-REITs remain in good shape. The key investment fundamentals currently remain sound – balance sheets are largely solid, distribution payout ratios haven't been pushed and capital management strategies are sound. In addition, corporate governance practices are healthy and growth strategies look sensible. We will be closely monitoring all these factors during the upcoming profit reporting season.

As for portfolio positioning, we currently hold a concentrated 15 stock portfolio, with a view that the sector is currently reasonable value. Our security selection and portfolio construction process continue to be driven by our proprietary, bottom up research process that analyses the fundamental factors described above. The outcome is that our biggest portfolio position will be in the stocks which we rate highly on our qualitative investment criteria, and that show the greatest value based on our long term valuation models.

Our biggest overweight positions are in large cap stocks that represent attractive value based on our bottom-up stock valuations – being Scentre Group, Stockland, Unibail-Rodamco-Westfield and Mirvac. We also own overweight positions in a number of mid and small cap REIT's – Viva Energy REIT, Abacus Property Group, Carindale Property Trust, Convenience Retail REIT and Vital Harvest Trust. The portfolio's other key overweight positions are Sydney Airport and small-cap residential developer Peet.

Antares Investments Returns

Performance to 31 December 2018[1]

		3 mths %	1 yr %	3 yrs % pa	5 yrs % pa	10 yrs % pa	Since inception % pa
Australian Equities							
	Net return[2] %	-8.3	-6.3	6.3	5.4	8.8	9.0
Australian Equities Fund	Gross return[3] %	-8.2	-5.6	7.2	6.3	9.7	9.9
Inception Date: 03/07/1995	Benchmark return %	-8.2	-2.8	6.7	5.6	9.0	8.9
	Net excess return %	-0.1	-3.5	-0.4	-0.2	-0.2	0.1
	Gross excess return	0.0	-2.8	0.5	0.7	0.7	1.0
	Net return[2] %	-6.8	-9.1	1.6	4.5	10.5	6.6
Dividend Builder	Gross return[3] %	-6.6	-8.6	2.2	5.1	11.2	7.3
Inception date: 06/09/2005	Benchmark return %	-8.3	-4.2	3.9	6.2	10.7	6.9
	Net excess return %	1.5	-4.9	-2.3	-1.7	-0.2	-0.3
	Gross excess return	1.7	-4.4	-1.7	-1.1	0.5	0.4
	Net return[2] %	-11.8	-6.5	6.6	6.1	9.5	10.1
Elite Opportunities Fund	Gross return[3] %	-11.6	-5.9	7.3	6.8	10.3	11.0
Inception date: 18/11/2002	Benchmark return %	-8.2	-2.8	6.7	5.6	9.0	8.7
	Net excess return %	-3.6	-3.7	-0.1	0.5	0.5	1.4
	Gross excess return	-3.4	-3.1	0.6	1.2	1.3	2.3
	Net return[2] %	-11.5	-4.1	7.3	6.8	9.9	10.4
High Growth Shares Fund	Gross return[3] %	-11.3	-3.1	8.4	7.9	11.2	11.9
Inception date: 07/12/1999	Benchmark return %	-8.2	-2.8	6.7	5.6	9.0	7.6
	Net excess return %	-3.3	-1.3	0.6	1.2	0.9	2.8
	Gross excess return	-3.1	-0.3	1.7	2.3	2.2	4.3
	Net return[2] %	-15.0	-9.6	7.8			7.5
Ex-20 Equities Strategy	Gross return[3] %	-14.9	-8.8	8.7			8.4
Inception date: 27/05/2015	Benchmark return %	-11.1	-6.4	9.4			7.1
	Net excess return %	-3.9	-3.2	-1.6			0.4
	Gross excess return	-3.8	-2.4	-0.7			1.3
Listed Property							
	Net return[2] %	-5.6	-4.2	4.3	10.2	9.5	7.8
Listed Property Fund	Gross return[3] %	-5.4	-3.5	5.1	11.0	10.3	8.6
Inception date: 28/02/1994	Benchmark return %	-1.9	2.9	7.2	12.3	10.4	7.6
	Net excess return %	-3.7	-7.1	-2.9	-2.1	-0.9	0.2
	Gross excess return	-3.5	-6.4	-2.1	-1.3	-0.1	1.0

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