

Quarterly Review

Stocks not themes – results season wrap

September 2018



No theme, sector or style stood out during the August 2018 reporting season. It was all about stocks – with two of the most notable positive market reactions shared by global growth market darling CSL and domestically focused, yield play and market laggard, Telstra.

The overall outcome was of solid results with most companies reporting in line with consensus although the overall results were not as buoyant as the past few years. Outlook comments were slightly disappointing with increasing costs commonly cited. Where guidance was given, 50% of the time this resulted in downgrades, compared to 25% in upgrades. Revisions were generally smaller than normal. Overall the consensus earnings growth outlook has weakened – from an average of 7% to 5.7% for the next year. Yet the market is trading at a premium to its long term average.

Market reaction to results was abnormally volatile. Goldman Sachs¹ noted that over the past 23 earnings seasons, stocks have typically moved 2.5 times their normal daily volatility on earnings days. But in August 2018 this increased to 4.6 times, an 85% increase over the decade average.

“Taken together, a set of more in-line results with a more muted pattern of earnings revisions makes it hard to rationalise a reporting season that saw unprecedented share price moves (either up or down).”¹

The market was quite forgiving to some of the higher PE growth stocks that missed expected earnings, such as Domino’s (DMP). And overall the strongest price increases came from the higher PE stocks, far in excess of any earnings upgrades. It would appear that momentum continues to help drive the market.

At the opposite end of the “style” spectrum, it was encouraging to see some good results from “value” stocks that had been out of favour coming into reporting season.

Another observation is that firms have continued to favour capital management over capital expenditure. Dividends accounted for the majority of capital management with buy-backs the balance. M&A is increasingly being used as a way to address growth headwinds.

For investors seeking income, the propensity for higher dividends is a positive. Dividends were generally higher than the market had been expecting, with less than a quarter of companies declaring below consensus estimates. Based on revised forecasts, the market is trading on a prospective (FY19) yield of 4.4%.

Some companies reported results in line with or ahead of market expectations, but were sold down because their guidance or outlook statements were cautionary. These include Iluka, Newcrest, Woolworths, Flight Centre and Janus Henderson.

Stocks that have been favoured by Antares analysts but less favoured by the market that delivered results (or AGM announcements) that saw share prices increase² included Tabcorp, Star Entertainment, Suncorp and Vocus.

Those that disappointed the market during reporting season with either earnings misses or concerns about future performance included Origin, Caltex, Rio Tinto, Woolworths, Primary Healthcare, Ansell, Harvey Norman and Seek.

And there were the market favourites that delivered not only earnings beats but positive outlook statements. They included CSL, Afterpay Touch, Santos, and Wesfarmers.

The combination of volatile and arguably illogical market reactions throughout the reporting season proved challenging for our portfolios during August 2018. But we are encouraged that some of our long held positive views on previously out of favour stocks have been vindicated. It reinforces our belief in our research process and courage to take contrarian views.

Several of our analysts were recently interviewed about their takes on the FY18 reporting season. Brett McNeill discusses the REITS and property developers, Vikrant Gupta talks about the discretionary retailers and shopping centre landlords and Jennifer Lam shares her thoughts on the roller coaster ride of the building materials sector. These five minute videos can be viewed at <http://www.antarescapital.com.au/home/news-and-insights/equities>:



¹ Goldman Sachs Australia: FY18 Results: Struggling to make sense of the moves”, 4 September 2018

² 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 market & fund updates

Below is a brief review of how the Australian share market performed during the quarter as well as short commentaries on each Antares Fund, outlining their net performance and the main contributors to performance.[#]

Australia share market review

The September quarter saw global shares return 7.4% (as measured by the MSCI World Ex Australia Index unhedged in AUD), led by the US where the S&P 500 Index returned 7.2% and Japan which posted an 8.1% increase in the Nikkei 225.

In the US, expectations of favourable corporate profit results managed to counter concerns over rising interest rates and President Trump's trade policy. The latter has included imposing tariffs on US\$250bn of imports from China. Although the Federal Reserve raised US interest rates by another 0.25% in September, it again signalled that future interest rate rises should be "gradual".

Japan's strong performance reflected a rebound in economic activity over recent months. In contrast, the MSCI China share index recorded a sharp fall of -5.6 % given tighter credit conditions and trade tensions with the US.

European shares delivered indifferent returns despite supportive business surveys and economic activity. These were counteracted by political concerns surrounding Britain's exit from Europe ("Brexit") and the Italian government advocating contentious budget policies.

Australian shares (as measured by the S&P/ASX 200 Accumulation Index) posted a reasonable return of 1.5% for the quarter. Communications sector shares surged by 25.3% given the merger announcement between TPG & Vodafone. The Information Technology sector (+10.5 %) also delivered robust returns. However this benefit was countered by the healthcare sector's negative return of -7.7 %.

Australian economic data has shown modest improvement considering the notable risks to global trade and the local housing market. Business surveys are positive while the labour market continues to generate solid jobs growth. However consumers are cautious as seen in sedate retail spending and sentiment. House prices are falling in both the Sydney and Melbourne markets after an extended boom. The Reserve Bank of Australia (RBA) has kept the cash interest rate steady at 1.5%.

Australian Equities Fund

The Antares Australian Equities Fund returned 1.6% (net of fees) for the September 2018 quarter, outperforming its benchmark S&P/ASX200 Accumulation Index return of 1.5% by 0.1%¹. The main contributors to quarterly performance relative to the benchmark were overweight positions in Santos, QBE and Tabcorp Holdings. The main detractors from relative performance were overweight holdings in Caltex Australia and Newcrest Mining and the decision not to own Brambles.

Dividend Builder

Antares Dividend Builder returned -0.1% (net of fees) for the September 2018 quarter, underperforming its benchmark S&P/ASX200 Industrials Accumulation Index return of 1.7% by 1.8%¹. The main contributors to quarterly performance relative to the benchmark were an overweight position in Tabcorp Holdings and decisions not to own Woolworths or IAG. Detracting from relative performance was the decision not to own Telstra and overweight holdings in Scentre Group and Sydney Airport.

Elite Opportunities Fund

The Antares Elite Opportunities Fund delivered a return of 2.6% (net of fees) for the September 2018 quarter, outperforming its benchmark S&P/ASX200 Accumulation Index return of 1.5% by 1.1%¹. The main contributors to quarterly performance relative to the benchmark were overweight positions in Vocus Group, Santos and Tabcorp Holdings. The main detractors from relative performance were overweight holdings in Westpac and Caltex Australia and an underweight position in Telstra.

High Growth Shares Fund

The Antares High Growth Shares Fund returned 1.3% (net of fees) for the September 2018 quarter, underperforming its benchmark S&P/ASX200 Accumulation Index return of 1.5% by -0.2%¹. The main contributors to quarterly performance relative to the benchmark were overweight holdings in Santos, Vocus Group and Tabcorp Holdings. Detracting from relative performance were underweight holdings in Brambles, TPG Telecom and Woodside Petroleum.

Listed Property Fund

The Antares Listed Property Fund returned 0.2% (net of fees) for the September quarter, underperforming its benchmark S&P/ASX200 A-REIT Accumulation Index return of 1.9% by -1.7%¹. The main contributors to quarterly performance relative to the benchmark were overweight holdings in Mirvac and Stockland and not owning Abacus Property. The main detractors from relative performance were overweight holdings in Scentre Group and Peet and an underweight position in Dexus.

[#]All returns are net of fees. Please refer to page 3 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 September 2018¹

Professional Selection		1 mth	3 mths	1 yr	3 yrs	5 yrs	10 yrs	Since Inception
		%	%	%	% pa	% pa	% pa	% pa
Antares Australian Equities Fund S&P/ASX 200 Acc Index	Net Return	-0.6	1.6	10.4	11.6	7.5	7.8	9.5
	Gross Return	-0.5	1.8	11.4	12.5	8.5	8.7	10.5
	Benchmark Return	-1.3	1.5	14.0	12.1	8.2	7.7	9.4
	Net Excess Return	0.7	0.1	-3.6	-0.5	-0.7	0.1	0.1
	Gross Excess Return	0.8	0.3	-2.6	0.4	0.3	1.0	1.1
Antares Dividend Builder S&P/ASX 200 Industrials Acc Index	Net Return	-2.4	-0.1	2.0	6.6	6.6	9.0	7.3
	Gross Return	-2.4	0.0	2.6	7.2	7.3	9.6	8.0
	Benchmark Return	-2.8	1.7	10.6	10.1	8.9	9.4	7.7
	Net Excess Return	0.4	-1.8	-8.6	-3.5	-2.3	-0.4	-0.4
	Gross Excess Return	0.4	-1.7	-8.0	-2.9	-1.6	0.2	0.3
Antares Elite Opportunities Fund S&P/ASX 200 Acc Index	Net Return	0.4	2.6	15.5	13.9	9.2	9.0	11.2
	Gross Return	0.5	2.8	16.3	14.7	9.9	9.7	12.0
	Benchmark Return	-1.3	1.5	14.0	12.1	8.2	7.7	9.4
	Net Excess Return	1.7	1.1	1.5	1.8	1.0	1.3	1.8
	Gross Excess Return	1.8	1.3	2.3	2.6	1.7	2.0	2.6
Antares High Growth Shares Fund S&P/ASX 200 Acc Index	Net Return	-0.6	1.3	18.2	14.1	10.3	9.7	11.2
	Gross Return	-0.5	1.5	19.4	15.3	11.4	10.9	12.8
	Benchmark Return	-1.3	1.5	14.0	12.1	8.2	7.7	8.2
	Net Excess Return	0.7	-0.2	4.2	2.0	2.1	2.0	3.0
	Gross Excess Return	0.8	0.0	5.4	3.2	3.2	3.2	4.6
Antares Listed Property Fund S&P/ASX 200 A-REIT Acc Index	Net Return	-2.0	0.2	9.4	8.2	10.9	6.9	8.1
	Gross Return	-1.9	0.4	10.2	9.0	11.7	7.6	8.9
	Benchmark Return	-1.8	1.9	13.2	10.0	12.4	6.3	7.7
	Net Excess Return	-0.2	-1.7	-3.8	-1.8	-1.5	0.6	0.4
	Gross Excess Return	-0.1	-1.5	-3.0	-1.0	-0.7	1.3	1.2

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.

Get in contact

antarescapital.com.au

Toll free: 1800 671 849

Email: investorservices@antaresequities.com.au

Mail: GPO Box 2007 Melbourne VIC 3001

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 Professional Selection Funds being the funds mentioned and outlined in this report and is the Responsible Manager and issuer of the Antares Direct Separately Managed Accounts (ARSN: 147 194 983). An investor should consider the current Product Disclosure Statement and Product Guide for the Funds ('PDS') in deciding whether to acquire, or continue to hold, units in the Funds and consider whether units in the Funds are an appropriate investment for the investor and the risks of 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. A128244-1016.

Antares Capital Partners Ltd, Level 20 8 Exhibition Street Melbourne 3000 GPO Box 2007, Melbourne VIC 3001 Telephone: (03) 9220 0300 Facsimile: (03) 9220 0333. Email: investorservices@antaresequities.com.au Website: www.antarescapital.com.au.