Portfolio Profile

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Antares Ex-20 Australian Equities Model Portfolio
February 2021

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Model Portfolio description and investment return objective

The Antares Ex-20 Australian Equities Model Portfolio is an actively managed highly concentrated portfolio of Australian equities. It invests in shares from outside the largest 20 companies by market capitalisation that Antares identifies as having the potential to offer significant long term capital growth. The Model's objective is to outperform the Benchmark (S&P/ASX 200 Total Return Index excluding the companies listed in the S&P/ASX 20 Total Return Index) over rolling five-year periods.

Investment returns* as at 28 February 2021[1,2,3]

Period	1 month	3 months	1 year	3 years pa	5 years pa	Since inception pa
Gross return[3] %	2.3	2.5	25.7	13.1	15.6	14.0
Benchmark return %	-0.1	-1.8	6.0	6.1	10.7	8.7
Gross excess return %	2.4	4.3	19.7	7.0	4.9	5.3

Model Portfolio performance and attribution

The strategy enjoyed a strong month in February, returning 2.3% compared to a decline of 0.1% in our benchmark. It is pleasing to record a solid month during the volatile reporting season period, especially with the overlay of increasing bond rates. The latter may change the market direction towards "value", which makes our diversified strategy more relevant than ever. Our best contributor for the month was Nine Entertainment (NEC) which reported strong earnings, especially from the more valuable subscription and digital businesses, such as Stan. We see NEC's content advantages continuing to drive share gains, while an improving TV advertising market provides another revenue tailwind. Lynas Rare Earths (LYC) was another strong contributor. While its earnings were strong, of more note has been the surging price of the rare earth commodities LYC mines and processes. There is increasing demands for renewable energy and electric cars for which rare earths are critical components.
While Oz Minerals also reported a strong profit for CY20, it was the underlying price rise of its key commodity, copper, that led to strong share price gains. Like LYC, these gains are driven by demands from increasing use of renewable energy, which is copper intensive.

Our biggest laggard for the month was gold-miner Northern Star Resources (NST). The gold price has been weaker in 2021 as the markets look to price in a more certain economic recovery from COVID - this has been a drag on NST. Afterpay (APT) was also weaker in February. APT produced a very strong half yearly result in the month, but this was tempered by the issuance of zero-coupon convertible notes to raise funds to buy out minorities in its US business. Further, the lift in interest rates has put pressure on the valuation of companies with long dated growth stories, such as APT. We retain our investment given the scale of opportunity and strong execution exhibited thus far by APT into that opportunity. A2 Milk's interim earnings in February were disappointing. We made the decision to exit the stock.

Buys / Additions

IGO Limited (IGO) : Our internal research shows increasing demand for nickel and lithium. Nickel is a key component of lithium ion batteries for electric vehicles, which is a theme already established in the portfolio via our investments in Lynas, Mineral Resources and Oz Minerals. IGO, via its acquisition of Tianqi Lithium, is now a pivotal player in lithium ion battery supply chains. It produces significant proportions of both components and has a low cost of production relative to peers. We like the exposure IGO provides as the world moves towards decarbonisation but, as with all our mining investments, there must be a good cost position and increasing production – which IGO now has.
Treasury Wine (TWE): We added TWE back to the portfolio as a contrarian investment. The market is very familiar with the punitive tariffs on Australian wine in China and now assumes that TWE will not be able to replace the Chinese demand and that other wine companies in a similar position will flood the Australian market. We disagree. We think TWE can broaden and diversify its geographic distribution. And we note poor local vintages in 2019 and 2020 leave the local market in short supply, suggesting the market is being overly pessimistic about TWE.

Top 10 share holdings
as at 28 February 2021 (alphabetical)

- AfterPay
- Ansell
- Aristocrat Leisure
- Bluescope Steel
- Cochlear
- Metcash
- Mineral Resources
- Nine Entertainment
- Qantas
- Qube

Sector allocation

GICS	%
Metals & Mining	21.49
Health Care	11.31
Consumer Discretionary	11.07
Communication Services	9.49
Industrials	9.40
Information Technology	8.17
Consumer Staples	7.60
Materials Ex Metals & Mining	6.84
Energy	6.01
Financials Ex Reits	5.52
Real Estate	3.10
Utilities	0.00

Source: Antares Equities; 28 Feb 2021

Note: GICS - Global Industry Classification Standard
% are absolute ie sector proportion of portfolio

[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. The value of an investment may rise or fall with the changes in the market. [2] Investment returns for the Model Portfolio are based on a notional model portfolio constructed by Antares and are gross of administration (platform) and investment management fees, net of estimated transaction costs, and assume all dividends remain in the Model Portfolio.* Performance is based on the income and market value of the notional model portfolio.[3] Inception date for the Model Portfolio is 27 May 2015.

Sales / Reductions

A2 Milk (A2M): We exited our position as we do not have any conviction that the company can modify its business model sufficiently to overcome the loss of the daigou channel into China. While daigou will return, as air travel returns, the issue for A2M is that it is missing sales in China and thereby losing relevance in its biggest market. With local brands gaining more and more traction in China, we see a long road back for A2M, with success difficult to achieve.

Aurizon (AZJ): We exited Aurizon after reviewing how we value the business. We now believe that current thermal coal contracts will be peak profitability given the issues around exporting thermal coal to China and the reluctance of some south east Asian nations to extend the lives of their coal fired power stations. This reduces the valuation of the coal haulage business and also puts pressure on the valuation of the company's major asset: the Central Queensland Coal network. Hence, while near term earnings are solid, we are focused more on longer term capital appreciation issues, which look increasingly impaired.

Model portfolio facts

	Minimum	Benchmark Allocation	Maximum	As at 28 Feb 21
Australian shares	90%	100%	100%	95.5%
Cash and cash equivalents	0%	0%	10%	4,5%

Platform availability

BT Panorama, Macquarie, Navigator, Netwealth and Praemium.

Portfolio managers

John Guadagnuolo
Investment Manager

Key Responsibilities
John is the Portfolio Manager of the Ex-20 Australian Equities Model Portfolio and Ex-20 Australian Equities Managed Fund.

Years with the group 13
Years of Industry Experience 20

Winston Chong
Investment Analyst

Key Responsibilities
Winston is the Deputy Portfolio Manager of the Ex-20 Australian Equities Model Portfolio and Ex-20 Australian Equities Managed Fund.

Years with the group 3
Years of Industry Experience 10

Investment guidelines and ranges

Inception date:	27 May 2015
Benchmark:	S&P/ASX 200 Total Return Index excluding the companies listed in the S&P/ASX 20 Total Return Index
Investment timeframe:	At least 5 years
No of shares:	15 to 30
Indicative portfolio turnover:	50% to 60% pa
Relative risk:	Very High
Relative return[1]:	Very High

Ratings

Investor profile

The Ex-20 Australian Equities Model Portfolio is designed for investors seeking an actively managed, highly concentrated portfolio of Australian securities that excludes the top 20 stocks by market capitalisation. The Model aims to provide investors with long term capital growth.

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Antares Equities (Antares) is a specialist Australian equities manager. Since 1994, Antares has managed portfolios for wholesale, advised and direct investors through a suite of products including segregated mandates, investment funds and managed account models. Antares has A$4.9 billion (at 30 June 2020) under advice across a range of strategies including large capitalisation, concentrated, property, income and long-short. Antares believes in bottom-up stock picking. A consistent process and detailed, quality research executed by a highly experienced, stable and diverse team underpin this approach. The investment philosophy is based on the belief that markets can misprice stocks and these opportunities can be identified using the proven, proprietary Antares research process. Antares Equities is part of Antares Capital Partners Limited (ABN 85 066 081 114, AFSL 234483).

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