Quarterly Investment Update

Antares High Growth Shares Fund – March 2020

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Highlights for the quarter

Performance: The Fund returned -27.7% (net of fees) for the March quarter, underperforming its benchmark by 4.6%.

Contributors to performance: Positive contributors – Metcash, CSL, Flight Centre (short); Negative contributors – Santos, Star Entertainment, Worley

Stock activity: Buys/additions – Treasury Wine Estates, Metcash, AGL; Sells/reductions – Link Administration, Unibail-Rodamco-Westfield

Fund snapshot

Inception date	7 December 1999
Benchmark	S&P/ASX 200 Total Return Index
Investment objective	To outperform the benchmark (after fees) over rolling 5-year periods

Investment returns as at 31 March 2020[1]

Period	3 months	1 year	3 years pa	5 years pa	10 years pa	Since inception pa
Net return[2] %	-27.7	-20.3	-2.3	0.7	4.7	9.0
Gross return %	-27.5	-19.4	-1.3	1.7	5.8	10.5
Benchmark return %	-23.1	-14.4	-0.6	1.4	4.9	6.9
Net excess return %	**-4.6**	**-5.9**	**-1.7**	**-0.7**	**-0.2**	**2.1**
Gross excess return %	-4.4	-5.0	-0.7	0.3	0.9	3.6

[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

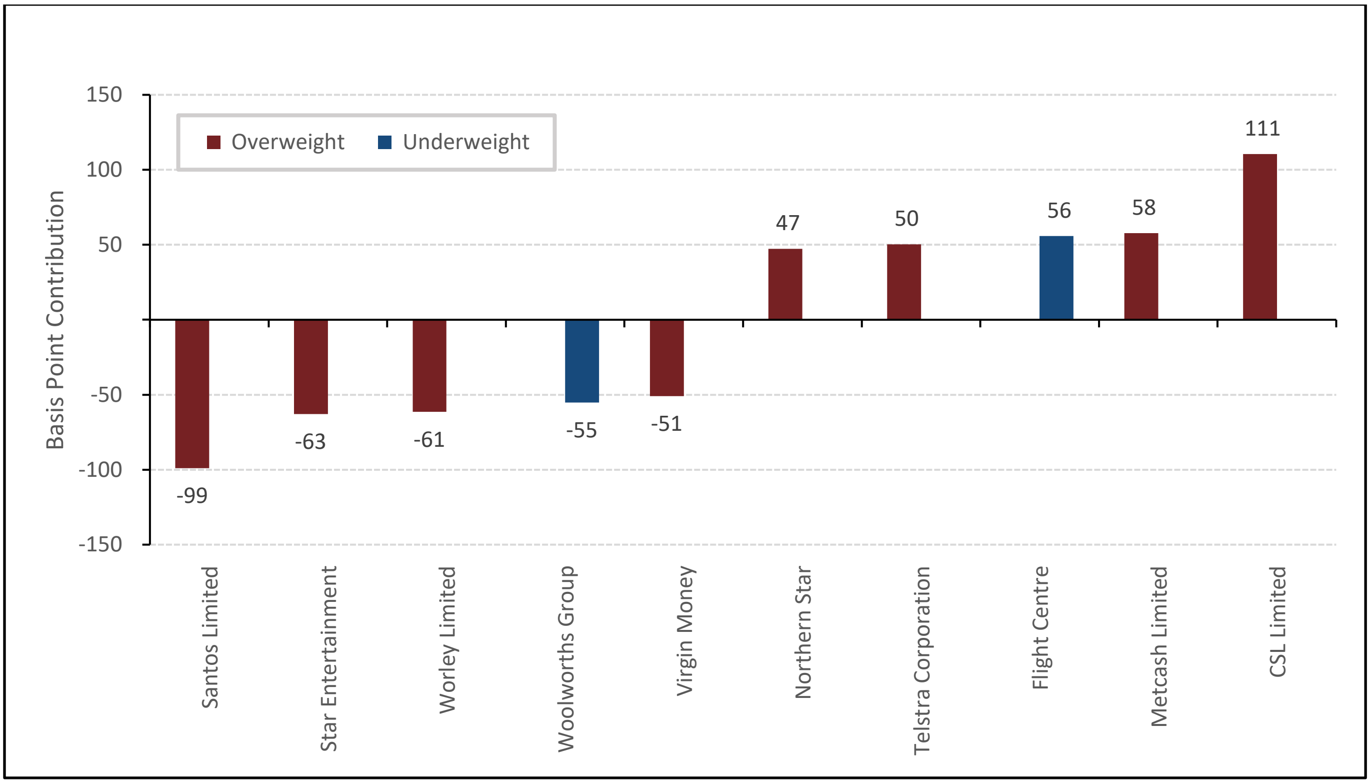
For the March quarter the fund delivered a return of -27.7% underperforming the benchmark return of -23.1%.

Given the substantial changes to the outlook over the quarter, stock performance was largely dictated by macro influences for which we were poorly positioned. This is further discussed in the Outlook section of this report.

Positive

- Adding value to performance was a recent addition to the portfolio, Metcash (MTS) which benefited from consumers' appetite to hoard grocery goods over the period.
- The fund's large overweight to CSL also benefited relative performance as CSL was sought after for its defensive cashflows and conservatively geared balance sheet.
- The fund's short position in Flight Centre (FLT) also added to performance as the stock fell sharply given the massive impact the travel bans have had on their business model.

Chart 1: Fund attribution – March quarter



Source: Antares, March 2020

Negative

- The largest detractors to performance were our overweight positions in Santos (STO), Star Entertainment (SGR) and Worley (WOR). STO a large oil and gas producer and WOR a largely energy exposed contractor bore the brunt of the large fall in the oil price while SGR was at the pointy end of Government's travel and social distancing bans.

Stock activity

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

Table 1: Stock Activity

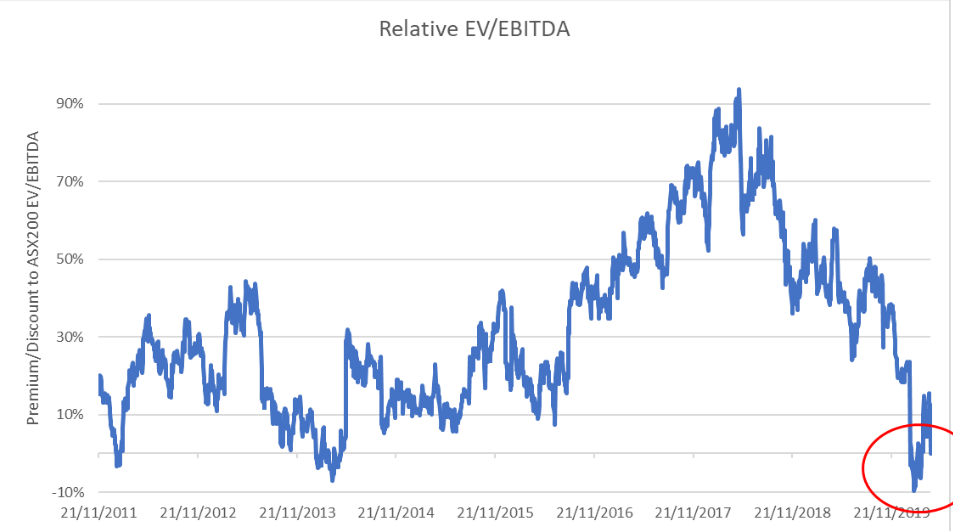
Portfolio Trades	Buy / Close	Sell / Initiate
Long	BHP, MIN, TWE, COH, MTS, A2M, APT, AGL	CPU, ANZ, MQG, CTX, QAN, LNK, APA, IPL, AMC
Short	CCL, RHC, ASX, TCL, WPL	URW, CWN, TCL, WPL, FLT

Buy / Increased

Treasury Wine Estates (TWE) - Following the company's surprise downgrade and subsequent fall in share price we introduced the stock into the portfolio. TWE surprised the market with an earnings downgrade largely on the back of the Corona virus as well as an oversupply of product in the US market that weakened earnings from its commercial wine operations. Although these issues may linger for some time and depress TWE's earnings ability we feel that over the long term the global business model and branded wine portfolio should continue to grow both earnings and the share price.

The ~40% fall in share price provided an opportunity to acquire shares at an attractive level, at the time of our initial purchase TWE was trading at discount to the S&P/ASX 200 EV/EBITDA multiple, something rarely seen since listing

Chart 2: TWE Relative EV/EBITDA



Source: Bloomberg, Antares Feb 2020

Metcash (MTS) – We introduced MTS into the portfolio as a potential beneficiary of the change in consumer behaviour that has seen many households begin to hoard basic groceries, in particular long-life dry groceries that make up the majority of MTS's volumes.

MTS has a low margin business model and stands to make material gains as increased volumes flow through its wholesale distribution business and ultimately through its IGA supermarket umbrella.

MTS also has a history of performing relatively well in times of crisis. As illustrated in Chart 3, MTS traded at a 50% premium to market EV/EBITDA multiples during the GFC back in 2008. The stock has not yet reached those levels and currently trades at around a 10% premium. This is significantly off its lows of a 40% discount to the ASX200 EV/EBITDA (NTM) multiple.

Chart 3: Metcash relative premium / discount to market EV/EBITDA

Source: Bloomberg, Antares; April 2020

AGL Energy (AGL) - We introduced AGL into the portfolio as a trading stock during March. The tactical decision was made as a result of two broad criteria:

1. Stable cashflows that could see out the crisis
2. A conservatively geared balance sheet.

Given its core electricity generation and retail business, we feel that AGL is well placed to maintain its cashflow generation during the crisis. Electricity demand from large business users will undoubtedly take a backward step during this period of uncertainty however this is likely to be mitigated by an uptick from retail customers. Furthermore, our view is that retail margins are significantly higher than those of large customers which will further dampen the impact of any loss of volumes.

The other key attribute that makes AGL an appealing investment proposition at this time is its balance sheet. Unlike many other infrastructure, utility or property securities that may also have "defensive" cashflows AGL remains modestly geared compared to many as Chart 4 highlights.

Chart 4: Estimated gearing (x)

		Net Debt/EBITDA		
Company	**GICS Sector**	**CY 20**	**CY21**	**CY 22**
AGL ENERGY LTD	Utilities	1.4	1.5	1.6
APA GROUP	Utilities	5.9	5.7	5.4
AURIZON HOLDINGS	Industrials	2.4	2.4	2.3
GOODMAN GROUP	Real Estate	1.4	1.3	1.2
MIRVAC GROUP	Real Estate	3.9	4.4	4.1
SCENTRE GROUP	Real Estate	8.8	7.7	7.5
SHOPPING CENTRES	Real Estate	6.4	6.2	6.1
STOCKLAND	Real Estate	5.1	5.5	5.3
SYDNEY AIRPORT	Industrials	10.2	8.0	7.0
TRANSURBAN GROUP	Industrials	9.3	8.1	7.1
URW CDI	Real Estate	13.7	12.6	11.6
VICINITY CENTRES	Real Estate	5.7	5.9	5.9

Source: Bloomberg, Antares; April 2020

Sell / Reduced

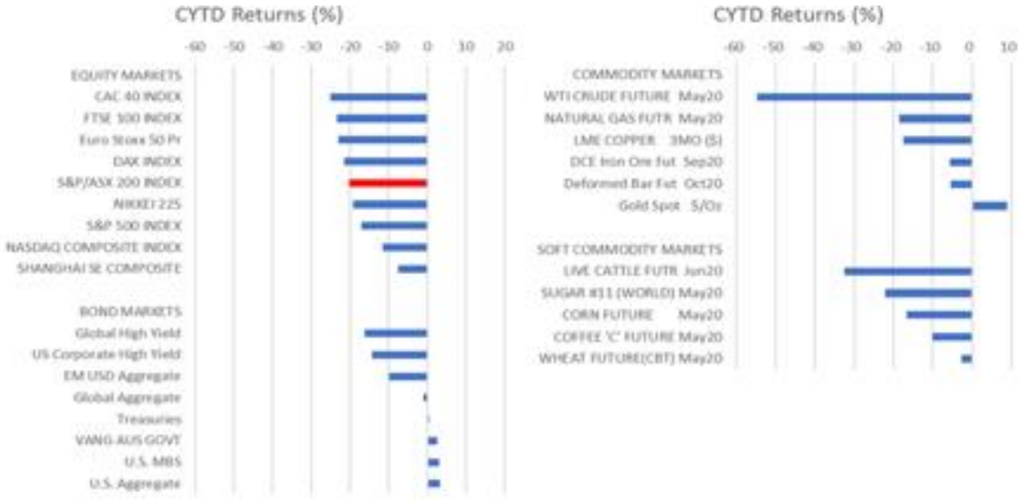
Link Administration (LNK) – Following a period of strong relative share price performance on the back of the Pepper European Servicing acquisition we exited our position in LNK, this was before the delivery of the 1H20 results that caused a material fall in share price.

Unibail – Rodamco – Westfield (URW) – Given the increasing risks surrounding the Corona virus and its potential impact on consumer behavior we looked through the portfolio for companies with high gearing and cashflows that may come under increasing risk. URW was identified in the portfolio as a potential risk ie highly geared balance sheet with cashflows that may reduce over time should the Corona virus persist; hence our decision to sell out.

Outlook

Returns across many assets and geographies have started the year off poorly. Negative returns dominate the landscape with only a few assets generating positive returns. Gold and high-quality government bonds have offered some respite from a sea of significant negative returns. Oil has been the poster child of price falls, impacted not only by the significant reduction in demand, but also from a lack of discipline from major oil producers as they jostle for market share in a smaller market. The price of West Texas Intermediate has fallen by over 50% during 2020.

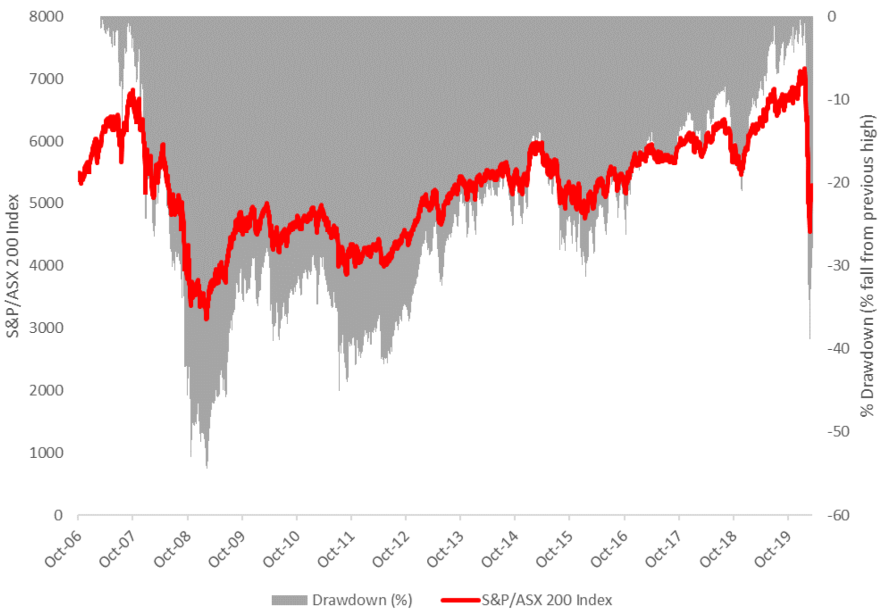
Chart 5: Asset class returns - March quarter 2020



Source: Antares, Bloomberg, 7 April 2020

For the Australian equity market, the fall has been both large in magnitude and stunning in its speed. At its worst, the market was down almost 40% from its previous highs. Only the GFC over a decade ago comes close to the magnitude of the fall, but unlike the current sell off, the GFC took more than 12 months to fall a little over 50%.

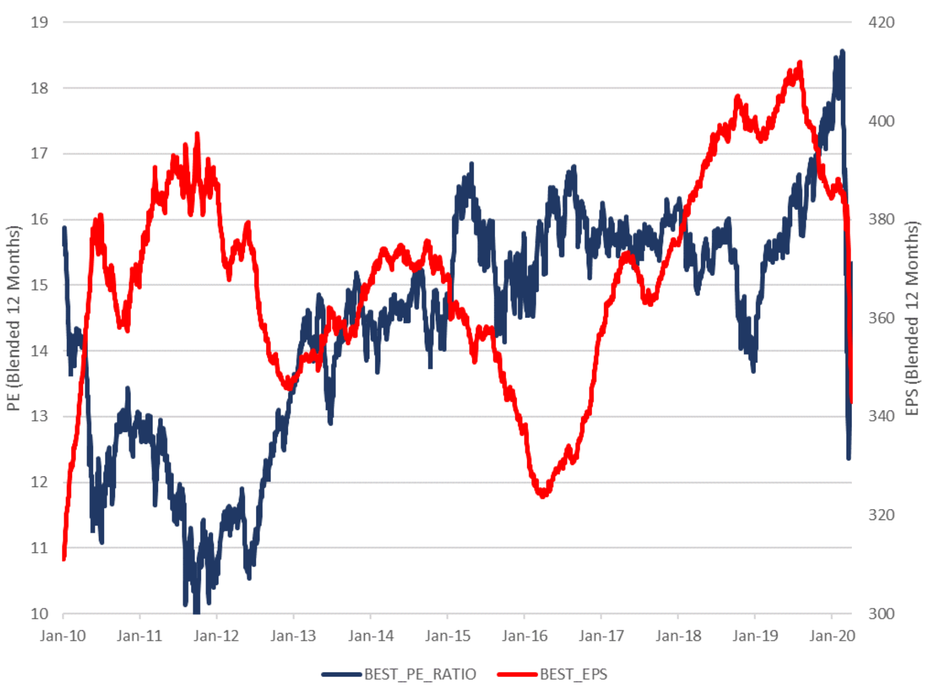
Chart 6: S&P/ASX 200 Index and % Drawdown



Source: Antares, Bloomberg, 7 April 2020

To date, consensus earnings expectations for the Australian market have fallen around 16% from the peak achieved in the middle of 2019. At this stage, given the speed of the downturn, we feel that a trough in earnings is yet to be reached as analysts are often slow and reactionary when updating numbers. However, if the current earnings are accurate, our market trades on 12.5 x blended 12-month forward earnings; making equities attractive if history is a guide.

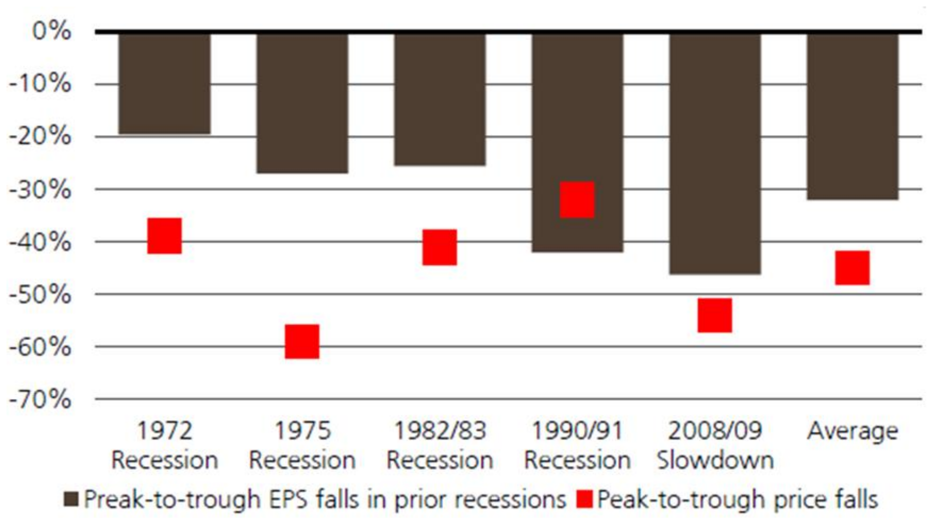
Chart 7: S&P/ASX 200 Earnings and PE Ratio (x)



Source: Antares, Bloomberg, 7 April 2020

History suggests that during recessions or sharp slowdowns, earnings fall around 30% (vs the current 16% estimate) hence our sense that the "E" is still overstated. The following table (produced by UBS) illustrates peak to trough EPS falls over the last 50 years during recessions or sharp slowdowns along with the peak to trough falls in share prices. At this stage the almost 40% fall in share prices puts the current market collapse within the historical range; albeit at the more benign end of the range.

Chart 8: EPS and Price falls over recessions / GFC



Source: UBS March 2020

The ultimate reaction of the market to the Covid-19 virus will be determined by the amplitude of the infections and deaths along with the pandemic's duration. As can be seen from the following tables, the number of daily new cases in many of the global hotspots has, over recent days, started to plateau and even decline in some countries. This suggests that the economic pain we are going through is having a positive impact; we have been successful in "flattening the curve". The flip side of that success is that given we have been able to reduce the amplitude of the curve does it now imply that the duration will be extended?

We struggle to see a scenario where the world can return to its former functioning without the development of a vaccine, something that is still many months away.

Chart 9: Cases of Covid-19

US

	Total cases	New cases
28/03/2020	121,478	19,821
29/03/2020	140,886	19,408
30/03/2020	163,807	22,921
31/03/2020	188,172	24,365
1/04/2020	216,515	28,343
2/04/2020	245,213	28,698
3/04/2020	277,953	32,740
4/04/2020	312,076	34,123
5/04/2020	337,635	25,559
6/04/2020	362,759	25,124

China

28/03/2020	81,999	102
29/03/2020	82,122	123
30/03/2020	82,198	76
31/03/2020	82,279	81
1/04/2020	82,361	82
2/04/2020	82,443	82
3/04/2020	82,526	83
4/04/2020	82,574	48
5/04/2020	82,641	67
6/04/2020	82,665	24

Italy

28/03/2020	92,472	5,974
29/03/2020	97,689	5,217
30/03/2020	101,739	4,050
31/03/2020	105,792	4,053
1/04/2020	110,574	4,782
2/04/2020	115,242	4,668
3/04/2020	119,827	4,585
4/04/2020	124,632	4,805
5/04/2020	128,948	4,316
6/04/2020	132,547	3,599

Australia

28/03/2020	3,640	655
29/03/2020	4,093	453
30/03/2020	4,359	266
31/03/2020	4,707	348
1/04/2020	4,976	269
2/04/2020	5,224	248
3/04/2020	5,330	106
4/04/2020	5,550	220
5/04/2020	5,687	137
6/04/2020	5,797	110

Spain

28/03/2020	73,235	7,516
29/03/2020	80,110	6,875
30/03/2020	87,956	7,846
31/03/2020	95,923	7,967
1/04/2020	104,118	8,195
2/04/2020	112,065	7,947
3/04/2020	119,199	7,134
4/04/2020	126,168	6,969
5/04/2020	131,646	5,478
6/04/2020	135,032	3,386

UK

28/03/2020	17,312	2,567
29/03/2020	19,780	2,468
30/03/2020	22,453	2,673
31/03/2020	25,481	3,028
1/04/2020	29,865	4,384
2/04/2020	34,173	4,308
3/04/2020	38,690	4,517
4/04/2020	42,479	3,789
5/04/2020	48,440	5,961
6/04/2020	52,274	3,834

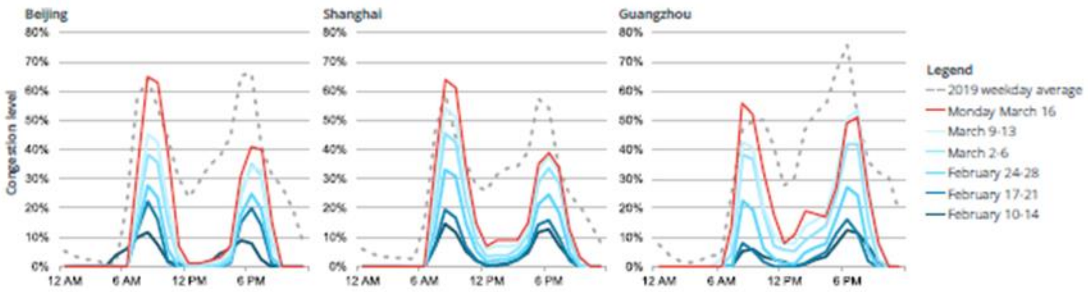
Source: Antares, Bloomberg, 7 April 2020

In the interim period, the downside scenario of an ever-increasing infection rate that overwhelms global health systems for a protracted duration has at least been taken off the table, for now. Governments and central banks around the world have all implemented significant stimulus measures that make the GFC effort look meek.

As the first country to be impacted by the crisis, China may offer some insight into what "recovery" may look like. At this stage all our feedback suggests that China is ~80% back to work. This view is backed up by some of the data starting to come through, an example of which follows.

Chart 10: Congestion in major Chinese cities

Chinese major city congestion levels



Source: Transurban, Trading Update and Revised Distribution Guidance 01/04/20

The most recent financing data also demonstrate an acceleration of funding being available in China that should mitigate some of the downside economic risk.

Chart 11: Chinese Monetary Statistics.

	Mar-20	Feb-20	Jan-20	Dec-19	Nov-19	2019
Total Social Financing (TSF)						
Newly Increased TSF (Rmb bn)	**5,163**	**855**	**5,062**	**2,103**	**1,994**	**25,575**
Broad Credit# Growth (YoY, %)	**11.7**	**10.9**	**11.0**	**11.0**	**11.1**	**11.0**
RMB Loan						
Total Loan (YoY, %)	12.7	12.1	12.1	12.3	12.4	12.3
New Loan (Rmb bn)	2,850	906	3,340	1,140	1,390	16,817
Total Loan to Real Economy* (YoY%)	12.4	11.8	11.9	12.3	12.3	12.3
New Loan to Real Economy* (Rmb bn)	3,037	720	3,492	1,077	1,363	16,883
RMB Deposit						
Total Deposit (YoY, %)	9.3	8.1	8.3	8.7	8.4	8.7
New Deposits (Rmb bn)	4,160	1,020	2,880	600	1,310	15,359
Money Supply						
M2 (YoY, %)	10.1	8.8	8.4	8.7	8.2	8.7
M1 (YoY, %)	5.0	4.8	0.0	4.4	3.5	4.4

Source: Morgan Stanley, Credit Jumps on Policy Support; 12 April 2020

In summary, our view is that the tail risk of a global pandemic that the world is unable to control has at least been mitigated. Hence the recent rise in markets is somewhat justified given the magnitude and velocity of their initial falls.

The risks to the outlook are however numerous:

- A second wave of infections;
- The virus begins to mutate;
- Second order financial risks as a result of a prolonged shutdown;
- Governments and central banks miscalculate the required level of stimulus (in either direction); and
- Lasting changes to consumers behaviour

Given the numerous uncertainties that may have a large impact we remain ever vigilant and alert to news flow and its potential influence on the portfolio.

Strategy

The onset of the Corona Virus has caused us to re think our base case strategy. Previously our view was that the global economy would accelerate into the back end of 2020 as Global PMI's turned around, the trade war had subsided and the peak of the Brexit uncertainty had passed.

During the quarter we identified areas that we believed were of high-risk including companies with weak balance sheets, poor liquidity, dependence on stock turn and re-financing risk. And companies where a critical supply chain could be disrupted. We introduced new stocks that had fallen materially below our valuations or were not directly adversely impacted by the virus (eg consumer staples) and reduced others that we feel will have a more challenged operating environment given the economic slowdown or that could display some of our concerns about balance sheet strength and liquidity. We also increased portfolio diversity by adding a range of stocks in different sectors with different attributes given we are investing in a period of uncertainty. In the subsequent period we have continued to adjust our portfolios in light of what has happened with the coronavirus spread and how governments and markets have reacted.

Our focus is now on:

- balance sheet strength;
- operational and financial leverage;
- those companies that can emerge from the crisis in a better relative position; and
- those that have demonstrated robust operating performance that may command a higher multiple once the crisis has passed.

More recently we have participated in some of the recapitalisations that are now occurring on a regular basis at discounted prices.

Table 2: High Growth Shares Fund - composition by GICS sector

HGSF at 31 March 2020	Portfolio %	Index %	Over/underweight %
Energy	5.6	3.7	1.9
Metals & Mining	22.5	15.2	7.3
Materials ex Metals & Mining	3.7	3.1	0.6
Industrials	6.8	8.0	-1.2
Consumer discretionary	5.1	6.1	-1.1
Consumer staples	7.6	7.2	0.4
Health care	17.5	13.9	3.6
Financials ex REITs	21.0	28.0	-7.0
Information technology	2.7	2.5	0.2
Communication services	10.0	3.9	6.1
Utilities	2.3	2.2	0.1
Real Estate	0.1	6.3	-6.2
SPI Futures	-5.1	0	-5.1
Cash	0.5	0	0.5
Total	**100.0**	**100.0**	**0**.0

Source: Bloomberg, Antares; March 2020

The basic fundamental characteristics of the portfolio are presented below. The fund remains below market in terms of PE, slightly below the market yield at around 4.5% but with higher ROE. Earnings growth is lower than the market.

Table 3: High Growth Shares Fund vs S&P/ASX200

Characteristics (Next 12 months)	Portfolio	S&P / ASX 200
Price to Earnings (x)	17.4	22.8
EPS Growth (%)	-7.7	-3.2
Dividend Yield (%)	4.5	5.0
Return on Equity (%)	16.5	15.5

Source: Factset, Antares, March 2020

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