

Antares Income Fund

Monthly Investment Report

November 2019



Fund Performance

Period Ended 30 November 2019	1 mth %	3 mths %	1 Yr %	2 Yr %	3 Yr %	Since Inception %pa*
Antares Income Fund	0.19	0.49	2.36	2.22	2.47	2.65
Bloomberg Bank Bill Index	0.08	0.25	1.58	1.75	1.75	2.08
Difference	0.10	0.24	0.78	0.47	0.72	0.58

Valuation at month end was \$139,887,452

Returns are expressed after deducting tax and investment management fees

*Since Inception 31/01/2013

Investment return objective

The Antares Income Fund aims to provide investors with a regular income and a return (after fees) that exceeds the Bloomberg AusBond Bank Bill Index over rolling three year periods.

Portfolio Review

Performance

The Fund outperformed the benchmark by 10bp after fees for the month of November.

Contributors to performance (relative to the benchmark)

- + Westpac bonds and CDS widened 4bp versus other major banks detracting from cashbond performance but adding to the performance of CDS hedges.
- + The steepening yield curve again added strongly to performance.
- + Yield enhancement & roll down of quality investment grade bond holdings.

Key Activities:

- The portfolio was again active, adding nab sub debt and Endeavour Energy.
- We continue to maintain good liquidity in portfolios by demanding a high illiquidity premium from less liquid holdings.

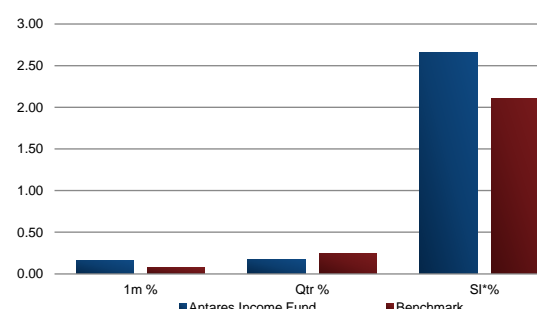
Market Outlook

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.

Net return vs Benchmark return (%)



Key characteristics at 30 November 2019

	Fund	Benchmark
Interest Rate Duration (yrs)	0.15	0.13
Running yield + Rolldown (%)	1.80	0.83
Credit spread duration (yrs)	2.14	-
Average credit rating	A+	-
Liquidity*	61%	100%
Fund Size (millions)	\$143.6	-

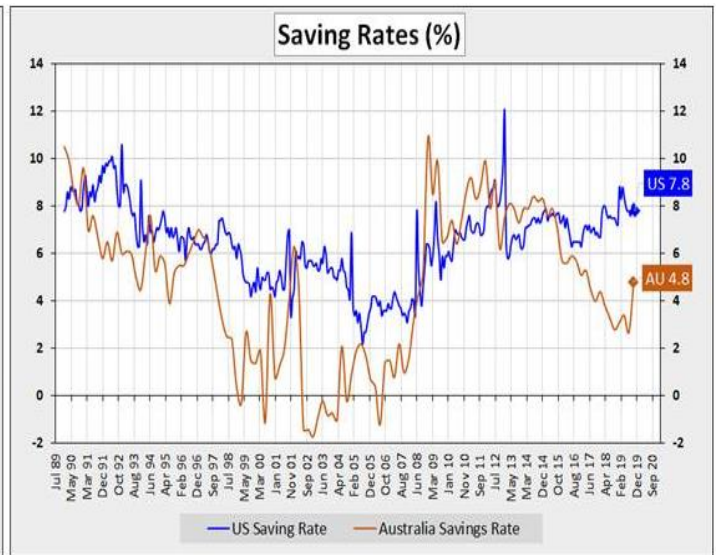
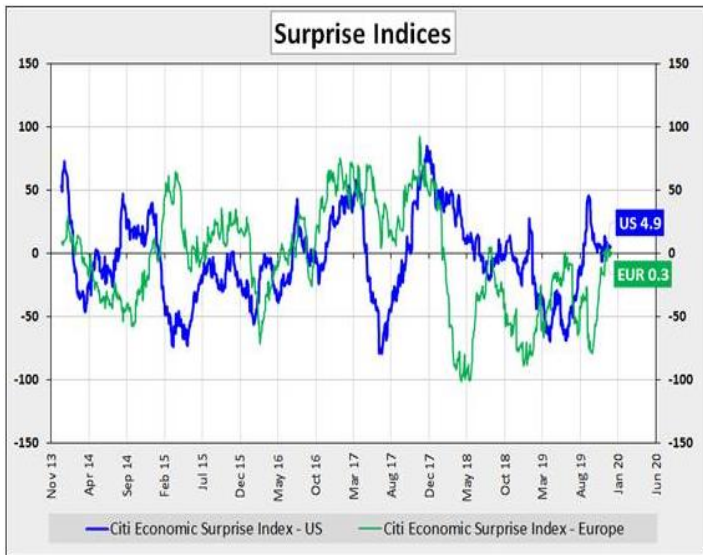
* Liquidity deemed available within 24 hours. Consisting of; (1) cash and short-term securities that are expected to be able to be liquidated at mid-market yields and thus no transaction costs, and, (2) unit holdings of other Antares managed sub funds for with no there is buy/sell spread and next day redemption facility if notified by 2pm.

Distribution History

Distribution date	30 Sept 2019
Distribution amount	0.0 Cents Per Unit
Next distribution date	31 Dec 2019

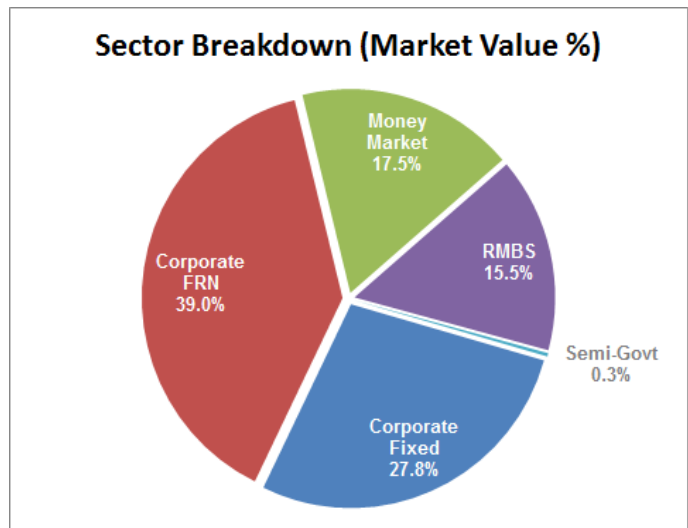
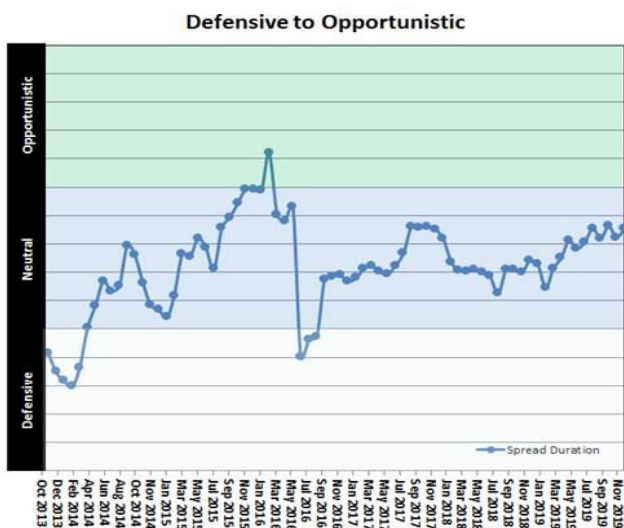
Rating Exposure (by market value %)

AAA	15.33%
AA+	0.00%
AA	1.01%
AA-	36.09%
A+	4.10%
A	3.59%
A-	18.88%
BBB+	9.88%
BBB	11.11%



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 via QE as the major buyer during slowdowns, this risk premium would remain compressed. This has seen us reduce 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 10.5bps 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

About Antares Fixed Income

Antares Fixed Income (Antares) is a specialist fixed interest manager covering a range of domestic and international securities. Antares has managed fixed interest and cash portfolios for investors since 1990 and currently has over A\$28.7 billion* in funds under management across a range of cash management, fixed income and liability driven investment strategies. Antares is focused on delivering performance objectives for our clients within a carefully managed and defined risk framework.

*as at 30 June 2019

Important information

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