Professional Selection

Quarterly Review

Adjusting to the coronavirus effect

March 2020

Extreme volatility, uncertainty and negative returns across numerous asset classes and geographies have quickly torpedoed our relatively optimistic outlook for equity markets.

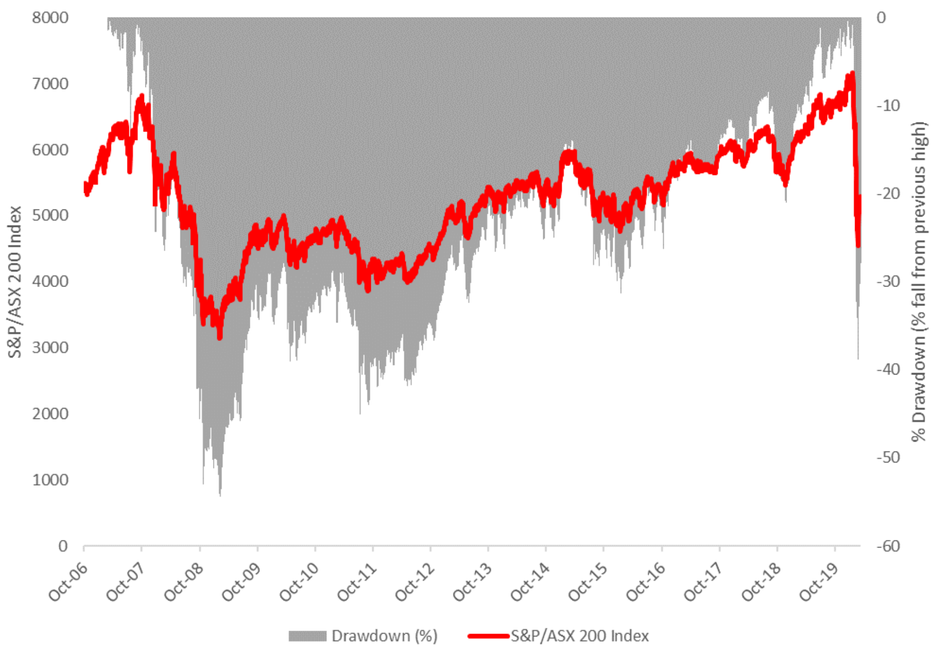
Catastrophic rises in unemployment have been accompanied by global falls in equity markets and bond markets in particular high yield bonds, industrial commodities, oil and the listed property sector. Unlisted markets have no doubt fallen but the asset values are less transparent.

Our previous 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. In the wake of the coronavirus pandemic, we have had to re-think our base case strategy.

March quarter performance, like that of the market, was disappointing. Stock performance was largely dictated by macro influences for which we were poorly positioned given our more optimistic expectations for the global economy (eg cyclical stocks and those with exposure to discretionary spending). Consumer staples and sectors with defensive earnings fared best.

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 global financial crisis (GFC) over a decade ago comes close to the magnitude of the fall, but unlike the current sell off, during the GFC the market took more than 12 months to fall by just over 50%.

Chart 1: S&P/ASX 200 Index and % Drawdown



Source: Antares, Bloomberg, 7 April 2020

Also, unlike the GFC, the coronavirus pandemic is not just a financial crisis – it is a health crisis which has already had far reaching impacts on economies and financial markets. There is no consensus on how it will play out and what, if any, will be the longer-term consequences.

Using our experience from the GFC, we have acted decisively on news of the coronavirus outbreak and have moved away from companies we believe will be impacted more severely by the coronavirus pandemic and its effects.

These have included companies with operational leverage to a slowing economic environment and companies that are financially leveraged that may experience a liquidity squeeze.

We have generally added to portfolio diversity with stocks in different sectors with different attributes as we are investing in a period of uncertainty. We have also tactically introduced some companies, that in a relative sense, may benefit from the crisis.

In some strategies this includes a slight tilt towards Chinese end-demand – be it consumer goods or raw materials. China was the first country to experience the virus impact, and so we expect its economy to normalise faster and we also expect it to commit substantial stimulus to its economy.

To summarise, our focus is 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.

We have also participated in some of the recapitalisations that are now occurring on a regular basis at discounted prices.

Particularly in our dividend builder strategy we have changed some stock positions where we thought companies may

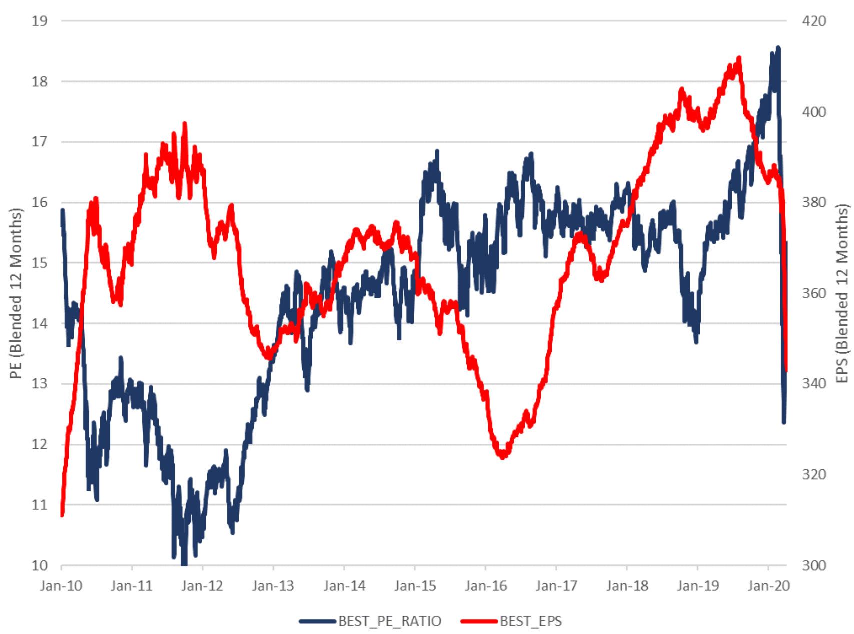
- reduce the dividend permanently; and / or
- have a balance sheet that was no longer appropriate for the environment, meaning that it was unlikely when the economy reopens that their dividends would reach previous expectations.

Having experienced market shocks before, we have learned that the second leg, the recovery, is just as important as the fall. This means that we maintain our focus on the numbers - pandemic, economic and corporate - and look for a turning point to invest in those companies that have been harshly sold-off.

And while Australian equities valuations look more reasonable can we be confident about the accuracy of the current earnings estimates?

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



Source: Antares, Bloomberg, 7 April 2020

This is why, as active managers, we meet twice daily, via teleconference, and continue to discuss, contest and refine our views on stocks and markets as an integral part of our portfolio management.

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

What had begun as a buoyant start to 2020 turned into a global market rout as China's coronavirus outbreak became a global pandemic. The S&P/ASX 200 ended the quarter down by 23.1%, having been up by 7% at the market peak on 20 February. This was a similar decline to the UK and marginally below the US where the S&P 500 fell by 19.7%. The speed and scale of the declines has been remarkable.

As countries moved into lockdowns there were bans on travel and gatherings. The airline, travel, leisure and entertainment sectors ground to a near halt. Many shops were closed aside from essential services such as supermarkets. Compounding the drop in demand as the airline and transport industries slowed down was the threat of an oil supply / price war between Russia and Saudi Arabia. Not surprisingly the Energy sector was the poorest performer on the ASX, followed by the AREIT sector which was led down by stocks with exposure to discretionary retailers. The healthcare sector recorded the only positive performance for the quarter. Consumer Staples fared relatively well as shoppers rushed supermarkets to hoard essential supplies. Increased mobile and internet usage as the population moved into lockdown and began working from home has seen relative support for telecommunications suppliers.

Governments have announced huge stimulus programs with central banks cutting interest rates and committing to quantitative easing. Many companies have withdrawn earnings guidance and some have postponed or cancelled dividends.

Australian Equities Fund

The Antares Australian Equities Fund returned -30.4% (net of fees) for the March 2020 quarter, underperforming its benchmark S&P/ASX200 Total Return Index return of -23.1% by 7.3%[1]. Detracting from performance were an underweight position in CSL and overweight holdings in Santos and Star Entertainment. The main contributors to quarterly performance were overweight positions in Northern Star, Telstra and Graincorp.

Dividend Builder

The annual income yield to 30 June 2019 for Antares Dividend Builder Fund was 6.21% compared to its benchmark yield of 4.45%. With many companies announcing changes to their dividend payments in the wake of the coronavirus pandemic we emphasise the importance of not using past performance as a guide to future performance. However, we do reiterate that it is our objective to deliver income in excess of our benchmark. The Fund's net return for the March quarter was -25.6% [1]. Detracting from relative performance was the decision not to own CSL and overweight holdings in Scentre Group and Star Entertainment. The main contributors to relative performance were overweight positions in Metcash and Treasury Wine Estates as well as the Fund's cash position.

Elite Opportunities Fund

The Antares Elite Opportunities Fund returned -27.5% (net of fees) for the March 2020 quarter, underperforming its benchmark S&P/ASX200 Total Return Index return of -23.1% by 4.4%[1]. Detracting from relative performance were overweight holdings in Santos and Star Entertainment and an underweight position in CSL. Contributing to performance were overweight positions in Metcash and Telstra as well as the Fund's cash position.

High Growth Shares Fund

The Antares High Growth Shares Fund returned -27.7% (net of fees) for the March 2020 quarter, underperforming its benchmark S&P/ASX200 Total Return Index return of -23.1% by 4.6%[1]. Detracting from relative performance were overweight positions in Santos, Star Entertainment and Worley. Overweight holdings in CSL and Metcash as well as the Fund's cash position contributed to performance.

Ex-20 Equities Fund

The Antares Ex-20 Equities Fund returned -27.0% (net of fees) for the March 2020 quarter, outperforming its benchmark S&P/ASX200 Total Return Index ex S&P/ASX 20 Total Return Index return by 0.3%[1]. An overweight holding in Metcash and the decision not to own Oil Search contributed to relative performance, while an overweight position in Star Entertainment and the decision not to own Coles detracted from performance.

Listed Property Fund

The Antares Listed Property Fund returned -35.0% (net of fees) for the March 2020 quarter, underperforming its benchmark S&P/ASX200 A-REIT Total Return Index return of -34.4% by 0.6%[1]. An overweight holding in Scentre Group, an underweight to Goodman Group and no holding in Shopping Centres Australasia detracted from relative performance. Contributing to performance was an underweight to Vicinity Centres, an overweight position in Viva Energy REIT and the Fund's cash position.

#All returns are net of fees. Please refer to page 1 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.

Antares Investments Returns

Performance to 31 March 2020[1]

Professional Selection		3 mths %	1 yr %	3 yrs % pa	5 yrs % pa	7 yrs % pa	10 yrs % pa	Since Inception % pa
Antares Australian Equities Fund	**Net Return**	**-30.4**	**-24.2**	**-6.0**	**-1.8**	**2.1**	**3.3**	**7.7**
S&P/ASX 200 Acc Index	Gross Return	-30.3	-23.7	-5.3	-1.0	2.9	4.2	8.7
	Benchmark Return	-23.1	-14.4	-0.6	1.4	4.8	4.9	8.2
	Net Excess Return	**-7.3**	**-9.8**	**-5.4**	**-3.2**	**-2.7**	**-1.6**	**-0.5**
	Gross Excess Return	-7.2	-9.3	-4.7	-2.4	-1.9	-0.7	0.5
Antares Dividend Builder	**Net Return**	**-25.6**	**-20.6**	**-7.8**	**-3.4**	**2.2**	**5.2**	**4.9**
S&P/ASX 200 Industrials Acc Index	Gross Return	-25.4	-20.1	-7.3	-2.8	2.8	5.8	5.5
	Benchmark Return	-21.9	-12.0	-1.7	0.8	5.5	6.9	6.0
	Net Excess Return	**-3.7**	**-8.6**	**-6.1**	**-4.2**	**-3.3**	**-1.7**	**-1.1**
	Gross Excess Return	-3.5	-8.1	-5.6	-3.6	-2.7	-1.1	-0.5
Antares Elite Opportunities Fund	**Net Return**	**-27.5**	**-20.9**	**-4.1**	**-0.1**	**3.5**	**4.0**	**8.5**
S&P/ASX 200 Acc Index	Gross Return	-27.4	-20.3	-3.5	0.6	4.2	4.7	9.3
	Benchmark Return	-23.1	-14.4	-0.6	1.4	4.8	4.9	7.7
	Net Excess Return	**-4.4**	**-6.5**	**-3.5**	**-1.5**	**-1.3**	**-0.9**	**0.8**
	Gross Excess Return	-4.3	-5.9	-2.9	-0.8	-0.6	-0.2	1.6
Antares Ex-20 Fund	**Net Return**	-27.0	-	-	-	-	-	-26.1
S&P/ASX 200 Acc ex S&P/ASX 20 Acc Index	Gross Return	-26.8	-	-	-	-	-	-25.5
	Benchmark Return	-27.3	-	-	-	-	-	-26.7
	Net Excess Return	**0.3**	**-**	**-**	**-**	**-**	**-**	**0.6**
	Gross Excess Return	0.5	-	-	-	-	-	1.2
Antares High Growth Shares Fund	**Net Return**	**-27.7**	**-20.3**	**-2.3**	**0.7**	**4.4**	**4.7**	**9.0**
S&P/ASX 200 Acc Index	Gross Return	-27.5	-19.4	-1.3	1.7	5.5	5.8	10.5
	Benchmark Return	-23.1	-14.4	-0.6	1.4	4.8	4.9	6.9
	Net Excess Return	**-4.6**	**-5.9**	**-1.7**	**-0.7**	**-0.4**	**-0.2**	**2.1**
	Gross Excess Return	-4.4	-5.0	-0.7	0.3	0.7	0.9	3.6
Antares Listed Property Fund	**Net Return**	**-35.0**	**-31.8**	**-7.6**	**-1.8**	**3.4**	**5.9**	**6.3**
S&P/ASX 200 A-REIT Acc Index	Gross Return	-34.9	-31.3	-7.0	-1.1	4.1	6.7	7.1
	Benchmark Return	-34.4	-31.7	-5.1	0.2	5.2	7.1	6.2
	Net Excess Return	**-0.6**	**-0.1**	**-2.5**	**-2.0**	**-1.8**	**-1.2**	**0.1**
	Gross Excess Return	-0.5	0.4	-1.9	-1.3	-1.1	-0.4	0.9

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.

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.[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)

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