Quarterly Investment Update

Antares Elite Opportunities Fund – March 2021

For adviser use only

Highlights for the quarter

Performance: The Fund returned 7.9% (net of fees) for the March quarter, outperforming its benchmark by 3.6%.

Contributors to performance: Positive contributors – ANZ, Westpac, Virgin Money, Vocus;
Negative contributors – Northern Star, A2 Milk, NAB (underweight).

Stock activity: Buys/additions – Goodman Group, QBE Insurance; Sells/reductions – Scentre Group, Vocus Group

Fund snapshot

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

Investment returns as at 31 March 2021[1]

Period	3 months	1 year	3 years pa	5 years pa	7 years pa	10 years pa	Since inception pa
Net return[2] %	7.9	45.1	7.3	9.0	7.7	7.2	10.2
Gross return[3] %	8.7	47.0	8.2	9.9	8.5	8.0	11.1
Benchmark return %	4.3	37.5	9.7	10.2	7.7	8.0	9.1
Net excess return %	**3.6**	**7.6**	**-2.4**	**-1.2**	**0**	**-0.8**	**1.1**
Gross excess return %	4.4	9.5	-1.5	-0.3	0.8	0	2.0

[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.

Contributors to performance

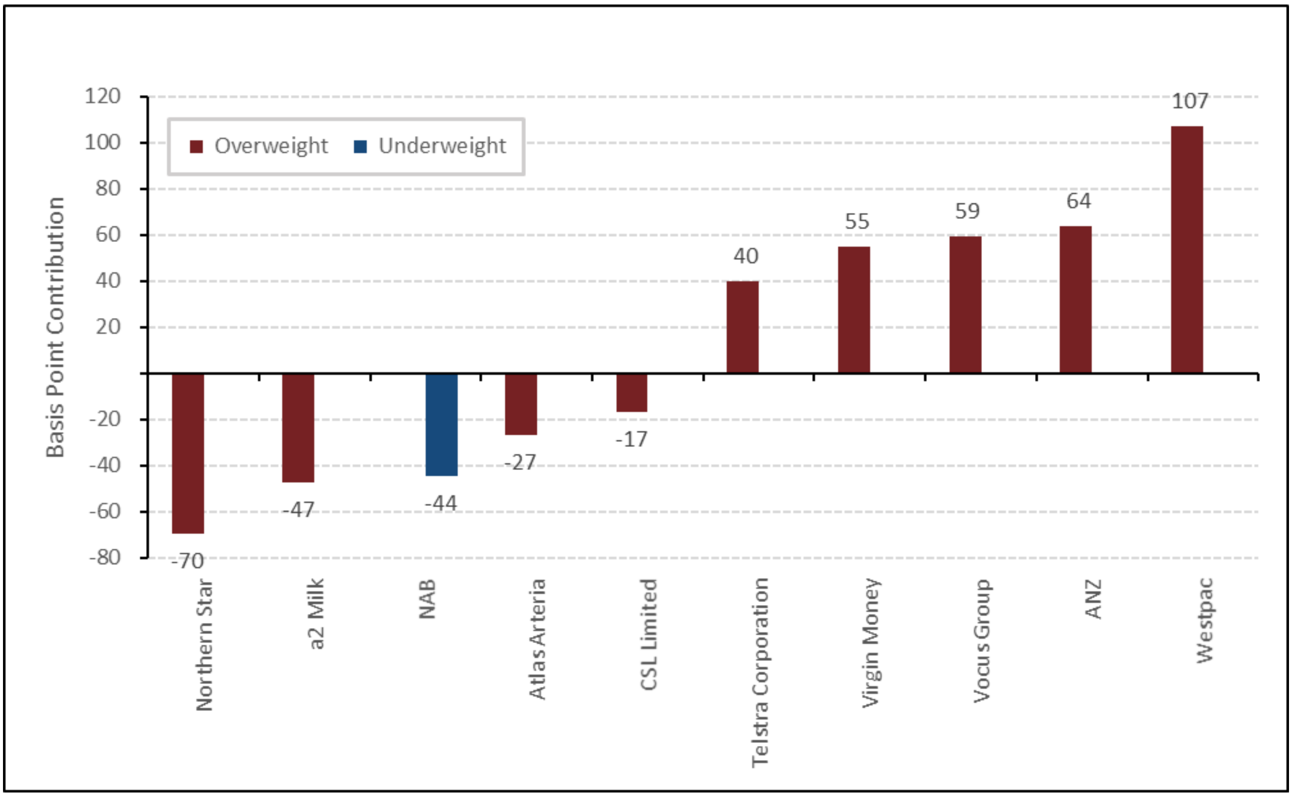
Pleasingly the Fund enjoyed a strong quarter returning 7.9% (net of fees) vs the benchmark return of 4.3%. Fund's strong annual return of 45.1% (net of fees) also beat the benchmark return of 37.5% by 7.6%

Positive

Stocks that added value during the quarter included our overweight position in the Banking sector, driven by ANZ, Westpac (WBC) and Virgin Money UK (VUK). This is an example of the merits of contrarian investing - 12 months ago, during the depths of the market sell-off the banking sector was friendless, but roll forward 12 months and these stocks have returned around 60-150% vs the market return of almost 40%. Volume growth and margins have held up better than most were expecting and bad and doubtful debts at this stage are only a fraction of what was expected. The prospect of higher dividends and capital returns are now within sight.

Also helping performance was our overweight position in Telecommunications. Vocus was the recipient of a bid at $5.50 from Macquarie Infrastructure and Real Assets Holdings Pty Limited and its managed funds (together "MIRA"). Telstra shares also performed well following the release of the company's 1H21 result and disclosure of further details of the intended separation and potential monetisation of its infrastructure assets.

Figure 1: Fund attribution – March quarter



Source: Antares; March 2021

Negative

Detracting value for the quarter was the fund's overweight position in Northern Star. A number of factors adversely impacted the share price including a falling gold price, the resignation of Executive Director Bill Beaumont and the removal of the stock from international gold indices following the merger with Saracen.

The fund's holding in A2 Milk (A2M) also detracted value as another profit downgrade weighed on the share price. At the heart of the issue is the loss of the Daigou channel which has been impacted by travel restrictions. This has also led to a loss of advocacy in China for A2M, also hurting its other channels, especially on-line trade.

Not owning NAB detracted value as many of the banks performed well, but this was more than offset by our overweight positions in ANZ, WBC and VUK that we have already discussed.

Stock activity

Table 1: Stock Activity

Portfolio trades	Buy	Sell
Core	GMG	
Trading	QBE	VOC, SCG

Vocus (VOC)

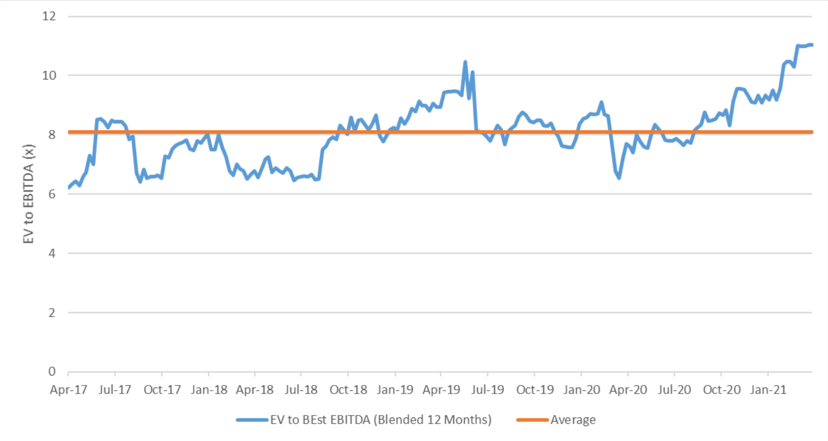
On 8 February, VOC announced it had received a confidential non-binding, indicative proposal from Macquarie Infrastructure and Real Assets Holdings Pty Limited and its managed funds (together "MIRA") to acquire 100% of the shares of Vocus via a scheme of arrangement at a price of $5.50 per share subject to a number of closing conditions, including due diligence.

Following the news and the company's half year result we met with management and came away feeling that, although not impossible, the risk of a higher bid was relatively low and the board had already indicated its willingness to accept the bid.

Although over the long term $5.50 may prove to be conservative we felt that given the risk still required to deliver earnings growth vs the certainty of the share price approaching the $5.50 bid price, selling the stock was the best risk return decision we could make. We deployed the proceeds into QBE.

The stock is trading at around 11x forecast EBITDA well above the 8x it has averaged over the last four years.

Figure 2: VOC 12m blended forward EV/EBITDA



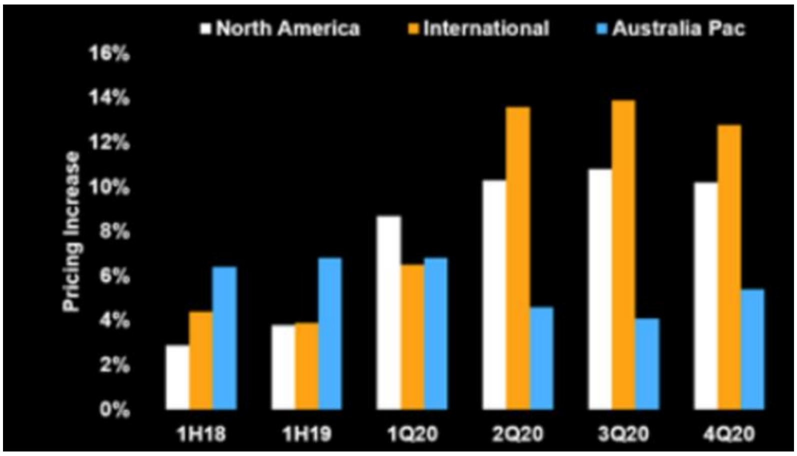
Source: Bloomberg; March 2021

QBE Insurance (QBE)

We have been watching and waiting for an entry point into QBE for some time. We have watched global insurance rates improve, interest rates increase and the global insurance industry consolidate, all of which should theoretically support the QBE price. Yet the QBE price has been held back by a number of industry and stock specific issues including:

- Change of CEO
- The industry's exposure to business interruption insurance as a result of the pandemic
- Domestic and global extreme weather events

Figure 3: QBE Insurance Premium Increases

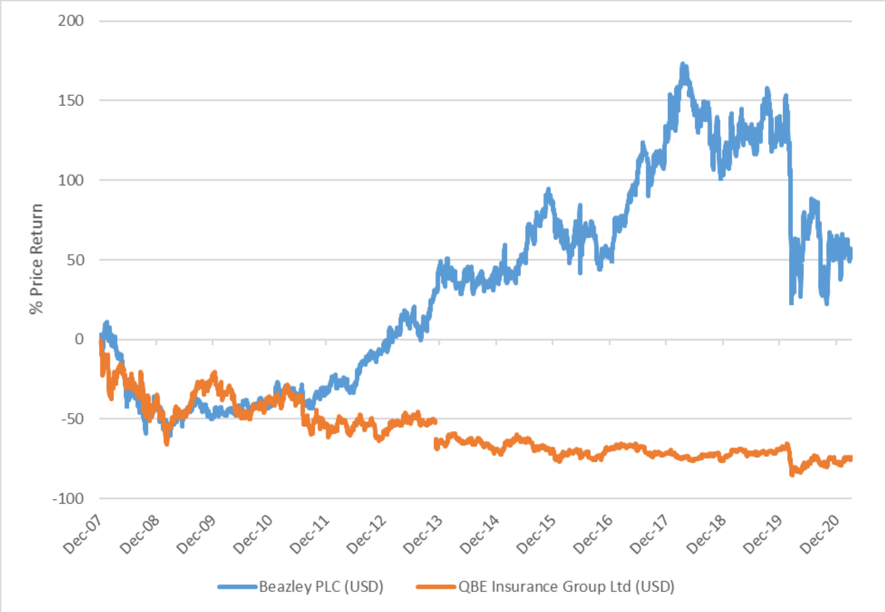


Source: Bloomberg; April 2021

Given the level of stock underperformance and the strengthening industry backdrop we decided to commence the purchase of QBE following the 3 March 2021 announcement of Andrew Horton as the new CEO, who importantly for us, is an external appointment with a proven track record. Mr Horton has over 30 years' experience across insurance and banking and extensive experience across international markets and appears ideally placed to lead QBE.

He is currently the Chief Executive Officer of Beazley plc, a UK-listed specialist insurer with operations across Europe, the US, Canada, Latin America and Asia, a role he has held since 2008. Notably Beazley plc has performed very well vs QBE over the period Andrew has been CEO as illustrated in the following chart.

Figure 4: Beazley plc vs QBE Price return



Source: Bloomberg; April 2021

Scentre Group (SCG)

During the depths of the pandemic sell-off we introduced SCG into the portfolio. At the time we recognised the structural headwinds faced by traditional bricks and mortar retail landlords such as SCG, however its valuation was compelling and we made a tactical decision to buy the stock at close to $2 per security. Recently the stock has rerated to trade closer to $3 at which point we decided to sell the stock and deploy the proceeds to another REIT that we believe has long term structural tail winds – Goodman Group (GMG).

The following performance chart illustrates the performance of SCG vs not only GMG but also the S&P/ASX 200 Index and the S&P/ASX 200 Real Estate Sector. SCG has outperformed them all substantially since the depths of the pandemic sell-off. The stock has enjoyed a rerating that has seen it trade at close to its book value vs the less than 50% of book value it was trading at when we purchased the stock.

Figure 5: Scentre Group, Goodman Group and related indices performance

Source: Bloomberg; April 2021

Figure 6: SCG estimated Price / Book ratio (x)

Source: Bloomberg; April 2021

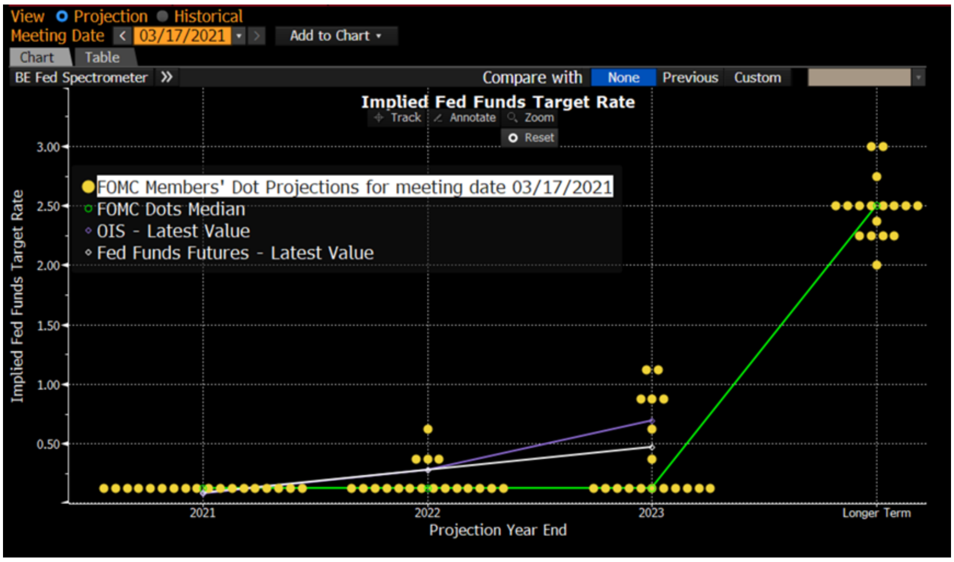
GMG on the other hand has recently underperformed the market as the market has switched to value, providing the opportunity for us to purchase the stock at a relatively attractive price. GMG still enjoys the benefits of its global logistics platform that is benefitting from the structural tailwinds of e-commerce, which we expect will continue for some time to come.

Outlook

The global outlook is dominated by the potential rise in inflation. As bottom up stock pickers it's difficult for us to have a high conviction call on this topic. However, we are also aware that inflation remains a lagging indicator of growth. On this topic we do have some insights given our extensive company visitation program and wide variety of indicators we obsess over. Based on these many observations there is little doubt global pricing power is improving across a wide variety of industries - inflation pressures are no doubt building.

The question of magnitude and timing versus what the market is already assuming then comes to the fore. The rapid rise in long bond rates over the last few months suggests the market is already expecting a significant rise in growth/inflation, so perhaps in the short term we are in period of pause (not peak) before moving higher again in the second half of 2021. The battle and divergence between the Federal Reserve and the market continues to rage as illustrated in the next chart. The chart plots the Fed's interest rate "dots" vs the markets expectations. The Fed expects no rate increase until post 2023 while the marker is assuming at least two.

Figure 7: Federal Reserve vs Market expectations Target Interest Rate (%)



Source: Bloomberg; April 2021

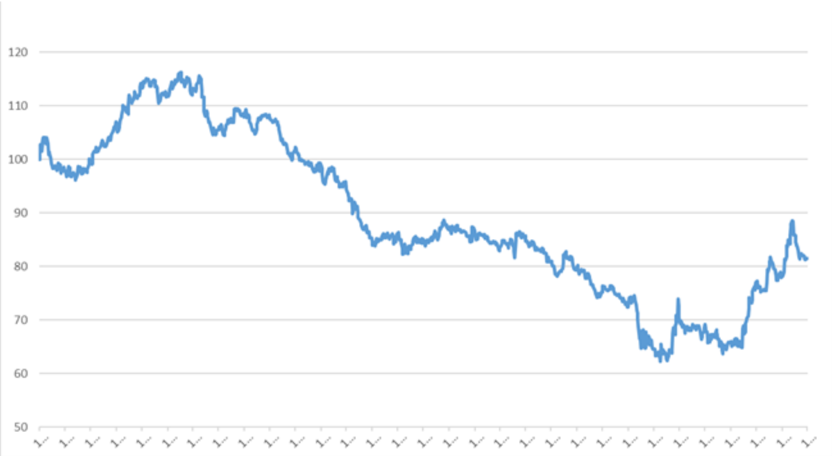
In the short term, the US profit result season should provide a positive backdrop for equity markets. Given recent stimulus initiatives we expect outlook comments should be supportive. President Biden's $2.4 trn "American Jobs Plan", should it be approved, will further stoke growth.

Downside risks include higher taxes, a mutating virus and long simmering geopolitical tensions. As discussed in our resources comment, the bifurcation in growth whereby Chinese policy tightening will weigh on Chinese and emerging market assets while the economic normalization in the West will buoy US and European equities is also something we are watching.

Strategy

Given the rotation to cyclicals and value that we have seen since November 2020, valuation anomalies are no longer as extreme - see Figure 8. As a result, we have further increased the portfolio's diversification via our purchase of Goodman Group and sale of Scentre Group.

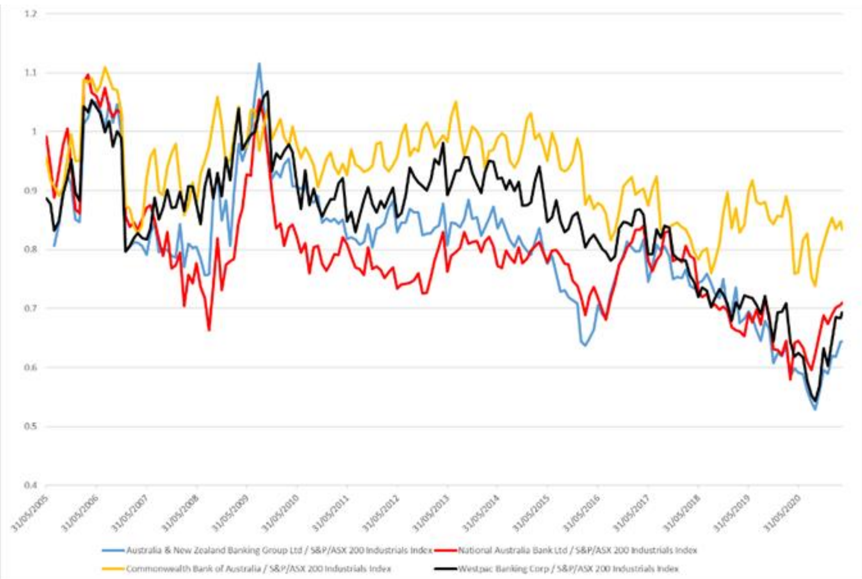
Figure 8: MSCI Australia Value vs Growth



Source: MSCI, Bloomberg; April 2021

We have maintained our overweight exposure to Banks – although this is no longer as contrarian. Earnings growth, driven by volume, margin and declining bad and doubtful debt charges and strong capital positions underpin our view. Although the banks have enjoyed a strong rise they remain relatively cheap when compared with the broader industrial market. Bank PE's relative to the industrial market remain depressed but off their Covid 2020 lows. The sector remains a key play on rising yields and steepening of the yield curve.

Figure 9: Major bank PE Relative



Source: Antares Equities, Bloomberg; April 2021

Within the Resources sector we have maintained our overweight but have sold down our larger positions due to a moderating Chinese economy. We have exited the majority of our iron ore exposure but maintain our holdings in other metals, steel and gold.

China's credit trends continue to point to a winding down of last year's massive stimulus. China's credit growth will slow more, a trend which will gather momentum over the coming months because of the base effects from last year's massive outlays. This will be true for bank loans as well. Authorities have communicated that they are uncomfortable with the current level of loans and are requesting that banks trim their loan books and cap lending at 2020 levels. China's economy, and our resources sector which responds to credit dynamics with a six-to-twelve-month lag, will show signs of weakness around the middle of the year.

Although we have moderated our exposure to cyclical/value stocks our focus on valuations remains strong hence we have maintained our overweight to GDP-linked companies and continue to look for a cyclical recovery in earnings. We maintain a pro-risk allocation, with tilts to Financials, Cyclicals and Value, at the expense of Defensives and Growth. After a pause we expect bond yields to keep moving higher, PMIs to accelerate, and look for a strong consumer recovery into the second half of calendar 2021.

The funds GICS exposure relative to the benchmark and portfolio fundamentals are presented in table 2.

Table 2: Portfolio Statistics - Antares Elite Opportunities Fund

Elite Opportunities Fund at 31 March 2021	Portfolio %	Index %	Over/underweight %
Energy	4.1	3.7	0.4
Materials	25.2	19.9	5.3
Industrials	8.0	6.8	1.2
Consumer discretionary	5.5	7.9	-2.4
Consumer staples	6.8	5.6	1.2
Health care	7.3	10.0	-2.7
Financials ex REITs	28.6	30.0	-1.4
Information technology	0.0	4.0	-4.0
Communication services	9.2	4.1	5.1
Utilities	0.0	1.3	-1.3
Real Estate	3.6	6.7	-3.1
Cash	1.7	0.0	1.7
Total	**100.0**	**100.0**	**0.0**

Source: Antares Equities, Factset March 2021

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