Quarterly Review

2019-20: dominated by the coronavirus

June 2020

The 2019-20 financial year - dominated by the COVID-19 pandemic

After initially appearing as a health issue limited to a province in China, the virus responsible for causing the COVID-19 disease began to spread rapidly across international borders in February, eventually prompting the World Health Organisation (WHO) to declare a pandemic on March 11. The global surge in infections and fatalities forced governments to impose limitations on personal mobility and business operations to protect public health. The economic consequences of these necessary actions were both dramatic and dire. Comparisons are being made with the distress experienced during the Global Financial Crisis (GFC) from 2007-09 and the Great Depression of the 1930s.

The economic crisis caused share markets to collapse in the March quarter and created severe liquidity issues within fixed income markets. To limit the economic contraction and sustain the functioning of financial markets, central banks and governments implemented supportive policy measures on a massive scale. Share markets subsequently rallied from their lows in March, based in part on the belief (perhaps mistakenly) that the virus was manageable and that economic distress would be short lived. The financial year concluded with no vaccine in sight and rising infection rates in various parts of the world, especially in Brazil, India and the US.

Table 1: Asset class returns in Australian dollars – periods to 30 June 2020

Asset Class	Returns			
	1 yr	3 yrs (pa)	5 yrs (pa)	10 yrs (pa)
Cash	0.8%	1.5%	1.7%	2.7%
Australian bonds	4.2%	5.6%	4.8%	5.6%
Global bonds (hedged)	5.2%	4.7%	4.8%	6.0%
Australian property securities	-20.7%	2.3%	4.7%	9.4%
Australian shares	-7.7%	5.2%	6.0%	7.8%
Global shares (hedged)	0.8%	5.8%	6.9%	11.1%
Global shares (unhedged)	4.1%	10.0%	8.8%	11.4%
Emerging markets shares (unhedged)	-1.5%	5.6%	5.1%	5.4%

Source for Benchmark data: Bloomberg AusBond Bank Bill Index (cash), Bloomberg AusBond Composite 0+ Yr Index (Aust bonds), Bloomberg Barclays Global Aggregate Index Hedged to $A (global bonds), S&P/ASX200 A-REIT Total Return Index (Australian property securities), FTSE EPRA/NAREIT Developed Index (gross) hedged to $A (global property securities), S&P/ASX200 Total Return Index (Aust shares), MSCI All Country World Indices hedged and unhedged (net) in $A (global shares), and MSCI Emerging Markets (gross, unhedged) ; June 2020

The economic deterioration caused by COVID-19 was both extraordinary and sudden

The economic environment at the start of the 2020 calendar year was vastly better than conditions in June 2020. Global growth had moderated, with Australia, parts of Asia and Europe recording sluggish growth in early 2020. However, the US economy continued to perform well. Interest rate policy settings were generally supportive, underpinning the performance strength of share markets.

Some key issues remained contentious and some were resolved. In the UK, after an extended period of political instability, Boris Johnson replaced Theresa May as Prime Minister. The Conservative Party's election success with an increased parliamentary majority allowed the passing of the EU (Withdrawal Agreement) Bill early in 2020, setting out the terms of the UK's departure from the European Union. After a trade war lasting nearly two years, China and America appeared to reach a truce with the signing of a "phase-one" trade deal in January 2020. Under the agreement, the US reduced existing tariffs and deferred proposed new tariffs in return for China agreeing to buy an additional US$200 billion of US imports over the next two years. However, doubts remained as to its actual implementation and longevity, especially as the US decides to take a hard line against China's imposition of a national security law on Hong Kong.

The spread of COVID-19 infections beyond China to other countries such as Korea, Iran and Italy, and the rise in fatalities began to gain the attention of financial markets in February. The World Health Organisation (WHO) increased their risk assessment to “very high at the global level” late in February, which was subsequently upgraded to global pandemic status on March 11. By then, COVID-19 infections were accelerating throughout the world.

China’s dire economic performance statistics early in 2020 resulting from the regime’s implementation of strict community restriction measures to contain the virus spread was a sign of things to come for other economies. China’s economy contracted by 6.8% year-on-year in the March quarter, its first quarterly contraction since 1992. Chinese factory activity plunged In February to levels below those experienced in the GFC. Industrial production fell 13.5% in January and February and retail sales declined by 20%.

In the US, the number of people unemployed increased by 15.9 million people to 23.1 million in April, with the unemployment rate surging from a near fifty years low of just 3.6% in February to a high of 14.7% in April. This was the highest unemployment rate recorded and the largest monthly increase since data collection began in April 1948. The unemployment rate could have been much worse. Congressional support for a Paycheck Protection Plan which provides US$660 billion in loans to small and medium businesses to support retaining employees helped mitigate the damage to employment. However, the job layoffs and business shutdowns contributed to the painful slump in US retail sales which fell by a record 14.7% in April after an 8.2% fall in March.

European economies also recorded dramatic falls in economic activity. The most severely impacted countries – Italy, Spain and France – experienced a surge in infections and fatalities, placing immense strain on their hospital system. This prompted many European governments to impose lockdowns and restrictions on personal mobility, resulting in widespread factory shutdowns. French and German car manufacturers announced production closures across Europe. European business activity surveys plunged to levels below the GFC in 2008. Similarly, UK business surveys fell to a twenty-year low. News that the British Prime Minister Boris Johnson had contracted the virus only added further to financial market concerns.

The serious impact of COVID-19 on Australia’s economy closely followed economic challenges caused by the devastating bushfires and the drought. Some industries such as travel, hospitality, education services and entertainment were immediately impacted by social distancing restrictions and other measures such as border closures implemented by the Federal and State governments. In the two months to the end of May, job losses totalled 838,000. Australia’s March quarter Gross Domestic Product (GDP) fell 0.3% and the Reserve Bank of Australia warned that unemployment could reach 10% in the June quarter.

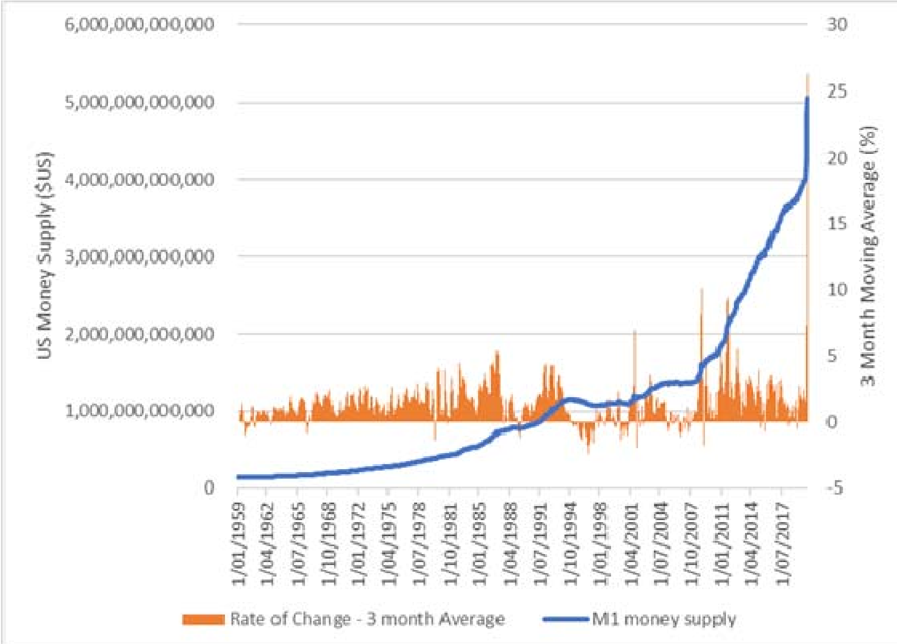
Desperate times required desperate measures – central banks and governments ride to the rescue

Central banks and governments around the world are committed to implementing assertive policy measures to limit the economic and financial disruption caused by COVID-19. These important measures inject much needed stability into share and fixed income markets. The global scope of the stimulus measures is both extraordinary in nature and substantial in magnitude.

The US Congress passed the largest fiscal stimulus package in its history, with measures introduced in March and April. The US$2.8 trillion package was targeted to support households and businesses through a comprehensive range of initiatives including business loan guarantees, consumer cash payments, expanded unemployment insurance eligibility and payments, aid to affected industries (e.g. airlines) and increased hospital and local government spending. Total fiscal support initiatives so far amount to the equivalent of 14% of US nominal GDP.

Monetary policy measures announced by the US Federal Reserve (the Fed) were similarly large in scale. In March, the Fed cut the cash rate by 1.5% to a range of 0% to 0.25%, commenting that it was “prepared to use its full range of tools to support the flow of credit to households and businesses”. The Fed also signalled a massive expansion of its balance sheet via multiple asset purchase and lending programs, including standing in the market to buy US government bonds, mortgage backed securities, commercial paper, corporate bonds and municipal bonds. Capital reserve requirements for banks were reduced to encourage them to continue lending to households and businesses.

Chart 1: US money supply - M1



Source: Bloomberg, Antares July 2020

The European Central Bank (ECB) announced its own program labelled the Pandemic Emergency Purchase program to support markets and the eurozone economy. In March the ECB committed to purchase up to 750 billion euros in government and private sector bonds and vowed to keep interest rates low to support businesses and consumers. In June, the ECB added an extra 600 billion euros to its support program and extended the duration of its purchase program until at least June 2021. To augment the ECB support, individual eurozone governments launched their own fiscal stimulus measures. Germany's measures, which include cash grants to families, a reduction in the VAT to encourage consumer spending and direct grants to support specific industries, so far amount to 29% of nominal GDP. France implemented a 45 billion euro package of measures to assist French businesses and workers.

In Asia, China's central bank cut interest rates and provided guidance to the major banks to lend to small and medium enterprises. The Bank of Japan committed to buy corporate bonds, exchange trade funds (ETFs) and real estate investment trusts (REITs).

The Reserve Bank of Australia (RBA) and federal and state governments also announced extraordinary stimulus measures and assistance packages to support businesses and households. The RBA cut the cash interest rate twice in March to a historic low of 0.25% and committed to an expansion of its balance sheet through the purchase of Australian Federal and state government bonds. The RBA also provided a A$90 billion term funding facility at a fixed rate of 0.25% to the banking system for lending to businesses, especially small and medium sized companies. In support of this initiative by the RBA, the Australian Prudential Regulatory Authority announced a temporary relaxation of bank capital ratio requirements to help support credit availability to the economy. The Federal government also announced a range of fiscal support packages totalling A$213 billion (or circa 10% of nominal GDP). These measures included wage subsidies to encourage businesses to retain staff, extra payments to existing welfare recipients as well as direct financial grants and loan guarantees for small businesses. State governments launched their own initiatives to support households and businesses.

Our share market also recovered some of the lost ground

Australian shares returned -7.7% in the year to 30 June after rising 11.5% in the previous financial year. Market conditions were volatile through the first half of the financial year due to a lacklustre profit reporting period in August/September plus continuing concerns about the US-China trade dispute. After a good start to the new calendar year with a new all-time high recorded in February, the onset of COVID-19 and a dramatic drop in economic activity caused by the measures implemented to contain its spread resulted in our market falling -20.7% in March.

The speed and magnitude of the economic decline that occurred was alarming and distressing. Some industries (travel, gaming, hospitality) effectively shut down overnight, while companies operating in sectors normally considered to have defensive characteristics experienced a sudden fall in demand for their products. Because of the economic decline and precarious outlook, a significant number of companies withdrew their earnings guidance for fear of misleading investors. Many companies chose to preserve capital by cutting dividends, deferring them or cancelling them altogether while some initiated capital raisings to underpin their balance sheet and position for the eventual recovery.

Industry sector returns varied with some managing to record gains for the year. The best performer was Healthcare (27.4%) due to the perceived earnings resilience of companies like CSL in the sector, followed by Information Technology (+19.4%). Consumer Staples (+12.7%) also did well as supermarket operators Woolworths, Coles Group and Metcash experienced strong sales growth in the second half of the year when households stock-piled food and other essentials. Some stocks within Consumer Discretionary (+2.8%) also benefitted from consumer behaviour trends in response to the COVID-19 outbreak. Wesfarmers, JB Hi-Fi and Harvey Norman experienced significant demand growth as people spending more time from home undertook maintenance and put in place work-from-home office infrastructure. However, the experience elsewhere in the retail sector was less favourable as households observed restricted community movement measures and curtailed spending on non-essentials.

Resource based sectors experienced mixed fortunes. Energy was our market's worst sector performer, falling -28.7%. The price for Brent crude fell 38.2% over the year due to both adverse supply and demand influences. The closure of businesses worldwide, severely curtailed air travel and fewer cars on roads as people self-isolated, lead to a collapse in demand for crude oil and petroleum products worldwide. Supply side issues including the surge in US shale oil production and bloated inventories were exacerbated by the initial failure of OPEC and Russia to agree on cuts to production.

The Financials ex-AREIT index returned -21.4%, underperforming the market's return by a significant margin. This was a very challenging year for the major banks (and AMP) following the conclusion of the Banking, Superannuation and Financial Services Royal Commission early in 2019. The weaker Australian economy, substantial remediation and compliance costs and the downturn in the housing sector led to fears of lower earnings and dividend cuts. These concerns were realised in the second half of the financial year as the economic decline caused by COVID-19 resulted in substantially lower bank profitability, forcing ANZ and Westpac to defer a decision on the payment of an interim dividend and National Australia Bank to cut its interim dividend by 64% compared to the previous year's.

However, despite the seriousness of the economic decline caused by COVID-19, the market gained 16.5% in the June quarter, offsetting some of the March quarter loss. The market's recovery was due in part to the successful containment of the virus in most Australian states and the progressive easing of restrictions which enabled some parts of the economy to reopen. The substantial stimulus measures provided by the Federal and state governments plus the measures initiated by the RBA led to expectations that the economic decline may not be as deep or long-lasting as originally feared. However, the recovery was not sufficient to push the market's financial year return into positive territory.

Signs of recovery emerged late in the year – false hope?

Encouraging signs of a resumption of economic activity emerged late in the financial year as many economies began to ease social mobility and distancing measures, allowing some industries and businesses to reopen. A marked improvement in surveys of global manufacturing activity suggest the deep economic downturn may be ending. The June Purchasing Managers Indexes which survey business conditions, employment, prices and new orders were markedly higher for the US and Europe. Promising economic signals in the US included the 18% surge in retail sales in May after falling by 15% in April. US labour market conditions improved with the unemployment rate falling to 11.1% in June after reaching a high of 14.7% in April. In China, industrial production recorded a 4.4% annual rise in May. While Chinese retail sales remain in negative territory with a -2.8% annual decline in May, it is vastly better than the -20% declines recorded in January and February.

Early signs of a turnaround have also occurred in Australia as success in containing the virus and the relaxation of social restrictions have enabled some sectors of the economy to restart. Retail turnover increased by 16.3% in May, the largest monthly rise in the thirty-eight years' history of the Retail Trade survey, which follows the largest ever fall of 17.7% in April. Surveys of consumer sentiment and business confidence also rebounded. The RBA commented that the downturn may not be as severe as was originally anticipated in March and April.

However, there are still considerable risks. In parts of the world, COVID-19 infections either continue to rise or have reaccelerated. In the US, COVID-19 is spreading at an alarming rate and is forcing some states to reimpose restrictions. This may jeopardize recovery in the US and require another bout of fiscal stimulus. The infection rate in South America and India continues to accelerate, suggesting the pandemic is intensifying on a global scale. In Australia, an acceleration in locally transmitted infections in Victoria is a reminder that the outlook remains contingent on containing the virus. Until a widely accessible and affordable vaccine is available globally, economic activity and financial market returns will remain vulnerable to COVID-19.

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

Following the 23% decline in the March quarter, the S&P/ASX 200 rebounded strongly, finishing the June quarter up by 16.5%. This was not as strong as the US where the S&P 500 increased by 20.4% nor was this an even or steady climb. The tech dominated mid-cap sector was up by 30.3%, with Afterpay recording the strongest increase of any ASX 100 stock in each of April, May and June. Consumer discretionary stocks also bounced back having been heavily sold down during the March market rout. In contrast, the consumer staples stocks, which had proved resilient during March as households hoarded essential supplies, lost a little ground in the June quarter.

With a focus on cashflow and balance sheet strength, and in some cases with an eye to opportunistic acquisitions, companies successfully tapped capital markets despite most being unable to provide earnings guidance.

Distributions

The coronavirus continues to impact economies and markets. Many companies have cut, cancelled or deferred their dividend payments which has had an adverse impact on some of our Fund distributions during the quarter.

Australian Equities Fund

The Antares Australian Equities Fund returned 17.3% (net of fees) for the June 2020 quarter, outperforming its benchmark S&P/ASX200 Total Return Index return of 16.5% by 0.8%[1]. The main contributors to quarterly performance were an underweight holding in CSL and overweight positions in Boral and Santos. Detracting from performance was the decision not to own Afterpay and overweight holdings in Incitec Pivot and Telstra.

Dividend Builder

The annual income yield to 30 June 2020 for Antares Dividend Builder Fund was 4.38% compared to its benchmark yield of 3.21%. 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. Dividends were received from Boral, Nine Entertainment, Treasury Wine Estates, Viva Energy, Amcor and Harvey Norman during the quarter. The Fund's net return for the June quarter was 14.7% [1].

Elite Opportunities Fund

The Antares Elite Opportunities Fund returned 16.8% (net of fees) for the June 2020 quarter, outperforming its benchmark S&P/ASX200 Total Return Index return of 16.5% by 0.3%[1]. Contributing to performance were overweight positions in James Hardie, Boral and Santos. Detracting from relative performance were overweight holdings in Metcash and Telstra and not owning Afterpay.

High Growth Shares Fund

The Antares High Growth Shares Fund returned 17.8% (net of fees) for the June 2020 quarter, outperforming its benchmark S&P/ASX200 Total Return Index return of 16.5% by 1.3%[1]. Overweight holdings in Afterpay, James Hardie and Boral contributed to performance. Detracting from relative performance were overweight positions in Metcash, CSL and Telstra.

Ex-20 Equities Fund

The Antares Australian Equities Ex-20 Fund returned 27.8% (net of fees) for the June 2020 quarter, outperforming its benchmark S&P/ASX200 Total Return Index ex S&P/ASX 20 Total Return Index return of 22.6% by 5.2%[1]. Overweight holdings in Afterpay, Mineral Resources and IDP Education contributed to performance. Detracting from relative performance were overweight positions in Freedom Food, Metcash and Coclear.

Listed Property Fund

The Antares Listed Property Fund returned 19.8% (net of fees) for the June 2020 quarter, broadly in line with its benchmark, the S&P/ASX200 A-REIT Total Return Index [1]. Underweight holdings in Dexus and Shopping Centres Australasia and not owning Charter Hall Long Wale REIT contributed to performance. Detracting from performance were an overweight position in Mirvac and underweight holdings in Charter Hall Group and Stockland

. #All returns are net of fees. Please refer to the following page 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 30 June 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**	**17.3**	**-16.1**	**0.1**	**2.8**	**5.1**	**6.1**	**8.4**
S&P/ASX 200 Acc Index	Gross Return	17.5	-15.6	0.8	3.6	5.9	7.0	9.3
	Benchmark Return	16.5	-7.7	5.2	6.0	7.5	7.8	8.8
	Net Excess Return	**0.8**	**-8.4**	**-5.1**	**-3.2**	**-2.4**	**-1.7**	**-0.4**
	Gross Excess Return	1.0	-7.9	-4.4	-2.4	-1.6	-0.8	0.5
Antares Dividend Builder	**Net Return**	**14.7**	**-15.7**	**-2.3**	**0.7**	**4.5**	**7.5**	**5.8**
S&P/ASX 200 Industrials Acc Index	Portfolio Income Yield	-	4.4	5.1	4.8	4.5	4.5	4.1
	Benchmark Income Yield	-	3.2	3.9	4.0	3.9	3.9	-
	Net Excess Yield		**1.2**	**1.2**	**0.8**	**0.5**	**0.5**	**-**
Antares Elite Opportunities Fund	**Net Return**	**16.8**	**-12.8**	**1.2**	**4.6**	**6.4**	**6.9**	**9.3**
S&P/ASX 200 Acc Index	Gross Return	17.0	-12.2	1.9	5.4	7.1	7.6	10.1
	Benchmark Return	16.5	-7.7	5.2	6.0	7.5	7.8	8.5
	Net Excess Return	**0.3**	**-5.1**	**-4.0**	**-1.4**	**-1.1**	**-0.9**	**0.8**
	Gross Excess Return	0.5	-4.5	-3.3	-0.6	-0.4	-0.2	1.6
Antares Ex-20 Australian Equities Fund	**Net Return**	**27.8**	**-**	**-**	**-**	**-**	**-**	**-5.6**
S&P/ASX 200 ex S&P/ASX 20	Gross Return	29.4	-	-	-	-	-	-3.6
	Benchmark Return	22.6	-	-	-	-	-	-10.1
	Net Excess Return	**5.2**	**-**	**-**	**-**	**-**	**-**	**4.5**
	Gross Excess Return	6.8	-	-	-	-	-	6.5
Antares High Growth Shares Fund	**Net Return**	**17.8**	**-11.7**	**3.4**	**5.6**	**7.2**	**7.7**	**9.8**
S&P/ASX 200 Acc Index	Gross Return	18.1	-10.7	4.4	6.7	8.3	8.8	11.3
	Benchmark Return	16.5	-7.7	5.2	6.0	7.5	7.8	7.6
	Net Excess Return	**1.3**	**-4.0**	**-1.8**	**-0.4**	**-0.3**	**-0.1**	**2.2**
	Gross Excess Return	1.6	-3.0	-0.8	0.7	0.8	1.0	3.7
Antares Listed Property Fund	**Net Return**	**19.8**	**-22.7**	**-0.7**	**2.3**	**5.6**	**8.0**	**7.0**
S&P/ASX 200 A-REIT Acc Index	Gross Return	20.0	-22.2	-0.0	3.1	6.4	8.8	7.8
	Benchmark Return	19.9	-21.3	2.0	4.4	7.5	9.2	6.9
	Net Excess Return	**-0.1**	**-1.4**	**-2.7**	**-2.1**	**-1.9**	**-1.2**	**0.1**
	Gross Excess Return	0.1	-0.9	-2.0	-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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