Quarterly Investment Update

Antares High Growth Shares Fund – March 2021

For adviser use only

Highlights for the quarter

Performance: The Fund returned 7.2% (net of fee) for the March quarter, outperforming its benchmark by 2.9%.

Contributors to performance: Positive contributors – Westpac, Virgin Money UK, ANZ; Negative contributors – Northern Star, Polynovo, NAB (not owned).

Stock activity: Buys/additions – Amcor, Flight Centre, Goodman Group, Megaport, Novonix, Paladin, QBE ; Sells/reductions – Alumina, Lend Lease, Nuix, Scentre Group, Service Stream, Vocus

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 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] %	7.2	50.3	9.1	11.0	9.2	8.5	10.7
Gross return[3] %	8.0	52.6	10.4	12.2	10.4	9.7	12.2
Benchmark return %	4.3	37.5	9.7	10.2	7.7	8.0	8.2
Net excess return %	**2.9**	**12.8**	**-0.6**	**0.8**	**1.5**	**0.5**	**2.5**
Gross excess return %	3.7	15.1	0.7	2.0	2.7	1.7	4.0

[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

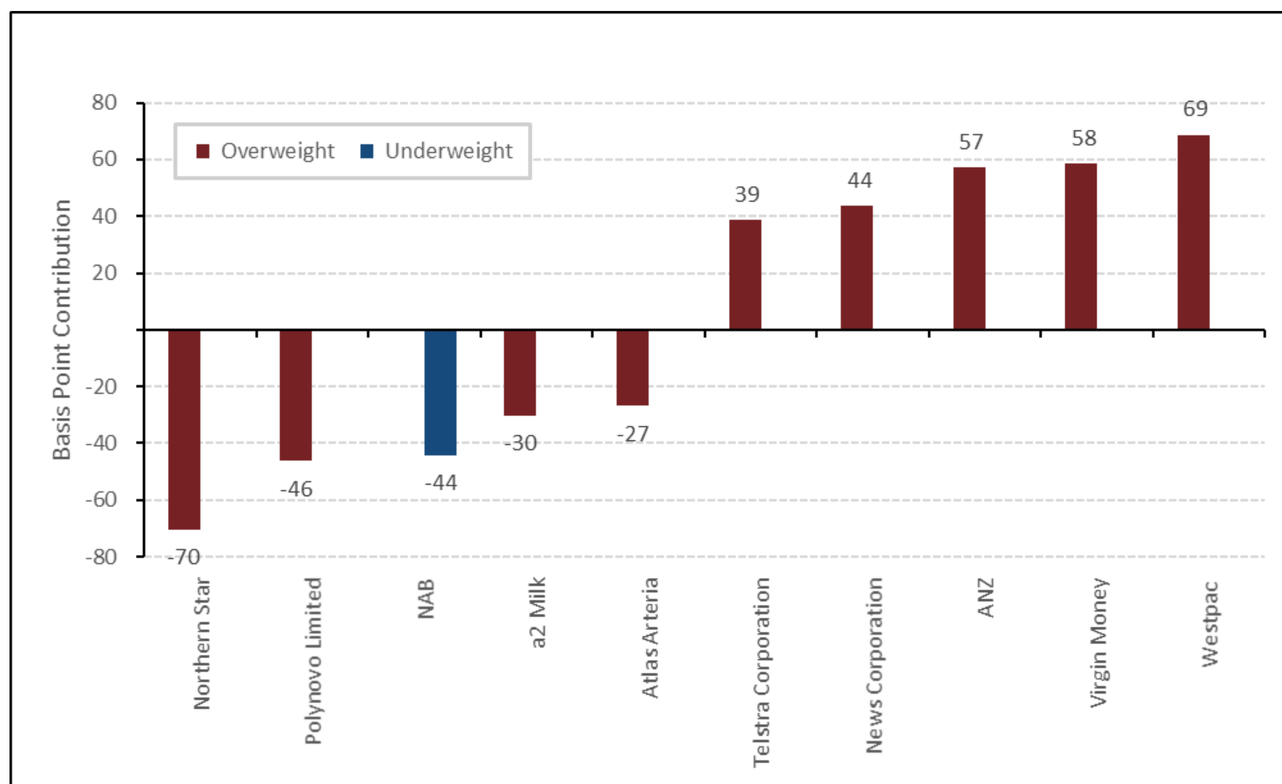
Pleasingly the Fund enjoyed a strong quarter returning 7.2% (net of fees) vs the benchmark return of 4.3%. The Fund's strong annual return of 50.3% (net of fees) was 12.8% ahead of the benchmark's return of 37.5%.

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 Telstra, whose shares 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 Polynovo (PNV) also detracted value. A trading update from PNV during the quarter underwhelmed the market. Despite delivering a 70% increase in 1Q US sales, 2Q sales growth disappointed. The company also pointed to an uncertain US outlook given hospital capacity was limited due to the number of coronavirus cases.

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

A summary of stock activity over the quarter is presented in Table 1. (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	AMC, FLT, GMG, MP1 NVX, PDN, QBE	AWC, LLC, NXL, SCG SSM, VOC
Short	NCM	ALU, APA, APX FMG, HVN, SOL, XRO

Vocus (VOC)

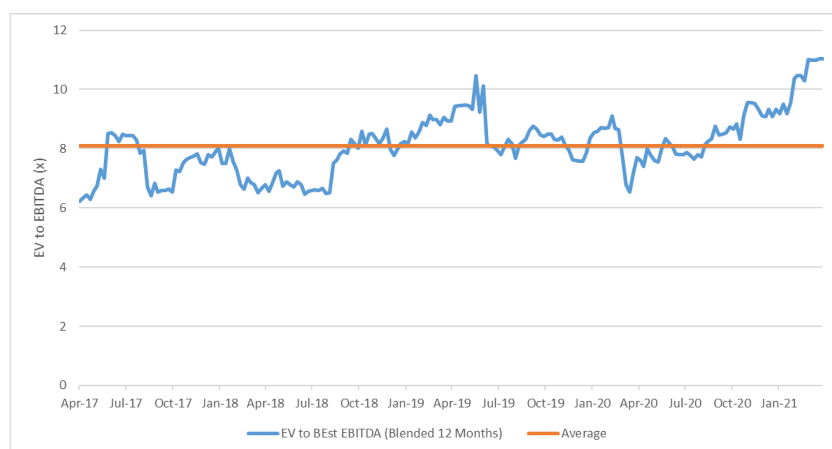
On 8 February, VOC announced it had received a confidential non-binding, indicative proposal from Macquarie Infrastructure and Real Assets Holdings Pty Limited and its managed funds (together "MIRA") to acquire 100% of the shares of Vocus via a scheme of arrangement at a price of $5.50 per share subject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



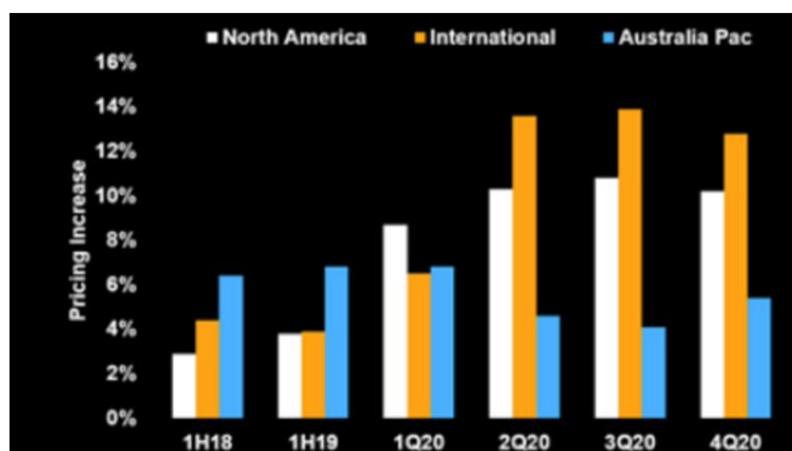
Source: Bloomberg; March 2021

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



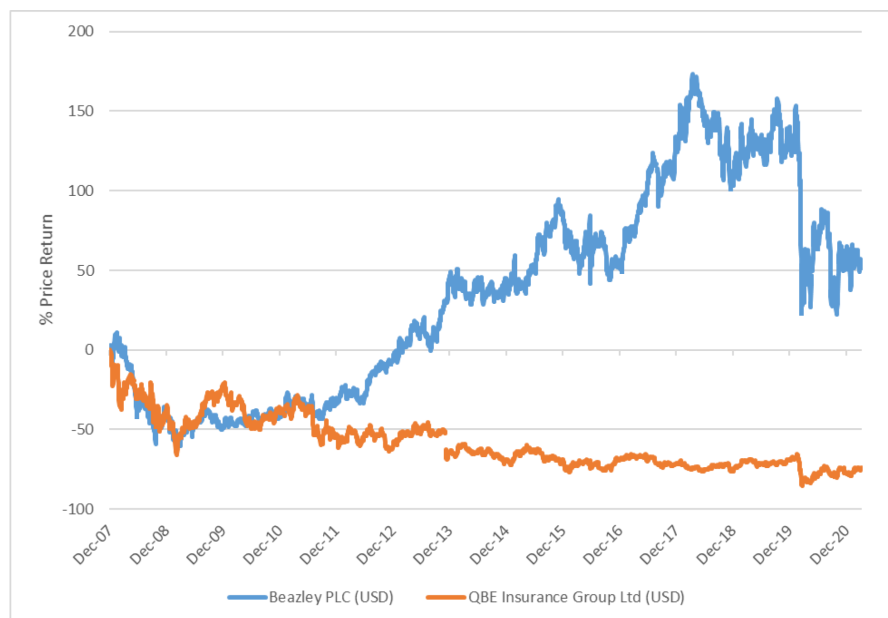
Source: Bloomberg; April 2021

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

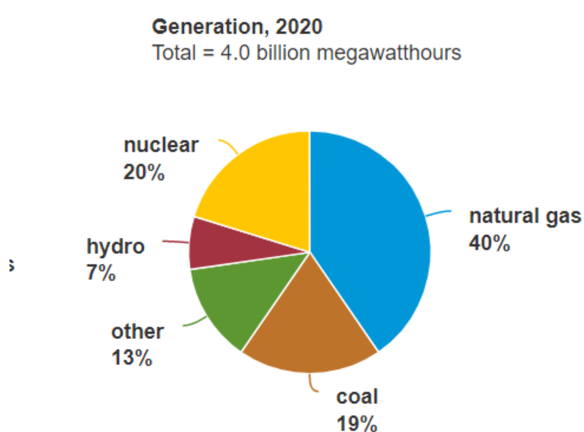
GMG on the other hand has recently underperformed the market as the market has switched to value, providing the opportunity for us to purchase the stock at a relatively attractive price. GMG still enjoys the benefits of its global logistics platform that is benefitting from the structural tailwinds of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

Paladin (PDN)

During the quarter we added PDN to the portfolio. The investment centres on our view of uranium. In a world increasingly focused on decarbonising we feel there is a strong role for uranium in order to reliably and realistically meet the objectives being set. This likely increase in demand for uranium comes after a decade of chronic industry underinvestment and low inventory levels. Below we summarise some of the key insights that have led us to this decision.

The USA imports 95% of the uranium it needs to operate 95 reactors (~ 25% of the world's civilian nuclear reactors) that provide 20% of American baseload electricity demand (available at any time). Uranium produced electricity accounts for more than half of all carbon free power generation in the USA and, unlike solar and wind, is the cornerstone of baseload supply, available at any time and across different geographies.

Figure 7: US Electricity generation



Source: U.S. Energy Information Administration, *Electric Power Monthly*, February 2021, preliminary data

China has also increased its dependence on nuclear energy over recent years. Nuclear's share of Chinese electricity supply has increased from 2% to almost 6% over the last ten years and if the targets set out in China's latest five-year plan are delivered this will further increase. Currently there are 49 reactors in China with another 43 being planned.

Combined, the worlds reactor fleet requires approximately 180m pounds (lb) of uranium each year. This compares with global mine supply of only 122m lb (or 68% of demand). The difference to date has been met by inventory drawdowns and US and Russian government stocks, which we think are coming to an end. Furthermore, recent data from the US Energy Information

Administration shows that utility inventories are starting to decline and are approaching levels that could put security of supply at risk.

When prices are declining and low, as we have seen over the past number of years, there is no perceived urgency to contract, hence contracting activity and investment in new supply drops off. After years of low investment in supply, as has been the case since 2011, security of supply tends to overtake price concerns at some point, and utilities re-enter the long-term market to ensure they have the reliable supply of uranium they need to run their reactors.

UxC, an industry expert, reports that over the last five years only 390m pounds (approx) of uranium have been locked-up in the long-term market, while approximately 815m pounds have been consumed in reactors. We are confident that utilities have a growing gap to fill, that will ultimately lead to higher uranium prices.

Nuclear's role in the move to clean energy

There is growing recognition of the role nuclear power must play in providing safe, reliable, affordable carbon-free baseload electricity and achieving a low-carbon future. Examples of this growing recognition include:

- *Many countries, US states, and utilities announced net-zero carbon targets in 2020. While most of these targets are long-dated, many of the plans include an important role for nuclear. For example, a study suggests that for China to achieve its net-zero target by 2060, will require a 382% increase in nuclear power from 2025 levels.*
- *In the US, President Biden's campaign included positive statements about the need to maintain the existing nuclear power fleet and to build advanced reactors as part of an overall shift to non-emitting carbon power sources.*
- *Japan's Prime Minister, Yoshihide Suga, announced that the country aims to become carbon neutral by 2050. Regarding nuclear, he indicated Japan will continue to develop its nuclear energy supply with "maximum priority on safety". Japan's current energy plan calls for 20% to 22% nuclear by 2030.*
- *In France, President Macron stated in December that nuclear will remain a pillar of the French energy mix for decades to come and pressed for preparatory studies on new next-generation EPR reactors to be wrapped up in the coming months.*
- *The Netherlands announced they will begin a process that considers building up to 10 nuclear power plants.*

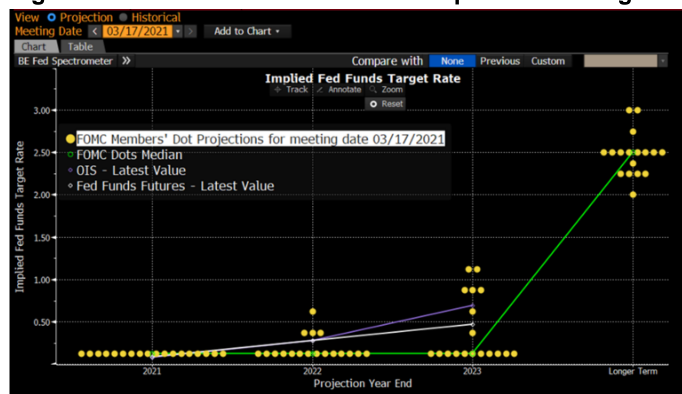
Source:Cameco; April 2021

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



Source: Bloomberg; April 2021

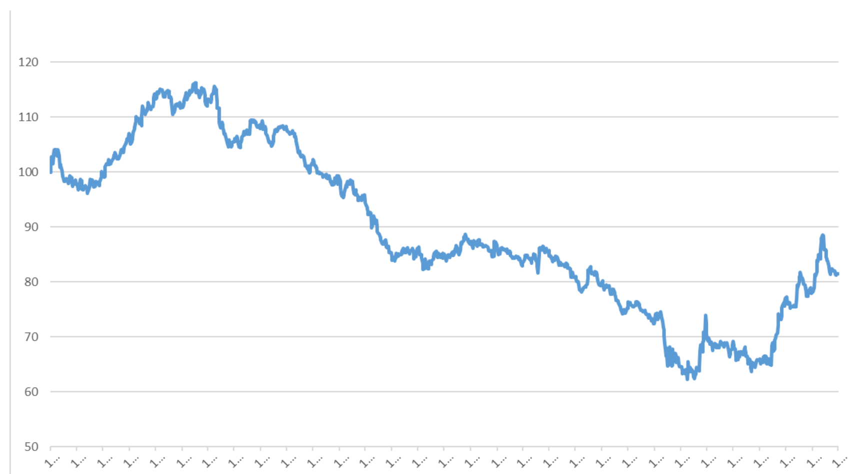
In the short term, the US profit result season should provide a positive backdrop for equity markets. Given recent stimulus initiatives we expect outlook comments should be supportive. President Biden's $2.4 trn "American Jobs Plan", should it be approved, will further stoke growth.

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 9. As a result, we have further increased the portfolio's diversification via our purchase of Goodman Group and sale of Scentre Group.

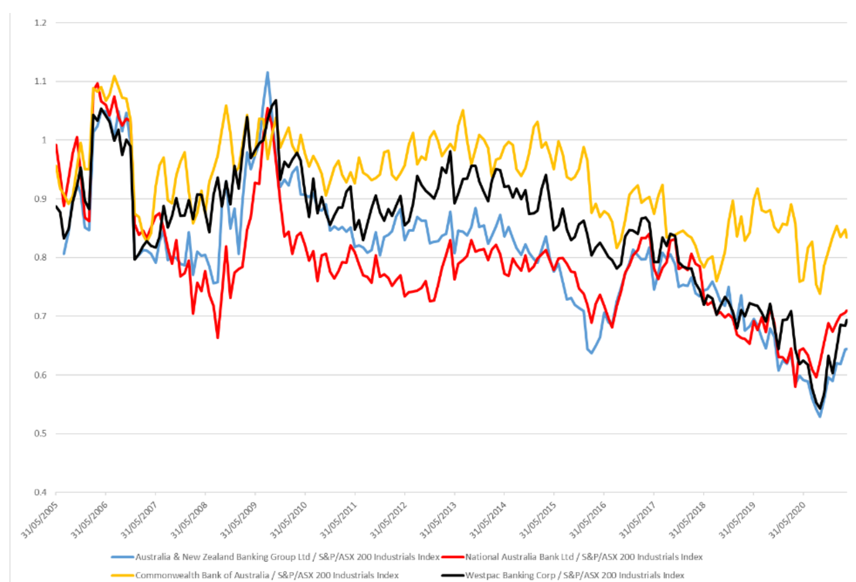
Figure 9: MSCI Australia Value vs Growth



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 10: 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 High Growth Shares Fund

High Growth Shares at 31 March 2021	Portfolio %	Index %	Over/underweight %
Energy	3.9	3.7	0.1
Materials	28.6	19.9	8.7
Industrials	10.5	6.8	3.7
Consumer discretionary	5.2	7.8	-2.6
Consumer staples	6.5	5.6	0.9
Health care	10.0	10.0	0.0
Financials ex REITs	28.1	30.0	-1.9
Information technology	3.7	4.0	-0.3
Communication services	10.0	4.1	5.9
Utilities	-1.6	1.3	-2.9
Real Estate	2.4	6.7	-4.3
SPI Futures	-6.8	0	-6.8
Cash	0.7	0	0.7
Total	**100.0**	**100.0**	**0.0**

Source: Antares Equities, Factset March 2021

LEGAL DISCLAIMER

Important information: Antares Capital Partners Ltd ABN 85 066 081 114, AFSL 234483 (‘ACP’), is the Responsible Entity of, and the issuer of units in, the Antares High Growth Shares Fund ARSN 090 554 082 (‘the Fund’).

An investor should consider the current Product Disclosure Statement (‘PDS’) when deciding whether to acquire, or continue to hold, an investment in the Funds, whether an investment in the Funds is an appropriate investment for the investor and also consider the risks associated with any investment.

This report has been prepared in good faith, where applicable, using information from sources believed to be reliable and accurate as at the time of preparation. However, no representation or warranty (express or implied) is given as to its accuracy, reliability or completeness (which may change without notice). This communication contains general information and may constitute general advice. This report does not take account of an investor’s particular objectives, financial situation or needs. Investors should therefore, before acting on information in this report, consider its appropriateness, having regard to the investor’s particular own objectives, financial situation or needs.

We recommend investors obtain financial advice specific to their situation. 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. Any projection or other forward looking statement (‘Projection’) in this report is provided for information purposes only. No representation is made as to the accuracy or reasonableness of any such Projection or that it will be met. Actual events may vary materially.

Any opinions expressed by ACP constitute ACP’s judgement at the time of writing and may change without notice. ACP is a subsidiary of the National Australia Bank Limited group of companies. An investment in the Fund is not a deposit with or liability of National Australia Bank Limited (‘NAB’) or any other member of the NAB group of companies (‘NAB Group’) and is subject to investment risk, including possible delays in repayment and loss of income and capital invested.

Neither ACP nor any other member of the NAB Group guarantees the repayment of your capital, payment of income or the performance of your investment. NAB does not provide a guarantee or assurance in respect of the obligations of ACP.

In some cases the information is provided to us by third parties, while it is believed that the information is accurate and reliable, the accuracy of that information is not guaranteed in any way. None of ACP, any other member or the NAB Group, or the employees or directors of the NAB Group are liable for any loss arising from any person relying on information provided by third parties. This information is directed to and prepared for Australian residents only. ACP disclaims all responsibility and liability for any loss, claim or damage which any person may have and/or suffer as a result of any persons reliance on any information, predictions, performance data and the like contained within this document, whether the loss or damage is caused by, or as a result of any fault or negligence of ACP, it’s officers, employees, agents and/or its related bodies corporate.

Bloomberg Finance L.P. and its affiliates (collectively, ‘Bloomberg’) do not approve or endorse any information included in this publication and disclaim all liability for any loss or damage of any kind arising out of the use of all or any part of any such information.

Get in contact

antarescapital.com.au

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