Quarterly Review

antares

December 2020

2020 - a challenging year but with light at the end

The emergence and rapid spread of the COVID-19 virus pushed the global economy into a deep recession and led to substantial market falls early in 2020. In the absence of a vaccine until very late in the year, restrictions on social mobility and business activity were implemented in many countries to control the spread of infection and minimise fatalities.

To support households and businesses and sustain the functioning of financial markets, central banks and governments implemented co-ordinated policy measures on a massive scale. As a result, the breadth and depth of the economic decline was not as severe as initial forecasts and encouraging signs of recovery emerged in the second half of the year. This contributed to a remarkable rebound by many share markets following their deep falls in the March quarter, particularly the US share market which was driven by a handful of tech company giants and finished the year up by 17.8%.

However, many economies and industries have not fully recovered. Public health policy failures in many countries such as in Europe, the US, UK and Japan saw an acceleration in new virus infections, requiring the reintroduction of lockdown measures. Confirmation of the successful development of a number of vaccines in November helped sustain markets through to the end of the year but the logistical challenges of making the vaccines available to vast numbers of people around the world shouldn't be underestimated.

Table 1: Asset class returns in Australian dollars – periods to 31 December 2020

Asset class	Returns*			
	1 yr	3 yrs (pa)	5 yrs (pa)	10 yrs (pa)
Cash	0.4%	1.3%	1.5%	2.4%
Australian bonds	4.5%	5.4%	4.6%	5.6%
Global bonds (hedged)	5.1%	4.6%	4.6%	5.9%
Australian property securities	-4.0%	5.8%	7.4%	11.3%
Global property securities (hedged)	-13.7%	0.1%	2.9%	7.2%
Australian shares	1.4%	6.7%	8.7%	7.8%
Global shares (hedged)	11.0%	8.6%	11.3%	11.0%
Global shares (unhedged)	5.9%	10.6%	10.9%	12.3%
Emerging markets (unhedged)	7.8%	6.7%	11.5%	6.6%

* Annualised returns. Past performance is not a reliable indicator of future performance.
Sources: FactSet, MLC Asset Management Services Limited.

Benchmark data: Bloomberg AusBond Bank Bill Index (cash), Bloomberg AusBond Composite 0+ Yr Index (Aust bonds), Bloomberg Barclays Global Aggregate Index Hedged to $A (global bonds), S&P/ASX200 A-REIT Total Return Index (Australian property securities), FTSE EPRA/NAREIT Developed Index (gross) hedged to $A (global property securities), S&P/ASX200 Total Return Index (Aust shares), MSCI All Country World Indices hedged and unhedged (net) in $A (global shares), and MSCI Emerging Markets (gross, unhedged)

The economic impact of COVID was initially severe

The economic and health shock caused by the global spread of the COVID-19 virus occurred early in 2020. This 'virus crisis' proved to be the worst economic downturn since the 1930s Great Depression. Infection rates grew alarmingly in the first half of the year, forcing governments to impose limitations on personal mobility and business activity that had dire economic consequences. In the US, the Federal Reserve Chair Jerome Powell commented that the US economy had entered a "downturn without modern precedent"**.**

The economic downturn was most evident from June quarter economic statistics. In the US, the unemployment rate surged from 4.4% to 14.7% by April and US retail sales that month also fell a record 14.7% due to the massive job layoffs and business shutdowns. These US statistics were replayed across the global landscape with the June quarter decline in global Gross Domestic Product (GDP) the deepest since World War 2.

In Australia, fiscal policy measures such as the “Job Keeper” and “Job Seeker” support programs and relative success in virus containment meant the Australian impact was mitigated, but GDP still fell by 6.3% over the year to June. This followed the March quarter GDP fall of -0.3%, thereby bringing to an end an almost thirty year period without a recession. Perhaps encouragingly, the Reserve Bank of Australia (RBA) Governor Dr Philip Lowe suggested on May 28 that Australia’s economic downturn “will not be as severe as earlier thought” but that “much depends on how quickly confidence can be restored”. That optimism did prove to be somewhat premature as a worrying second wave of infections in Victoria in the second half of the year required draconian lockdown restrictions.

Global economic conditions improved in the second half of the year as moderating infection rates allowed many economies to gradually re-open and relax social mobility restrictions. In the US, roughly half of the twenty-two million jobs that were lost in March and April were regained by year end. After peaking at 14.7% in April, the US unemployment rate edged lower to 6.7% in November but remains around double the pre-pandemic level. China’s economy rebounded strongly following the -6.8% GDP contraction in the March quarter with +3.2% annual growth in the June quarter and then +4.9% in the September quarter. Massive fiscal and monetary stimulus enabled China’s industrial production to grow +6.9% in the year to September, which was a remarkable recovery from the -13.5% fall in January and February.

However, the pace of the global economic recovery was uneven with economic indicators in many countries remaining below where they were a year ago. India’s GDP is 7.5% small than it was last year, Japan’s GDP has shrunk nearly 5%, Italian GDP by 5% and the US by 3%. A major concern in the remaining months of a traumatic 2020 was the sharp rise in virus infection rates in key economies such as the US, Japan, Germany and the UK and the emergence of a new highly infectious COVID variant. The re-introduction of restrictions is likely to compromise the economic recovery, with Europe and the UK particularly vulnerable given lockdowns starting in November.

Compared to many countries, Australia was fortunate. Despite the economic impact caused by Victoria’s infection outbreak, Australia’s economy managed to record a solid recovery in the September quarter with real GDP growing by 3.3%. Consumer confidence at year’s end was above pre-COVID-19 levels as indicated by the Westpac Melbourne Institute’s Consumer Sentiment survey which surged in December to the highest result since 2010. The Mid Year Economic and Fiscal Outlook released in December forecasts the 2021-21 budget deficit, while still massive at $197.7 billion, will be smaller than expected due to the rebound in the economy and surge in the price of iron ore. Unemployment fell to 6.8% in November and around 80% of the 1.3 million people who lost their job or were stood down are now back at work. However, many Australian households will continue to be disadvantaged as unemployment is expected to remain at an average 6.25% into the middle of 2022 and the underemployment rate also remains too high. According to the RBA, this will require the cash rate to remain at current low levels of 0.1% for at least three years.

The Australian share market finished the year just ahead

Australian shares as measured by the S&P / ASX200 Accumulation Index (the index) returned 1.4% in the year to 31 December. While this modest return outcome for the year may look disappointing compared to the 23.4% return by the index in 2019, recording a positive return is a considerable achievement considering the complexity of the last twelve months and the significant challenges Australian companies have experienced caused by the economic slowdown.

The start to the new year was promising with our market reaching a new all-time high in February. However, the arrival of COVID-19 on Australian shores and rising infection rates forced the Federal and State governments to implement measures designed to contain its spread. This resulted in a sudden and substantial decline in economic activity with some industries such as hospitality, travel and gaming forced into a sudden closure. The share market’s response was savage with the index falling -20.7% in March, one of its worst monthly performances on record.

Despite a wide range of supportive policy initiatives introduced by Federal and State governments as well as action by the RBA, the outlook for the economy was highly uncertain. Business sentiment plunged, prompting many companies to reduce, defer or cancel dividends in order to preserve capital. Some companies came to the market to raise capital to tide them over until the economy recovers.

The profit reporting period in August/September highlighted the adverse impact the economic slowdown was having on specific industries while others were beneficiaries. Supermarket operators Woolworths, Coles Group and Metcash enjoyed growth in sales as households stock-piled food and other essentials. Wesfarmers, JB Hi-Fi and Harvey Norman experienced significant demand growth as people spending more time from home undertook maintenance and put in place work-from-home office infrastructure. In contrast, industries including airlines, airport infrastructure, tourism, education, casinos and hospitality were deeply impacted.

Industry sector returns varied with some managing to record good gains for the year. The best performer was Information Technology (57.8%), emulating in part the performance strength of the US technology companies. Resource based sectors experienced mixed fortunes. Miners such as BHP, Rio Tinto and Fortescue Metals Group performed well as the iron ore price increased 70.3% due to strong demand by China and ongoing supply issues in Brazil, leading to market expectations of higher earnings and dividends. The 24.6% rise in the gold price was another contributor to the 18.2% rise by the Materials index. However, Energy was our market's worst performing sector, falling -27.6%. This reflects the -21.5% fall in the price of oil (Brent crude) over the year. Aside from the collapse in global demand caused by the economic contraction, oil market conditions were also compromised by the initial failure of OPEC and Russia to agree on production cutbacks.

The Financials ex-AREIT index returned -6.3%, underperforming the market. The weaker economy created challenging operating conditions for the banking sector with numerous customer support measures such as the deferral of household and business loan repayments contributing to lower bank profits. Dividends were reduced or suspended altogether, partly as a result of limitations imposed by the prudential regulator APRA on banks' dividend payouts. This restriction was removed late in the year, which led to a rebound in bank share prices in the final weeks of the year.

The Real Estate Investment Trust (REIT) sector also performed poorly for much of the year (-4.0%) due to the dominance of retail-based property landlords in the index. Not surprisingly, conditions for retail operators were very challenged through much of the year due to lockdown measures and initial consumer caution in response to the considerable economic uncertainty. Industrial property owners like Goodman Group exposed to the growth in the digital economy and on-line retail sales did well. The outlook for commercial/office properties remains uncertain as the trend to working-from-home may be permanent for many industries.

Antares market & fund updates

Below is a brief review of how the Australian share market performed during the quarter as well as short commentaries on the Antares Funds and model portfolios, outlining their performance and the main contributors to performance.[#]

Australia share market review

Australian shares outperformed their global peers and delivered a 13.7% return for the December quarter. Promising news on three coronavirus vaccine candidates outweighed concerns on the acceleration in new virus infection cases across Europe and the United States. The end of the Melbourne lockdown and further support from the Reserve Bank provided a local tailwind to Australian shares. Australia's energy sector shares led the charge as oil prices rebounded. Information technology shares continued their surge and even the financial sector joined in with strong gains on confidence that Australia's economic recovery and continued fiscal support from federal and state governments would reduce potential losses. APRA also signalled it would likely remove the caps on bank dividend payout ratios.

Australian Equities Fund

The Antares Australian Equities Fund returned 16.5% (net of fees) for the December 2020 quarter, outperforming its benchmark S&P/ASX200 Total Return Index return[1] by 2.8%. The main contributors to quarterly performance were not owning Newcrest Mining, an underweight holding in CSL and an overweight position in Coca Cola Amatil. Detracting from performance were the decisions not to own Fortescue Metals and Afterpay and an overweight position in Amcor.

Dividend Builder

The annual income yield to 30 June 2020 for Antares Dividend Builder Fund was 4.38% compared to its benchmark yield of 3.21%. While recent dividends have been lower than last year, with some cancelled, we reiterate that it is our objective to deliver income in excess of our benchmark. Dividends were received from Amcor, ANZ, Coca Cola Amatil, Harvey Norman, NAB, Nine Entertainment, Pendal, Suncorp, Viva Energy, Wesfarmers and Westpac during the quarter. The Fund's net return for the December quarter was 17.7% [1].

Elite Opportunities Fund

The Antares Elite Opportunities Fund returned 14.6% (net of fees) for the December 2020 quarter, outperforming its benchmark S&P/ASX200 Total Return Index return of 13.7% by 0.9%[1]. Contributing to performance was the decision not to own Newcrest Mining and overweight positions in ANZ and Virgin Money UK. Detracting from relative performance was an underweight holding in CBA and overweight holdings in Northern Star and a2 Milk.

High Growth Shares Fund

The Antares High Growth Shares Fund returned 17.4% (net of fees) for the December 2020 quarter, outperforming its benchmark S&P/ASX200 Total Return Index return of 13.7% by 3.7%[1] Overweight holdings in Polynovo and Afterpay and an underweight position in Newcrest Mining contributed to performance. Detracting from relative performance were an underweight position in Fortescue Metals and overweight positions in Northern Star and a2 Milk.

Ex-20 Equities Fund

The Antares Australian Equities Ex-20 Fund returned 16.2% (net of fees) for the December 2020 quarter, outperforming its benchmark S&P/ASX200 Total Return Index ex S&P/ASX 20 Total Return Index return of 11.7% by 4.5%[1]. Overweight holdings in Afterpay, Polynovo and Mineral Resources contributed to performance. Detracting from relative performance were overweight positions in a2 Milk, Ansell and Aurizon.

Listed Property Fund

The Antares Listed Property Fund returned 13.8% (net of fees) for the December 2020 quarter, outperforming its benchmark, the S&P/ASX200 A-REIT Total Return Index return of 13.3% by 0.5% [1]. Overweight holdings in Scentre Group and Mirvac and an underweight position in Charter Hall Long Wale REIT contributed to performance. Detracting from performance was the decision not to own Unibail-Rodamco-Westfield and overweight holdings in Waypoint REIT and Transurban.

. #All returns are net of fees. Please refer to the following page for a summary of returns which are gross of fees. 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.

Antares Investments Returns

Performance to 31 December 2020[1]

Professional Selection		3 mths %	1 yr %	3 yrs % pa	5 yrs % pa	7 yrs % pa	10 yrs % pa	Since Inception % pa
Antares Australian Equities Fund	**Net Return**	**16.5**	**-5.3**	**2.1**	**6.4**	**5.8**	**6.4**	**8.8**
S&P/ASX 200 Acc Index	Gross Return	16.7	-4.7	2.8	7.2	6.6	7.3	9.7
	Benchmark Return	13.7	1.4	6.7	8.7	7.4	7.8	9.2
	Net Excess Return	**2.8**	**-6.7**	**-4.6**	**-2.3**	**-1.6**	**-1.4**	**-0.4**
	Gross Excess Return	3.0	-6.1	-3.9	-1.5	-0.8	-0.5	0.5
Antares Dividend Builder	**Net Return**	**17.7**	**-2.2**	**0.6**	**3.3**	**4.9**	**8.3**	**6.5**
S&P/ASX 200 Industrials Acc Index	Portfolio Income Yield	-	4.38	5.05	4.80	4.46	4.45	4.13
	Benchmark Income Yield	-	3.21	3.90	3.99	3.92	3.94	3.71
	Net Excess Yield	**-**	**1.17**	**1.15**	**0.81**	**0.54**	**0.51**	**0.42**
Antares Elite Opportunities Fund	**Net Return**	**14.6**	**-2.5**	**3.0**	**7.2**	**6.7**	**6.8**	**9.9**
S&P/ASX 200 Acc Index	Gross Return	14.8	-1.8	3.8	8.0	7.4	7.6	10.7
	Benchmark Return	13.7	1.4	6.7	8.7	7.4	7.8	9.0
	Net Excess Return	**0.9**	**-3.9**	**-3.7**	**-1.5**	**-0.7**	**-1.0**	**0.9**
	Gross Excess Return	1.1	-3.2	-2.9	-0.7	0	-0.2	1.7
Antares High Growth Shares Fund	**Net Return**	**17.4**	**1.4**	**5.8**	**8.8**	**8.0**	**8.1**	**10.4**
S&P/ASX 200 Acc Index	Gross Return	17.7	2.5	6.9	10.0	9.2	9.2	11.9
	Benchmark Return	13.7	1.4	6.7	8.7	7.4	7.8	8.0
	Net Excess Return	**3.7**	**0**	**-0.9**	**0.1**	**0.6**	**0.3**	**2.4**
	Gross Excess Return	4.0	1.1	0.2	1.3	1.8	1.4	3.9
Antares Listed Property Fund	**Net Return**	**13.8**	**-6.2**	**2.1**	**4.8**	**8.8**	**9.7**	**7.6**
S&P/ASX 200 A-REIT Acc Index	Gross Return	14.0	-5.5	2.8	5.5	9.6	10.5	8.4
	Benchmark Return	13.3	-4.6	5.4	7.0	10.7	11.1	7.5
	Net Excess Return	**0.5**	**-1.6**	**-3.3**	**-2.2**	**-1.9**	**-1.4**	**0.1**
	Gross Excess Return	0.7	-0.9	-2.6	-1.5	-1.1	-0.6	0.9
Antares Ex-20 Australian Equities Fund	**Net Return**	**16.2**	**12.5**					**11.0**
S&P/ASX 200 ex S&P/ASX 20	Gross Return	17.4	15.9					14.1
	Benchmark Return	11.7	1.2					1.7
	Net Excess Return	**4.5**	**11.3**					**9.3**
	Gross Excess Return	5.7	14.7					12.4

Note: Performance reporting for the Antares Ex-20 Equities Fund commenced on 2 October 2019. Monthly reports can be accessed on the Antares Equities website.

Disclaimer:[1] Past performance is not a reliable indicator of future performance. Returns are not guaranteed and actual returns may vary from any target returns described in this document. Investment returns are based on exit prices, and are net of management fees and assume reinvestment of all distributions. Gross returns are provided to show performance against the investment objective.[2]Income yield is calculated as the sum of the income yields over the period to 30 June where the yield is income distributed during the period divided by the unit price (before fees) at the start of the distribution period. Benchmark yield is calculated as the sum of the monthly returns of the S&P/ASX 200 Industrials Total Return Index minus the monthly returns of the S&P/ASX 200 Industrials Index (price index)

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