Quarterly Review

December 2021

2021 in review: The pandemic's path evolves from Alpha to Delta to Omicron

For the second year running, the pandemic was the key health and economic concern. The opening months of 2021 brought both pain and promise. A rapid acceleration in virus cases across the globe saw constrained economic activity. However, there were rays of sunshine with the rollouts of the AstraZeneca, Moderna and Pfizer vaccines. Rising vaccination rates during 2021 allowed global economic activity to recover. Employees could return to workplaces and even bars, clubs and restaurants started to re-open.

Yet vaccine access has not been equal across all nations. At the end of 2021, Australia's fully vaccinated rate at 77% of the total population far exceeded Indonesia's 41% and only 9% for Africa. The virus also evolved with a more contagious variant in Omicron in late 2021. This adds to the list of Alpha, Beta, Gamma and Delta that have proven so dangerous over the past two years. The virus remains a threat as we enter the third year of this pandemic.

The 2021 report card for the global economy was mixed. The US economy saw a solid recovery in 2021 with improving jobs growth and the unemployment rate falling from 6.7% to 4.2%. Europe's recovery has been a 'stop-start' sequence with lockdowns in early 2021, then a brief rebound until Omicron ended the year on a troubling note. China's sharp economic slowdown and the financial woes of their property developers also filled the headlines in 2021.

Low interest rate settings by central banks and government budget measures provided tremendous support for global economic activity in 2021. However, there is concern that with rising inflation and high budget deficits, this policy support is not sustainable.

Commodity prices had some tumultuous twists and turns during 2021. Iron ore started the year in 'boom' conditions. The spot iron ore price surged from US$156 to US$230 per ton in May given high levels of global steel production. However, China's sharp economic slowdown and property development woes saw demand slump. Iron ore prices ended the year around US$112 per ton which is a 28% annual decline.

Consumers experienced the commodity gyrations in their weekly visits to supermarkets and service stations. In Australian dollar (AUD) terms, global coffee prices surged 82%, sugar by 28%, bacon by 22% and wheat prices by 26%. Oil prices skyrocketed by more than 56%.

This commodity price spiral combined with congested supply chains following the shortage of computer chips and container ships has seen rising inflation become a key economic and social concern**.** Global annual inflation measures surged to multi-year highs in 2021. US consumer inflation ended 2021 at 6.8% which is the highest since 1982. European inflation was 4.2% while Brazil's inflation surged to nearly 11%.

Australia's consumer inflation was running at 3% in the year to September. This 3% inflation rate still represents a loss of purchasing power. For Australian savers, the current 0.1% nominal cash rate by the Reserve Bank provides minimal compensation for inflation. Australian workers are also feeling the squeeze with wages growth barely above 2% in 2021. While share investors have had a 'very good year', this is in stark contrast to employees and savers reliant on income yields.

Australia's economy had a rollercoaster year in 2021. There were encouraging gains in economic activity up until mid-2021. However, the virus outbreaks and case surges in NSW and Victoria in June then saw the Australian economy hit reverse gear. Since October, there have been more promising signs**.** Employment and retail spending have recorded sharp gains after New South Wales and Victoria emerged from lockdowns**.** Yet the surge in virus infection cases in the closing weeks of December herald the continuing virus threat entering the new year.

A remarkable year for investment returns

Asset class returns in Australian dollars – periods to 31 December 2021

Asset class	Returns			
	1 yr	3 yrs (pa)	5 yrs (pa)	10 yrs (pa)
Cash	0.0%	0.6%	1.1%	1.9%
Australian bonds	-2.9%	2.9%	3.4%	4.2%
Global bonds (hedged)	-1.5%	3.5%	3.2%	4.6%
Australian property securities	26.1%	12.8%	9.3%	13.8%
Global property securities (hedged)	28.6%	10.4%	6.9%	10.5%
Australian shares	17.5%	14.0%	9.9%	10.8%
Global shares (unhedged)	25.8%	19.1%	14.3%	15.8%
Global shares (hedged)	20.9%	20.3%	14.0%	13.0%
Emerging markets (unhedged)	3.4%	9.8%	9.8%	9.2%

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 (net) hedged to $A (global property securities), S&P/ASX300 Total Return Index (Aust shares), MSCI All Country World Indices hedged to $A and unhedged (net) (global shares), and MSCI Emerging Markets Index (net) unhedged to $A (emerging markets).

Global share investors had a rewarding year with a market return of 25.8% for unhedged and 20.9% for AUD hedged portfolios. The primary drivers of this very strong global share performance were surging corporate profits and supportive low interest rates.

Extraordinary US share gains were the key contributor with the benchmark S&P 500 delivering a 27% return. Wall Street made new record highs given robust corporate profit results. Corporate profits are expected to rise by 45% in 2021. Strong business surveys and job gains also provide encouragement that the US economic recovery is progressing.

Yet there have been some dark clouds amidst the blue skies for share investors. Brazilian share prices declined by nearly 22% as inflation and interest rates both spiked. Chinese share prices fell by 22% through a combination of increasing government regulation of education and technology companies as well as the debt woes of property developers such as Evergrande.

Australian shares (the ASX 300) delivered a strong 17.5% return for 2021. The communications sector (33% gain) and financial shares (25% return) led the charge. There were some exceptional share gains from mining companies including Lynas (156%) and South32 (66%), as well as Sonic Healthcare (48%) and Telstra (46%). However, there were some sharp falls recorded for Magellan (-57%) and AMP (-35%).

Bond investors had a tough year with negative returns given rising inflation and concerns that central banks are set to raise interest rates in 2022. The Australia fixed interest market return came in at -2.9% for 2021 while the benchmark global bond return was -1.5%.

Prospects for 2022

The global economy is still being challenged by rising virus cases as well as high inflation and persistent supply disruptions. This means that central banks, governments, and investors face considerable challenges in balancing the potential rewards versus the risks. The promising prospect of vaccinations ending this pandemic in 2022 needs to be weighed against a wide array of potential risks. These risks could involve further dangerous virus variants emerging, global political risks escalating (e.g. Russia/Ukraine as well as China/Taiwan tensions) and persistent inflation pressures requiring sharply higher interest rates. There can also be major events that shock and surprise investors which are not currently on our radar screen.

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 generated a 2.1% return for the past three months. The Materials sector was the best performer (+12.7%) reversing its poor September quarter as the market gained confidence that the iron ore price had bottomed and even finished well up in the month of December (+18.5%). With investors focusing on clean energy, there were increased prices for rare earths producers and continued increases in the copper price. Also strong were Utilities (+11.4%) and Property (+10.1%), particularly Industrial Property which has exposure to the warehousing and distribution facilities for online shopping. The Energy sector (-8.8%) gave up most of the gains of the September quarter as oil and particularly gas prices weakened and the focus turned to clean energy. After a strong September quarter, the Technology sector (-6.1%) was weaker in the December quarter. Financials also finished the quarter in the red (-2.2%).

Dividend Builder

The annual income yield to 30 June 2021 for Antares Dividend Builder Fund was 4.35% compared to its benchmark* yield of 2.77%. Dividends were received from Amcor, ANZ, Incitec Pivot, NAB, Viva Energy and Westpac during the quarter. The Fund's net return for the December quarter was 0.1% [1].

Elite Opportunities Fund

The Antares Elite Opportunities Fund returned -0.3% (net of fees) for the December 2021 quarter, below its benchmark S&P/ASX200 Total Return Index return of 2.1% [1]. Overweight holdings in Westpac, Santos and Star Entertainment detracted from performance. Contributing to performance were overweight positions in IGO Limited, South32 and Goodman Group.

High Growth Shares Fund

The Antares High Growth Shares Fund returned -0.1% (net of fees) for the December 2021 quarter, underperforming its benchmark S&P/ASX200 Total Return Index return of 2.1% by 2.2%[1]. Detracting from performance were overweight positions in Westpac, Afterpay and Santos. Overweight holdings in IGO Limited and Sims together with a short position in Washington H Soul Pattinson contributed to performance.

Ex-20 Equities Fund

The Antares Australian Equities Ex-20 Fund returned 2.1% (net of fees) for the December 2021 quarter, underperforming its benchmark S&P/ASX200 Total Return Index ex S&P/ASX 20 Total Return Index return of 3.1% by 1.0%[1]. Detracting from performance were overweight positions in Afterpay, Star Entertainment and APM Human Services. Overweight holdings in Lynas Rare Earths, IGO Limited and Oz Minerals contributed to performance.

#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. [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)

*From 1 October 2021, the benchmark for Dividend Builder is the S&P/ASX 200 Total Return Index. This replaces the previous benchmark, the S&P/ASX 200 Industrials Total Return Index.

Antares Investments Returns

Performance to 31 December 2021[1]

Professional Selection		3 mths %	1 yr %	3 yrs % pa	5 yrs % pa	7 yrs % pa	10 yrs % pa	Since Inception % pa
Antares Dividend Builder	**Net Return**	**0.1**	**22.0**	**11.0**	**5.7**	**6.2**	**10.4**	**7.4**
S&P/ASX 200 Acc Index (#)	Gross Return	0.3	22.7	11.7	6.3	6.9	11.1	8.1
	Benchmark Return	2.1	21.3	14.0	9.1	8.7	12.5	8.2
	Net Excess Return	**-2.0**	**0.7**	**-3.0**	**-3.4**	**-2.5**	**-2.1**	**-0.8**
	Gross Excess Return	-1.8	1.4	-2.3	-2.8	-1.8	-1.4	-0.1
Antares Elite Opportunities Fund	**Net Return**	**-0.3**	**20.2**	**12.0**	**8.4**	**8.6**	**10.3**	**10.4**
S&P/ASX 200 Acc Index	Gross Return	-0.6	20.9	12.8	9.2	9.4	11.0	11.2
	Benchmark Return	2.1	17.2	13.6	9.8	9.0	10.8	9.4
	Net Excess Return	**-2.4**	**3.0**	**-1.6**	**-1.4**	**-0.4**	**-0.5**	**1.0**
	Gross Excess Return	-2.7	3.7	-0.8	-0.6	0.4	0.2	1.8
Antares High Growth Shares Fund	**Net Return**	**-0.1**	**22.2**	**14.7**	**10.9**	**10.1**	**11.8**	**11.0**
S&P/ASX 200 Acc Index	Gross Return	-0.7	23.0	15.8	12.0	11.2	12.9	12.4
	Benchmark Return	2.1	17.2	13.6	9.8	9.0	10.8	8.4
	Net Excess Return	**-2.2**	**5.0**	**1.1**	**1.1**	**1.1**	**1.0**	**2.6**
	Gross Excess Return	-2.8	5.8	2.2	2.2	2.2	2.1	4.0
Antares Ex-20 Australian Equities Fund	**Net Return**	**2.1**	**18.3**	**-**	**-**	**-**	**-**	**14.2**
S&P/ASX 200 ex S&P/ASX 20	Gross Return	2.3	20.2	-	-	-	-	16.8
	Benchmark Return	3.1	17.1	-	-	-	-	8.3
	Net Excess Return	**-1.0**	**1.2**	**-**	**-**	**-**	**-**	**5.9**
	Gross Excess Return	-0.8	3.1	-	-	-	-	8.5

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. Inception for Dividend Builder (6/9/2005), Elite Opportunities (18/11/2002) and High Growth Shares (7/12/1999).

From 1 October 2021, the benchmark for Dividend Builder is the S&P/ASX 200 Total Return Index. This replaces the previous benchmark, the S&P/ASX 200 Industrials Total Return Index.

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.

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Antares Capital Partners Ltd, Room T2 Level 2, Pier 1, 800 Bourke Street Docklands, Vic 3008 GPO Box 2007, Melbourne VIC 3001 Telephone: 1800 671 849; Email: investorservices@antaresequities.com.au Website: www.antarescapital.com.au.

Get in contact

antarescapital.com.au

Toll free: 1800 671 849
Email: investorservices@antaresequities.com.au
Mail: GPO Box 2007 Melbourne VIC 3001