Quarterly Investment Update

Antares Elite Opportunities Fund – June 2020

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Highlights for the quarter

Performance: The Fund returned 16.8% (net of fees) for the March quarter, outperforming its benchmark by 0.3%.

Contributors to performance: Positive contributors – James Hardie, Boral and Santos;
Negative contributors – Metcash, Telstra and Afterpay (underweight)

Stock activity: Buys/additions – Woolworths, Seek, Virgin Money, Oil Search and Scentre Group ; Sells/reductions – Wesfarmers, Medibank Private and AGL

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 30 June 2020[1]

Period	3 months	1 year	3 years pa	5 years pa	10 years pa	Since inception pa
Net return[2] %	16.8	-12.8	1.2	4.6	6.9	9.3
Gross return %	17.0	-12.2	1.9	5.4	7.6	10.1
Benchmark return %	16.5	-7.7	5.2	6.0	7.8	8.5
Net excess return %	**0.3**	**-5.1**	**-4.0**	**-1.4**	**-0.9**	**0.8**
Gross excess return %	0.5	-4.5	-3.3	-0.6	-0.2	1.6

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

Contributors to performance

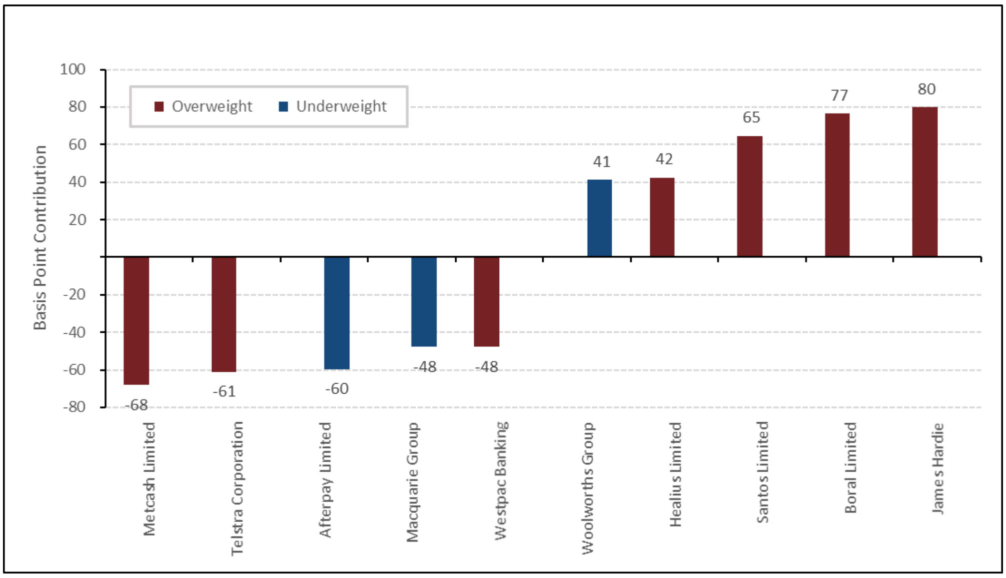
The Fund's June quarter performance, like that of the market was substantial. Of course, this was the reversal of much of the absolute losses suffered by the market during the March quarter stemming from the panic brought on by the onset of the Covid 19 pandemic.

Positive

Adding value to performance were our overweight holdings in James Hardie (JHX), Boral (BLD) and Santos (STO).

- James Hardie's FY20 results were well received by the market as was the company's report on trading for the first six weeks of FY21 which revealed a far smaller decline in net volumes than had been expected.
- The announcement of a new managing director with a track record in business transformation and the emergence of Seven Group with a 10% stake piqued investor hopes of change at BLD, whether asset sales or a break-up.
- A 91% increase in the price of Brent Oil to US$41.2bbl boosted the price of oil producers, with STO a beneficiary.

Chart 1: Fund attribution – June quarter



Source: Antares; June 2020

Negative

The largest detractors to performance were our overweight positions in Metcash (MTS) and Telstra (TLS) and not owning Afterpay (APT).

- After a strong run in the March quarter as investors sought stocks in the consumer staples sector, MTS surprised the market with a seemingly opportunistic capital raising which together with the shift in focus to the discretionary retail sector saw its shares underperform.
- Having also been keenly sought by investors during the March sell-down, TLS shares were less favoured, particularly as the merger between TPG and Vodafone was approved and attention turned to the implications for pricing and competition.
- APT shares have been the strongest performer in the ASX 100 on the back of positive trading updates, the surge in popularity of online retail shopping and news of a substantial shareholding by Chinese tech giant, Tencent.

Stock activity

Table 1: Stock Activity

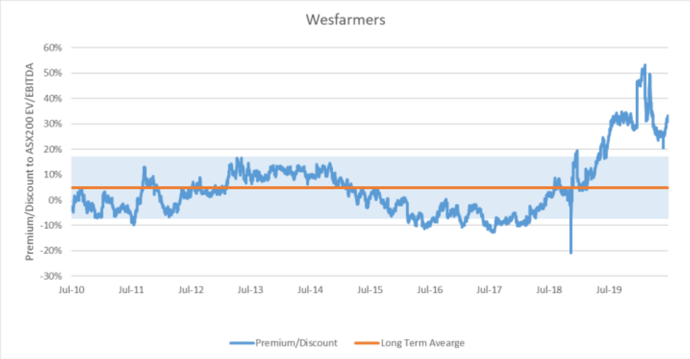
	Buy	Sell
Core	SCG, WOW, SEK	MPL
Trading	OSH, VUK	AGL, TWE

Switch

Wesfarmers (WES) and **Woolworths** (WOW)

During the quarter we began to switch some of our Wesfarmers (WES) exposure into Woolworths (WOW). From a valuation perspective, WES is now trading at a 30% premium to the market, well above its long-term average. Conversely WOW is trading in line with its long-term average, having underperformed during the market bounce in recent months. We have an opposing view to that of the market. WES has benefitted strongly from the mobility restrictions particularly from its large exposure to Bunnings and to a lesser extent Officeworks, but we view this benefit more as a one-off sugar hit to sales. It is unlikely that consumers will return to renovate a room or purchase another monitor or office chair anytime soon. WOW however should enjoy a longer duration to its uplift in sales. Consumers will need to constantly feed themselves in their homes as long as mobility restrictions are in place, and perhaps beyond should home cooking take on a structural resurgence; something that may be aided by an economic downturn.

Chart 2: Wesfarmers (WES) and Woolworths (WOW) relative valuations



Source: Antares Equities, Bloomberg; July 2020

Buys:

Treasury Wine Estates (TWE)

Our recent addition of TWE to the portfolio was premised on valuation support aided by a recovering Chinese economy. The headline observable data at the time and even now point to a recovery. Industrial production, mobility trends and even pollution measurements all point to this. Our more recent qualitative channel checks however suggest that the Chinese consumer is less sanguine than the industrial recovery that has occurred. A softer Chinese consumer and continued oversupply of wine in the US market, putting pricing pressure on TWE's premium offering have caused us to reconsider our conviction and hence our decision to exit the stock.

Seek (SEK)

Following what we feel is the passing of the worst phase of the Covid-19 uncertainty, we have re-initiated a position in SEK. The resumption of industrial activity (a large employer) in China gives us some comfort that the activity will ultimately filter through to employment growth, an area SEK is well positioned to benefit from given its investment in Zhaopin. Furthermore, as China was the first country to enter the Covid decline and also the first one out, it provides a blueprint for other geographies. Based on this assumption, Australian employment trends should also start to improve over coming months. SEK continues to invest in innovation and vertical expansion something we have always liked about the company. This does not appear to have stopped during the coronavirus crisis and we expect to see the company emerge even stronger.

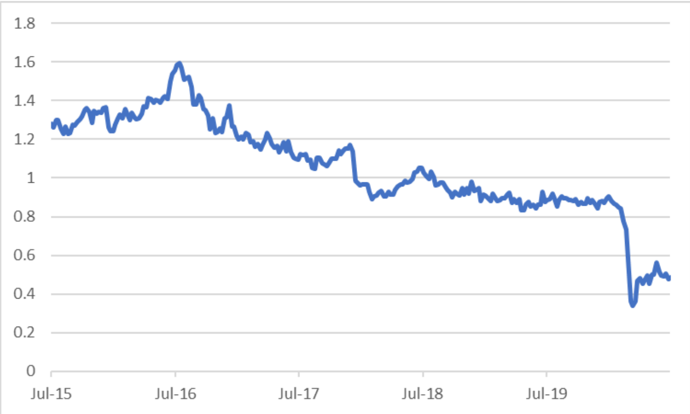
Virgin Money (VUK)

We see significant long term value in VUK. Although the path to normalisation post Covid-19 remains uncertain, lockdown measures are being eased and we believe that the risk reward on offer now warrants an investment in VUK. The company currently enjoys an £800m buffer above minimum capital requirements (compared to a market capitalisation of £1000m). Furthermore, expected regulatory model changes could see risk weighted assets reduce by 5-10% from current levels, further increasing excess capital. If the capital position is resilient, we believe there is significant upside with the stock trading at 0.3x Tangible Net Asset Value and likely growth in VUK's pre-provision earnings.

Oil Search (OSH) - The large fall in the oil price had put pressure on OSH's balance sheet forcing the company into a capital raising during April. The raising was done at $2.10 per share and provided what we believe to be a very attractive price to begin building our position. With the immediate balance sheet risk behind them, OSH can look forward to executing on some significant organic growth opportunities. The company has also embarked on an aggressive cost cutting exercise to reduce their free cashflow break even cost of production to the low $30/bbl level (post financing).

Scentre Group (SCG) - During April, we introduced SCG into the portfolio following its share price collapse that left the stock attractively priced despite the significant near-term headwinds. The unprecedented and challenging situation of Covid-19 is undermining the viability of retail tenants' business models around the world and SCG is not immune. However, we feel that most of the bad news is reflected in the share price of SCG which has more than halved over the last few months. A recent piece of hypothetical research illustrates the stock's extreme valuation. SCG's Malls sit on 639ha of land. We believe the hypothetical demolition of the entire SCG portfolio (ex Westfield Sydney) and selling off the land for a mixture of Apartment, Office and "Last-mile" Logistics uses would generate an equity value for SCG that is approximately12% above its current share price.

Chart 3: SCG Price to Book (x)



Source: Antares Equities, Company reports, Bloomberg; July 2020

Sells:

Medibank Private (MPL) **-** MPL has performed relatively well during the market sell off, however given the opportunity to invest our capital for better risk return characteristics we decided to exit the stock.

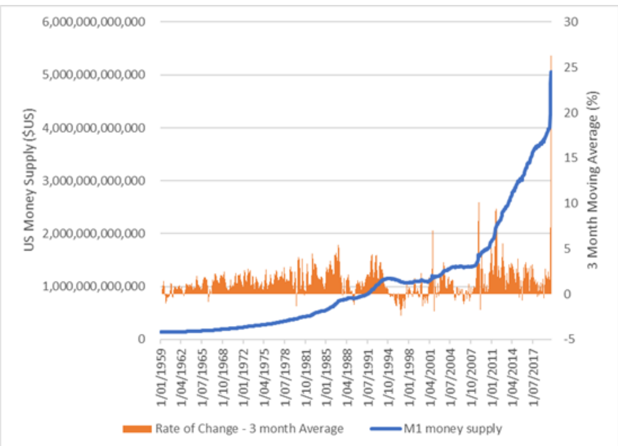
AGL Energy (AGL) - In order to allow the purchase of SCG and OSH we had to release a stock from the portfolio. Given the share price had held up relatively well we decided to sell out of our AGL position.

Outlook and strategy

Outlook:

Currently there are two competing forces in the market. The propagation of the virus throughout the globe has resulted in some of the sharpest drops ever recorded in economic data. Conversely, we have seen an immense response from governments and central banks to support growth. All the while consumers appear to be spellbound by the rapid change in their daily lives. The following series of charts best illustrates the situation. Chart 1: "US money supply" shows just how powerful stimulus measures have been. The numbers are eye popping; in the three months through May 2020, the most liquid portion of the money supply, as measured by a gauge known as M1, surged 26%. That's triple the jump posted in the corresponding three-month period in 2008 (GFC) and is more than any full-year increase recorded in the six decades that officials have been tracking the data.

Chart 4: US money supply - M1



Source: Bloomberg, Antares July 2020

The question now is whether Americans will go out and spend that money as the economy reopens for business. Since March, Congress has approved more than $2.8 tn in aid, including significant amounts sent directly to households at the same time that the country has been on an enforced consumer diet with retailers, restaurants and other businesses closed. In April, the U.S. personal savings rate, the percentage of disposable income that households manage to save, jumped to 32.2%. Before Covid-19 in records that date back to 1959, that number had never exceeded 17.3%, and had cleared 10% only once since 1995.

Chart 5: US savings rate (% of disposable income)

Source: Bloomberg, Antares July 2020

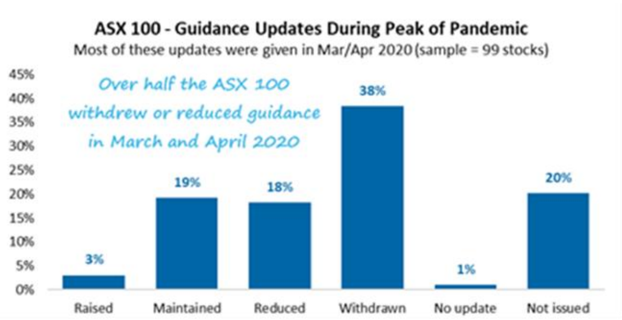
As is often the case, consumer confidence remains the missing ingredient in the early stages of a recovery; the behavioural aspect of the coronavirus crisis that impacts all of us is difficult to fathom. The impact can be larger than the initial effect if the loss of confidence becomes a self-reinforcing drag on the economy. During the quarter, markets were suggesting the strong stimulus measures were winning the battle, given the strong rise in markets. The long overdue rotation out of growth to value, cyclicals and other laggards was a key feature of June. The optimism however proved to be short-lived with many regions around the globe experiencing a second wave of increasing infections and a reversal of rolled-back restrictions. At this stage, it is still difficult to predict with any confidence the pace and magnitude of any recovery. However, what is becoming clearer is that different industries will take different paths back to recovery. We are focusing our attention on these more granular decisions; marrying the outlook to valuation.

Overall, we are maintaining our more balanced and diversified approach, that we moved to early on during the crisis. Trying to predict a single path of recovery remains too difficult at this stage given the many uncertainties that remain. A number of scenarios are possible. We have maintained, and in some cases increased, our conviction in the recovery of certain companies and industries that have been harshly dealt with. It is in these sectors (namely entertainment and tourism) that the greatest long-term valuation anomalies appear. Companies within this cohort include Qantas (QAN), Star Entertainment (SGR), Aristocrat Leisure (ALL) and Scentre Group (SCG).

On the other hand, some industries have already recovered and stocks within them are indeed at higher levels than pre-coronavirus. Furthermore, other industries may see a structural tailwind as a result of behavioural changes that have accelerated during the crisis. Industries include grocery retailers, transport, telecommunications and digital business models. We have increased our exposure to some of these companies during the quarter.

At the company level our focus remains on balance sheet strength, liquidity, management's strategy to deal with the crisis and the resources to execute on the strategy. An interesting feature of the current market is the withdrawal of earnings guidance. Macquarie Bank estimate that 38% of the top 100 companies have withdrawn guidance during the peak of the pandemic. This should result in a larger dispersion of expectations, and as always with uncertainty comes opportunity, something we are well positioned to capture given our team structure and experience.

Chart 6: ASX 100 Guidance Updates

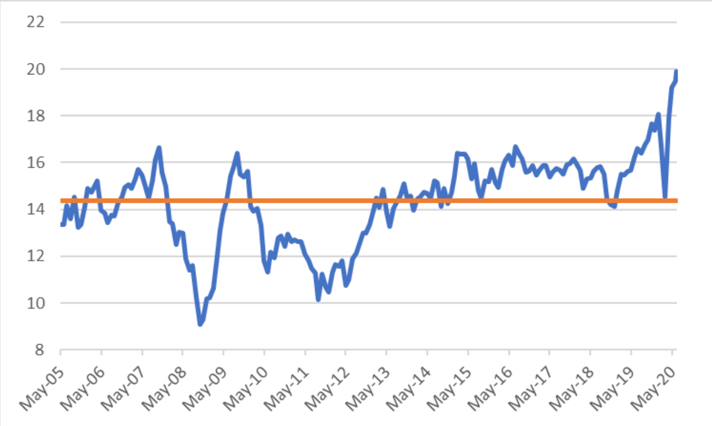


Source: Macquarie Bank; June 2020

Strategy

At face value the ASX/S&P/ASX 200 trades on 19.7x blended forward 12-month EPS, over two standard deviations more expensive than the 15-year average of 14.3x.

Chart 7: BEst P/E Ratio - ASX/S&P 200



Source: Antares Equities, Bloomberg; July 2020

There are however mitigating factors that make the headline ratio more palatable. Firstly, earnings are arguably depressed below their long-term average given the near-term impacts of Covid 19. As shown below, earnings are expected to grow by around 10% per year after this year's decline, which is a higher rate of growth than that which has been delivered historically, thus justifying a higher multiple.

Table 2: S&P/ASX 200 Valuation

Valuation Measure	Blended forward 12 month estimate	Year +1 estimate	Year +2 estimate
Price/EPS (x)	19.7	17.8	16.3
EPS Growth (%)	-1.3	10.6	9.3
Price/Cash Flow (x)	9.8	8.8	7.0
Dividend Yield (%)	3.3	3.7	4.0
Price/Book (x)	1.8	1.8	1.6
Price/Sales (x)	2.1	2.1	2.0
EV/EBITDA (x)	11.5	10.9	10.7
Net Debt/EBITDA (x)	5.8	5.5	5.4

Source Bloomberg: July 2020

The other powerful factor influencing valuations is interest rates. Central banks around the globe have fallen over themselves to reduce interest rates to historically low levels resulting in lower discount rates and therefore higher valuations. Furthermore, lower interest rates make alternative investments in cash or fixed income asset classes less appealing. Despite the reductions in dividends over the last quarter, the Australian market still yields around 3.3%; higher than the next to zero return available in most cash accounts.

Looking more closely at the portfolio, we maintain our exposure to the materials sector across the metals, energy and building materials sub sectors offset by an underweight to financials made up of underweight positions in REITS and insurance. We maintain a broadly index exposure to the banks. And we are no longer zero weighted in REITS given our purchase of Scentre Group.

Table 3: Antares Elite Opportunities Fund vs S&P/ASX 200 (%)

Elite Opportunities Fund at 30 June 2020	Portfolio %	Index %	Over/underweight %
Energy	6.6	4.0	2.6
Materials	23.7	19.5	4.2
Industrials	4.8	7.4	-2.6
Consumer discretionary	9.0	7.0	2.0
Consumer staples	8.2	6.5	1.7
Health care	11.5	12.2	-0.8
Financials ex REITs	19.1	27.3	-8.2
Information technology	2.0	3.5	-1.5
Communication services	11.2	4.1	7.1
Utilities	0.0	1.9	-1.9
Real Estate	2.4	6.6	-4.2
Effective cash	1.5	0.0	1.5
Total	**100.0**	**100.0**	**0.0**

Source: Antares Equities, Factset; June 2020

From a style/factor perspective we have maintained our overweight to value, based on some of the deeply depressed share prices that we see on offer. The magnitude of our value position has however reduced modestly during the quarter given our purchase of Woolworths.

Table 4: Elite Opportunities Fund vs S&P/ASX200

Characteristics (next 12 months)	Elite Opportunities	S&P/ASX 200
Price to earnings(x)	18.9	19.4
EPS Growth (%)	7.2	4.3
Div yield (%)	2.8	3.3
Return on equity (%)	15.3	15.3

Source: Factset, June 2020

Distributions

June quarter distributions were lower than the previous corresponding quarter. This was due to a combination of factors including cuts in, or suspension of dividends during the quarter in the wake of the coronavirus, the absence of special dividends which were paid in 2019 pre the Federal election, and no capital gains to pay out (again, due to the coronavirus and subsequent fall in the market).

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Get in contact

antarescapital.com.au

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