

Antares Enhanced Cash Trust

Monthly Investment Report



November 2019

Performance

Period Ended	1 mth	Qtrly	1 yr	2 yr	3 yr	SI*
30 November 2019	%	%	%	%	%	% pa
Composite Portfolio	0.12	0.32	2.16	2.21	2.31	4.09
Bloomberg Ausbond Bank Bill Index	0.08	0.25	1.58	1.75	1.75	3.56
Difference	0.04	0.07	0.58	0.46	0.56	0.53

Valuation at month end was \$5,869,675,294

Returns are expressed before deducting tax and investment management fees

*Inception Jan 2007

Portfolio Review

Key Drivers of Portfolio Performance:

- + 3-4yr maturities flattened 4bp versus shorter maturities
- Westpac was a notable underperformer with its spread widening 4bp versus other banks.
- + Yield enhancement & roll down of quality investment grade bond holdings.

Portfolio activity and positioning

- Focus was on managing liquidity.
- We continue to maintain good liquidity in all portfolios by demanding a high illiquidity premium from less liquid holdings.

Market Outlook

Global: Markets have continued to reassess global growth prospects for 2020 with a favorable bias, driven by the following developments:

- The manufacturing global recession appears to be bottoming with PMI's (purchasing managers index of manufacturing expectations) bottoming out.
- Economic surprise indices for the US and Europe continue to surprise on the upside driven by improving business sentiment and consumer spending. (see chart below)
- Central banks continue to nudge governments for more fiscal spending. Germany appears to be targeting large fiscal spending initiatives.
- US inflation is consolidating around the Fed's 2% target with private sector wages rising quite briskly to around 3.5%.
- Rising household income in the US (primarily wages), coupled with the wealth effect of rising equities and house prices has seen the household savings rate rise to a 30yr high of around 8% (see chart below). This creates a very healthy savings buffer for US consumers, which could support consumer spending in time.

Australia: Consumer confidence and spending remain quite depressed with consumers allocating most of the recent tax cuts and lowish wage increases to savings. This has seen the savings rate lift appreciably to 4.8%, its highest level for 2 years. As in the US, this rising savings rate creates a positive buffer for future consumer spending but the very high level of household debt is a constraining factor for the Australian consumer. The RBA remains quite positive on the economy and expects consumer spending to start picking up through 2020.

Return Attribution

Description	BP's
Duration	0
Curve	+0.9
Sector	-0.1
Yield Enhancement	+3.2
Total Excess Return	+4.0

Key Characteristics

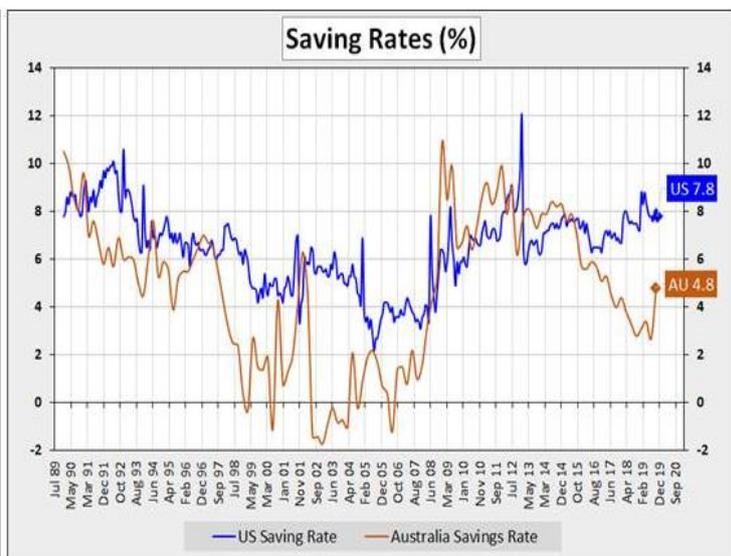
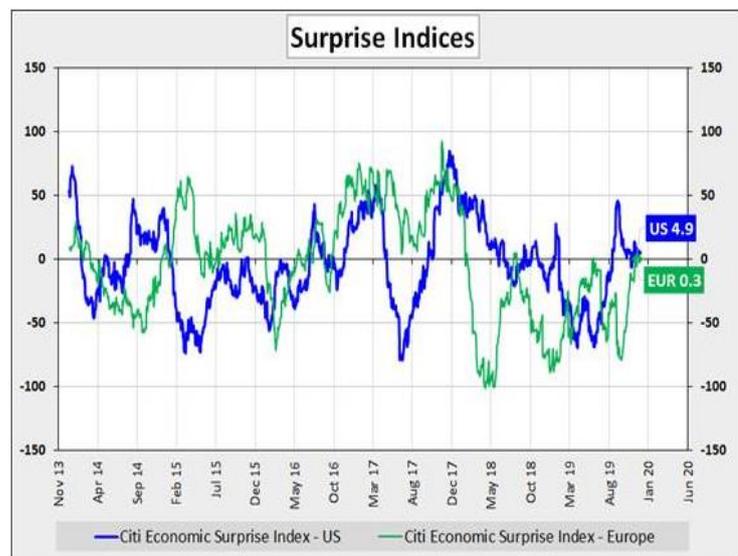
	Trust	Benchmark
Interest Rate Duration (yrs)	0.12	0.12
Running yield + Rolldown	1.28%	0.84%
Credit spread duration (yrs)	0.67	-
Average credit rating	AA-	AA-
Liquidity*	63%	100%

*Liquidity deemed available within 24 hours.

Sector Exposures

Sector	Interest Rate MDC	Credit Spread MDC	MV%
Cash	0.00	0.00	0.0
Govt Nominal	0.00	0.00	0.0
Semi-Gov Nom	0.00	0.00	0.0
Supra/Agencies	0.00	0.00	0.0
Corp Fin Fixed	0.00	0.00	0.5
Corp Fin FRN	0.05	0.81	31.3
Corp Others Fixed	0.00	0.00	0.5
Corp Others FRN	0.00	0.00	0.0
Covered Bonds	0.00	0.00	0.0
Derivatives Interest Rate	0.03	0.00	0.0
Derivatives CDS	-0.01	-0.24	-0.2
RMBS	0.01	0.08	5.5
Money Market	0.03	0.02	62.5
Total	0.12	0.67	100.0

Credit spread excluding Money Market 0.71



Strategy

Portfolios remain defensively positioned on duration although, given our more positive view on global growth, we would look to reduce duration at tactical yield levels; 1% on 10yr bond futures and 0.60% on 3yr bond futures. Credit exposure is fairly neutral, focusing on maximising carry and rolldown with some downside protection via CDS. All portfolios carry above average liquidity.

Antares Fair Value Assessment

Antares' scenario probabilities have become slightly less defensive with a small shift from the "slower growth" Scenario 4 to a more neutral growth scenario 3. The RBA confirmed that they are well prepared to begin QE if growth and inflation remain weak and that QE would be implemented via purchases of government bonds and possibly Semis as well. Antares have had an increasing risk premium built into AUS bonds during global growth slowdowns, as Australia loses some of its "safe haven" status. But with the RBA stepping up as the major buyer during slowdowns, this risk premium would remain compressed. This has seen a reduction in our projected Aus bond yields in slow growth/recession scenarios 4 & 5.

Instrument	Fair Value Range (FV)	Market Price	Mid FV – Market exp (+) /cheap (-)	Change exp (+) /cheap (-)
Cash (6mth forward)	0.65– 0.85%	0.45%	+0.30%	0%
3YB	0.80 – 1.00%	0.70%	+0.20%	+0.10%
10YB	1.25 – 1.45%	1.15%	+0.20%	+0.05%
30YB	1.80– 2.00%	1.75%	+0.15%	-0.05%
3/10 Spread	0.40 – 0.50%	0.45%	+0.10%	+0.10%
iTraxx (forward contract*)	100-130	55 +10	+50	0%
US 10YR	1.70 – 1.90%	1.80%	0%	+0.10%

Market Movements

- Equity markets hit new highs in November with the ASX200 up 2.7% and the S&P500 up 3.4% on the back of a stabilisation in trade talks, encouraging corporate earnings and stronger economic data.
- Aus bonds rallied in Oct with the AUS10yr bond yields falling 10.5ps to 1.035%, 3yr bond yields were down 16bps to 0.65% and the yield curve steepening 6.5bps to end at 39.5bps.
- The RBA held rates steady in Nov and Dec, however markets continued to price in RBA rate cuts, with Feb being the consensus for the next move lower. The 3mBBSW fell 4bps to 0.885%, while the 6m BBSW fell 8bps to 0.95%.
- Credit spreads were mixed in Nov with Westpac a standout, widening 4bp versus the other major banks on the back of the AUSTRAC civil proceedings against Westpac. Aus iTraxx tightened 3bp to 56bp.

Australian Rates	November 2019	Month Change	1 Yr Change
RBA Cash Rate	0.750	0.00	-0.75
90 Day Bank Bill	0.885	-0.04	-1.07
3 Yr Futures	99.350	+0.16	+1.43
10 Yr Futures	98.965	+0.11	+1.56
3/10 Spread (bps)	38.5	+5.0	-13.5
iTraxx Australia 5Y	56.1	-3.3	-30.4
10Yr BEI	1.35	+0.01	-0.46

Global Sovereign Rates	November 2019	Month Change	1 Yr Change
Fed Fund Rates	1.56	-0.02	-0.64
ECB Main Refi Rate	0.00	0.00	0.00
US Sovereign 2 Yr	1.61	+0.09	-1.17
US Sovereign 10 Yr	1.78	+0.08	-1.21
Japan Sovereign 10 Yr	-0.07	+0.06	-0.17
German Sovereign 10 Yr	-0.36	+0.05	-0.67

Currencies	November 2019	Month Change	1 Yr Change
AUD/USD	0.676	-0.013	-0.054
EUR/USD	1.102	-0.013	-0.030
USD/JPY	109.490	+1.46	-4.08

Equities	November 2019	Month Change	1 Yr Change
ASX200	6846	+2.7%	+20.8%
S&P500	3141	+3.4%	+13.8%

Commodities	November 2019	Month Change	1 Yr Change
WTI Crude	55.2	+0.9	+3.3
Gold	1464.0	-49.0	+243.5

Australian Economic Data	Latest Monthly Print	Month Change	1 Yr Change
Employment Change (k)	-19.0	-31.5	-51.5
Unemployment Rate (%)	5.3%	+0.1%	+0.2%
Retail Sales (MoM%)	0.0%	-0.2%	-0.5%
Trade Balance Value (m)	4,502	-2345	+1,914
Building Approvals (MoM%)	-8.1%	-15.3%	+2.8%
Consumer Confidence (Westpac)	97.0	+4.2	-7.3
Business Confidence (NAB)	0.1	+0.3	-3.7
Business Conditions (NAB)	4.2	+1.9	-5.9

Australian Economic Data	Latest Quarterly (Q3)	Quarterly Change	1 Yr Change
Private Capital Expenditure (QoQ%)	-0.2%	+0.4%	-0.3%
GDP (YoY%)	1.7%	+0.1%	-0.8%
Inflation (YoY%)	1.70%	+0.1%	-0.2%

Global Economic Data	Latest Monthly Print	Month Change	1 Yr Change
US Non-Farm Payrolls (k)	266	+110	+70
US Unemployment Rate (%)	3.5%	-0.1%	-0.2%
US Manufacturing ISM	48.1	-0.2	-10.7
US Non-manufacturing ISM	53.9	-0.8	-6.5
China Manufacturing PMI	50.2	+0.9	+0.2
China Non-Manufacturing PMI	54.4	+1.6	+1.0
German Factory Orders (MoM%)	-0.4%	-1.9%	+0.4%
German Industrial Production (MoM%)	-1.7%	-1.1%	-0.7%

Semis * vs Gov Bonds	November 2019	Month Change	1 Yr Change
3yr (bps)	24.6	-1.14	-2.06
7yr (bps)	44.0	-0.58	+6.44

* Semi calculation comprises an equal weighting of NSWTC and WATC

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*as at 30 June 2019

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