Quarterly Investment Update

Antares Elite Opportunities Fund – March 2025

For adviser use only

Highlights for the quarter

Performance: The Fund returned -6.8% (net of fees) for the March quarter, compared to its benchmark's return of -2.8%.

Contributors to performance: Positive contributors – Evolution Mining, Macquarie Group (not owned) and NAB (not owned); Negative contributors – Block Inc, HMC Capital and DigiCo Infrastructure REIT.

Stock activity: Additions – Woolworths, Dexus; Reductions – Evolution Mining, Qantas, South32

Fund snapshot

Inception date	18 November 2002
Benchmark	S&P/ASX 200 Total Return Index
Investment objective	The Fund's objective is to outperform the Benchmark (after fees) over rolling 5 year periods.

Investment returns as at 31 March 2025[1]

Period	3 months	1 year	3 years pa	5 years pa	10 years pa	Since inception pa
Net return[2] %	-6.8	-2.4	1.6	12.2	5.9	9.3
Benchmark return %	-2.8	2.8	5.6	13.2	7.1	8.9
Net excess return %	**-4.0**	**-5.2**	**-4.0**	**-1.0**	**-1.2**	**0.4**

[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.
[2] Investment returns are based on exit prices, and are net of management fees and assume reinvestment of all distributions. Inception is 18/11/2002.

Performance commentary

The fund returned -6.8% (after fees) with its benchmark posting a -2.8% return.

Performance over the past 12 months has been challenging with the Fund returning -2.4% which was below our benchmark return of 2.8%. On review, approximately 80% of the underperformance can be attributed to the Financials sector. Given the sector's size and influence, multiple drivers contributed to this outcome.

The primary detractor was our underweight position in the banks, particularly our zero holdings in Westpac (WBC) and NAB. While NAB had minimal impact over the period, Westpac's strong rerating and share price performance represented the largest single detractor. Although our overweight positions in ANZ and CBA added value, they were not sufficient to offset the negative impact.

Further detracting from performance within Financials was our zero weighting in QBE, as well as overweight positions in Block Inc (XYZ) and HMC Capital. These were selected for their perceived superior growth profiles and more attractive valuations. However, as volatility increased and economic slowdown concerns grew, these positions came under pressure. HMC was impacted by capital requirements and specific issues within some of its funds, while XYZ disappointed with a lower-quality result than expected, exacerbated by broader concerns around technology and consumer-linked names.

The Consumer Staples sector also detracted from performance. Our overweight to the sector weighed on returns during the strong market conditions over the year. More recently, poor stock selection—specifically our overweight in Treasury Wine Estates (TWE)—further detracted as concerns around a slowing Chinese economy negatively impacted sentiment toward the company.

Our overweight position in the Resources sector also contributed to underperformance, largely due to our position in Mineral Resources (MIN). The stock was negatively impacted by concerns around its leveraged balance sheet and governance challenges involving the CEO.

Contributors to March quarter performance

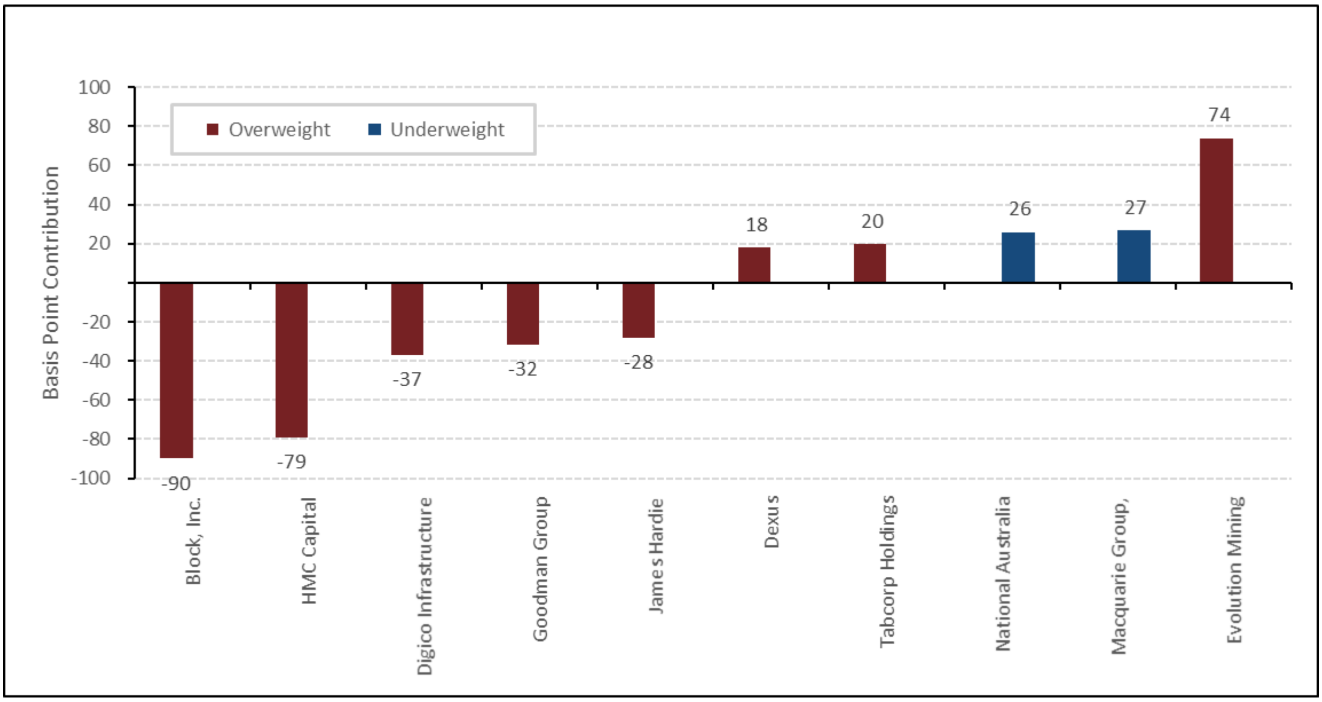
Positive

Evolution Mining (EVN, Overweight): EVN shares performed strongly over the quarter, increasing .by around 48%, predominantly driven by an increase in the price of its key commodity output, gold. The USD denominated gold price increased by19% over the last quarter, from USD $2,624.50 on 31st December 2024 to USD $3,123.57 on 31st March 2025.

Macquarie Group, (MQG Not Owned): Macquarie Group's share price experienced a significant decline, dropping ~20% from its record high of $240 on January 31. This downturn was influenced by several factors. In February, Macquarie reported that its net profit after tax for the nine months ending December 31, 2024, was broadly in line with the previous year, indicating flat earnings growth. While the company's annuity-style businesses, such as asset management and banking, saw increased profits due to higher performance fees and home loan volumes, these gains were offset by weaker results in market-facing divisions, including commodities and Macquarie Capital. Additionally, Macquarie's exposure to global economic conditions, particularly in the U.S., raised concerns among investors.

NAB (NAB, Not Owned): In February, NAB reported a 2% decrease in cash earnings for the first quarter, amounting to $1.74 billion. This decline was primarily due to increased credit impairment charges and higher income tax expenses, despite a 3% growth in revenue driven by higher Markets & Treasury income. Additionally, the bank faced a slight contraction in its net interest margin, attributed to intensified lending competition and elevated funding costs. These financial results led to an immediate market reaction, with NAB's shares dropping as much as 8.6% following the announcement. Furthermore, broader market concerns, including fears of a global recession and escalating U.S.–China trade tensions, contributed to the overall decline in Australian bank stocks during this period. Leadership changes within NAB, such as the resignation of Chief Financial Officer Nathan Goonan to join Westpac, may have also influenced investor sentiment.

Figure 1: Fund attribution – March quarter



Source: Antares; March 2025

Negative

Block Inc (XYZ, Overweight): XYZ shares declined by around 39% over the quarter despite reaffirming its FY25 guidance at the last result. The market was disappointed by soft guidance for 1Q25 due to foreign exchange headwinds and the lack of a leap year resulting in one less trading day in February, thus requiring an acceleration in growth during 2H25 to compensate for the slow start to the year. There is also concern that its Cash App segment will comprise a larger portion of earnings, which is considered a lower multiple business. Further, Block's payment processing business, Square, is reliant on consumer discretionary spending. The increasing probability of the US entering a recession due to a global trade war, which would lead to weak US consumer spending and higher unemployment has weighed on sentiment towards the stock.

HMC Capital (HMC, Overweight): HMC detracted from performance, declining about 37% over the quarter. HMC's earnings are directly correlated to the market value of its Funds Under Management (FUM). The market has become concerned over HMC's ability to raise and deploy incremental capital given the level of volatility and uncertainty in equity markets at present, which places doubt over their ability to meet disclosed FUM growth targets. Further, the company is attempting to acquire Healthscope after it defaulted on rent owed to one of HMC's listed vehicles, Healthco Healthcare and Wellness REIT (ASX: HCW). There is scepticism over HMC's ability to own and operate a hospital network, as well as uncertainty over the ultimate terms of the deal.

DigiCo Infrastructure REIT (DGT, Overweight): DGT shares fell by 33% during the quarter, as sentiment towards artificial intelligence and data centres turned negative. Despite data centre demand remaining strong, there have been numerous media articles reporting that Microsoft has paused discussions on leases for new data centres and is halting projects to build server farms in several countries, including Australia, which has adversely impacted sentiment towards domestic data centre stocks, including NextDC (ASX: NXT), which was also around 25% lower over the period. Microsoft is still honouring existing contracts and new capacity previously allocated to them is likely to be taken up by other hyperscalers such as Oracle, which is rapidly expanding in Australia.

Stock activity

Although there were no new additions or removals from the fund during the quarter, we remained active in adjusting portfolio weights across our preferred list of stocks to better position the fund for what we expect to be a more challenging market environment.

In particular, we reduced our exposure to the resources sector by trimming our positions in **South32 (S32)** and **Evolution Mining (EVN)**. Both companies have delivered solid performance, with EVN standing out as one of the top-performing large-cap gold producers. Strong operational execution over the past year has led to a re-rating in EVN's share price, which is now trading at a modest premium to **Northern Star (NST)**.

We also reduced our holding in **Qantas (QAN)** following a period of strong share price performance. The company's robust profitability and recent results demonstrated the earnings potential of its ongoing fleet renewal program. However, with the stock now trading at only a modest discount to international peers, and given the prospect of a softer consumer outlook, we opted to reduce our position.

Proceeds from these sales were redeployed into increasing weights in more defensive companies identified during the December 2024 quarter—namely, **Woolworths (WOW)** and **Dexus (DXS)**.

While WOW's recent result was disappointing due to several operational missteps, we remain confident in its medium-to-long-term ability to recover market share under new leadership. WOW continues to enjoy a scale advantage, with approximately 30% more stores and revenue than its nearest competitor, **Coles (COL)**. The weak result saw WOW trading at its lowest PE premium to COL in over three years (see Figure 2), which we saw as an attractive opportunity to add to our position.

Figure 2: Woolworths PE ratio minus Coles PE ratio

Source: Antares Equities, Bloomberg; April 2025

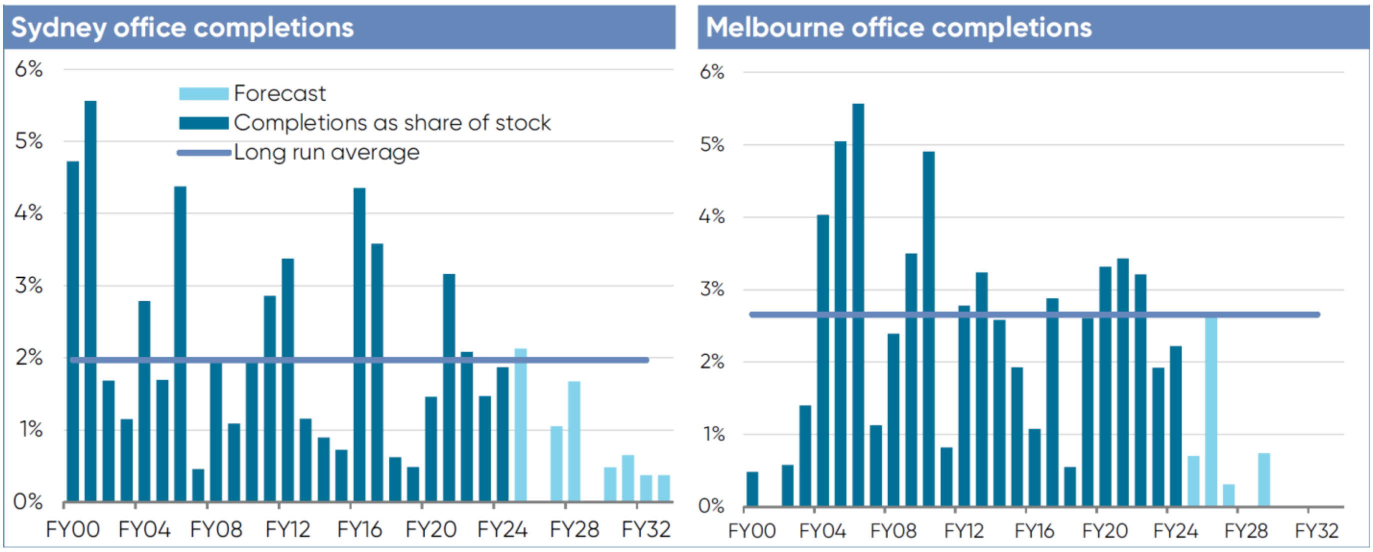
We also added to our position in DXS following its result and a constructive meeting with management. DXS continues to trade at a significant discount to its book value (see Figure 3), and an even greater discount to estimated replacement value - which by some estimates is 10 - 20% above current book value.

Figure 3: Dexus share price ($) and book value per share ($)

Source: Antares Equities, Bloomberg; April 2025

We believe DXS remains Australia's premier office landlord, with occupancy rates of 93.5%, well above the industry average of 86.3%. Importantly, office completions in Sydney and Melbourne are forecast to fall sharply over the coming years, reflecting a lack of recent investment and supporting the long-term outlook for high-quality office assets.

Figure 4: Sydney and Melbourne office completions



Source: Dexus interim results presentation; February 2025

Outlook

The past several months have felt like a bad game of poker. Back in November, markets were dealt what appeared to be a strong hand—President Trump's election victory delivered a clear mandate for change. A market-friendly environment, centred on deregulation and growth, emboldened investors to go all-in on U.S. exceptionalism. Meanwhile, Europe and China were left on the sidelines.

But as the "Deep Seek" card hit the table, the market—after years of steady confidence—began to question the strength of its hand. Cracks started to appear in the outlook for the "Magnificent Seven" tech giants, with the rise of an AI competitor casting a shadow over U.S. dominance. Uncertainty quickly emerged over the implications for AI-related capex and semiconductor supply chains.

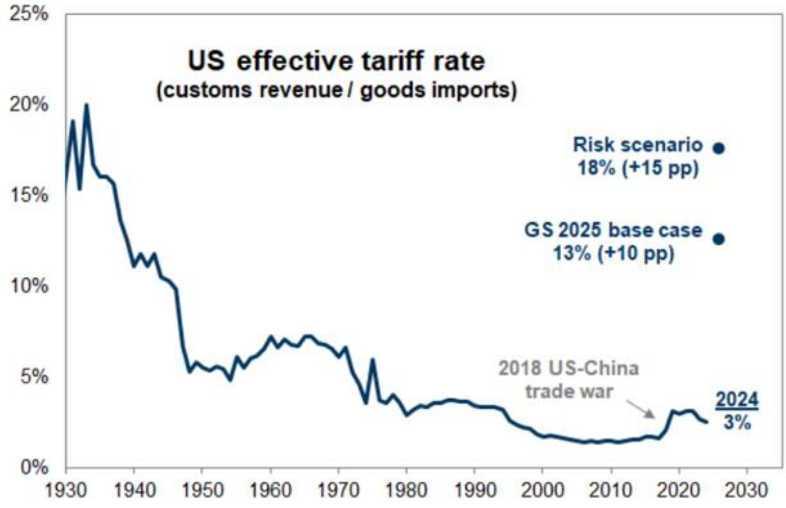
At this point, not only had the odds of winning the big pot compressed, but more critically, the chip stack was no longer neatly arranged. Confidence began to waver.

Next came the reporting season card, but it did little to alter the market's direction. Despite growing awareness that a joker lurked in the deck, few were prepared for just how disruptive it would be when it finally appeared.

On April 2nd, President Trump revealed his tariff policy. Although a reciprocal tariff framework had been signalled in advance, markets were caught off guard by its scale, scope, and immediacy. It was then that investors realized: they'd been outplayed by the House.

The chart below, prepared by Goldman Sachs prior to April 2, shows Goldman Sachs' (and the broader market's) base case and risk scenarios for effective U.S. tariffs. While there remains some uncertainty around the final structure, most credible estimates now suggest effective tariffs could exceed 20% - rendering prior risk scenarios relatively benign.

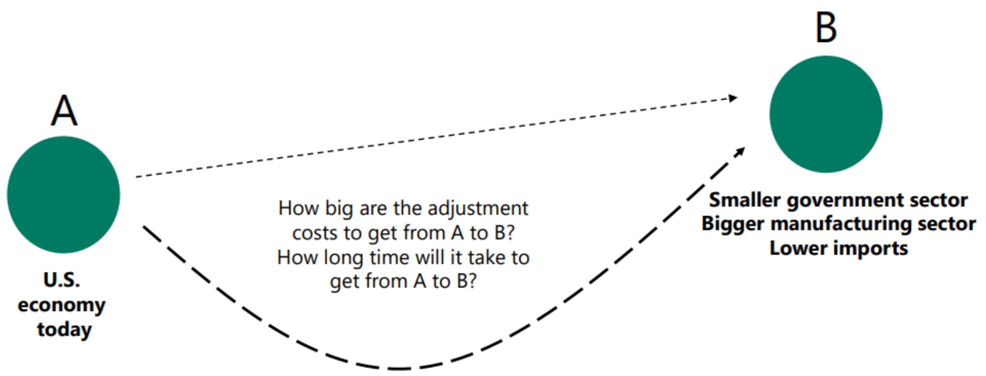
Figure 5: US tariff rate expectations



Source: Goldman Sachs; April 2025

While motivations for the policy shift can be debated, the implications are clear. If implemented and sustained, these tariffs are almost certain to lead to **lower growth** and **higher inflation** in the short to medium term—albeit with the long-term aim of securing more favourable trading terms or revitalizing domestic industry. The schematic below, prepared by Apollo Asset Management, summarises the challenge now confronting markets.

Figure 6: Challenges confronting markets today



Source: Apollo Asset Management; April 2025

The table below illustrates our rough estimate the implications the tariffs may have on economic activity (based on our reading of numerous industry reports).

Table 1: Potential impact of tariffs on US economic activity

Average Effective Tariff	Impact on Inflation	Impact on GDP growth
20-23%	+1.5%	-1.5%

Source: Antares Equities; April 2025

From these macro assumptions, we can begin to assess the potential implications for equity markets. Historically, a 1% decline in U.S. GDP has translated to a 4-5% drop in S&P 500 earnings. Likewise, a 1.5% increase in inflation could result in a 1-2 point contraction in the market's PE multiple.

Prior to April 2, the S&P 500 was trading on a PE multiple of 21x, with earnings expectations around $270. If we assume earnings fall by 8% to $248, and the market re-rates to a multiple of 19x, this would imply an S&P 500 level of approximately **4,720**—roughly 17% below pre-announcement levels.

For context, in the last three major S&P 500 downturns, the market PE multiple bottomed at:

- **15x** in 2022
- **13x** in 2020
- **14x** in 2018

At this stage, the impact of tariffs has been felt primarily through sentiment. The real economic consequences—on businesses and consumers—have yet to materialize. As such, it's critical to monitor any developments that could alter the trajectory of the policy or its implementation. Key areas that we are watching include:

- Congressional response from the House and Senate
- Legal or constitutional challenges
- Potential off-ramps, negotiations, or de-escalation pathways
- Hard data on trade, inflation, and consumer/business sentiment

The scenario outlined above represents our most likely estimate of where the market may settle during this period of heightened uncertainty. We consider this our *base case*, given that the final scale and implementation details of the proposed tariffs remains unknown and subject to change. Below, we outline a range of alternative scenarios, each with a reasonable probability of occurring, based on different assumptions around earnings and market multiples.

Table 2: Possible US Market Scenarios

Scenario	S&P 500 Earnings for 2025	Multiple for S&P 500	Indicative S&P 500 level	Downside from pre-tariff announcement level
Starting point prior to announced tariffs	270	21 x	5,670	0%
Super bear – low earnings and low multiple	Similar to COVID and dot com earnings falls (but less than GFC) - 20% = 216	Average of 2022/2020/2018 trough multiple 14 x	3,024	-46.7%
Bearish	Earnings down 10% = 243	Long term multiple of 18 x	4,374	-22.9%
Base case	Earnings down 8% = 248	Multiple 19 x	4,720	-16.8%
Mild downturn	Earnings down 3% = 262	Multiple 19.5 x	5,107	-10%

Source: Antares Equities; April 2025

Markets have entered a new phase—one shaped less by optimism and momentum, and more by uncertainty and recalibration. The tariff announcement on April 2 served as a turning point, prompting investors to reassess assumptions around growth, profitability, and valuation. While the full economic impact will unfold over time, markets are already repricing risk. In this environment, discipline and adaptability will be key. We remain focused on monitoring developments, reassessing positioning as new data emerges, and navigating the shifting macro landscape with a clear eye on risk and opportunity. In poker, as in investing, the strength of your hand is only part of the equation—what matters most is how you play it.

Strategy

As discussed earlier in the report, we have repositioned the portfolio in anticipation of a more volatile market environment with significant downside risks. Our overweight position in metals has been reduced to a more modest level, reflecting concerns that tariffs may negatively impact end demand. It is worth noting that this sector also includes the strongly performing gold segment, where Evolution Mining remains a key holding.

We have also trimmed our healthcare overweight by reducing our substantial positions in CSL and Cochlear, in light of the potential uncertainty tariffs could bring to the sector. The capital released from these adjustments has been redeployed to increase our overweight in Consumer Staples, primarily through the acquisition of Woolworths, and to lift our exposure to Communication Services via the purchase of Telstra.

Financials remain our largest underweight; however, we have increased our allocation to the interest rate-sensitive Real Estate sector.

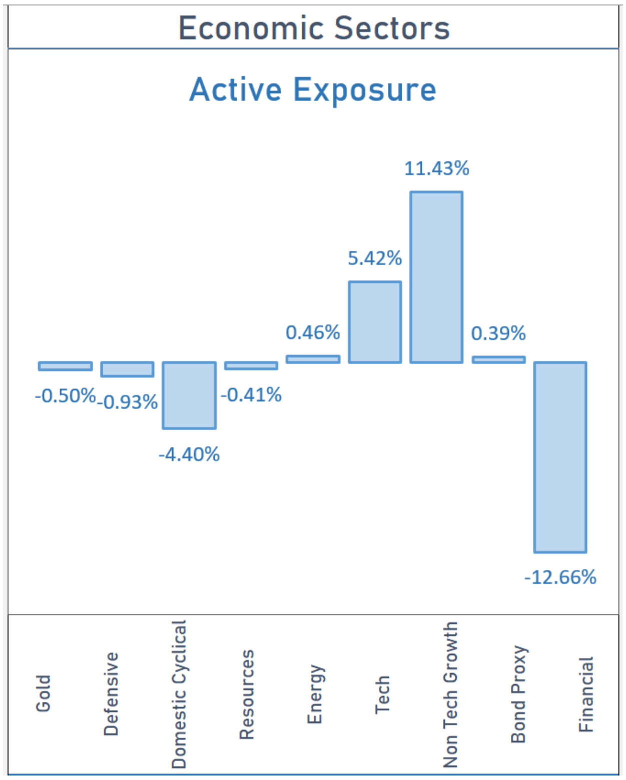
Table 3: Elite Opportunities GICS Sector Exposure vs Benchmark

Active: GICS1 12 sectors			
GICS1_12 Sector # & Desc			
31/03/2025			
	Portfolio Weight	Benchmark Weight	Difference
10 Energy	3.84	3.78	0.06
15 Metals & Mining	18.12	17.33	0.79
16 Materials Ex Metals & Mining	2.18	1.89	0.29
20 Industrials	2.09	7.48	-5.39
25 Consumer Discretionary	7.54	7.69	-0.15
30 Consumer Staples	7.37	3.85	3.52
35 Health Care	15.44	9.73	5.71
40 Financials Ex Reits	22.82	33.48	-10.66
45 Information Technology	4.98	2.82	2.16
50 Communication Services	6.74	3.82	2.92
55 Utilities	0.00	1.48	-1.48
60 Real Estate	8.10	6.64	1.46
[Cash]	0.77	0.00	0.77
Total	100.00	100.00	0.00

Source: Bloomberg, Antares Equities; March 2025

From an economic sector perspective, the fund remains significantly overweight in non-tech growth, driven primarily by our healthcare exposure and key positions in industrial companies such as James Hardie and IDP Education (IEL). Financials and domestic cyclicals continue to represent major underweights, while the fund now holds a modest overweight in bond proxies.

Figure 7: Portfolio Sector Exposure



Source: Antares Equities, Bloomberg; March 2025

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