Quarterly Report

Antares Ex-20 Australian Equities Shares Fund – March 2025

For adviser use only

Highlights for the quarter

Performance: The Fund returned -4.5% (net of fees) for the December quarter, compared to its benchmark return of -1.7%.

Contributors to performance: Positive contributors – Nine Entertainment, Medibank Private and Northern Star; Negative contributors) – Block Inc, HMC Capital and Wisetech

Stock activity: Buys/additions – Nextgen; Sales / reductions – JB HiFi

Fund snapshot

Inception date	1 October 2019
Benchmark	S&P/ASX 200 Total Return Index excluding the S&P/ASX 20 Total Return Index
Investment objective	The Fund's objective is to outperform the Benchmark over rolling 5 year periods.

Investment returns* as at 31 March 2025

Period	3 months	1 year	3 years pa	5 years pa	Since inception pa
Net return[2] %	-4.5	-0.7	2.2	14.1	6.7
Benchmark return %	-1.7	1.6	4.4	12.8	5.5
Net excess return %	**-2.8**	**-2.3**	**-2.2**	**1.3**	**1.2**

**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. The value of an investment may rise or fall with the changes in the market.

[2] Investment returns are based on exit prices, and are net of management fees and assume reinvestment of all distributions.

Performance

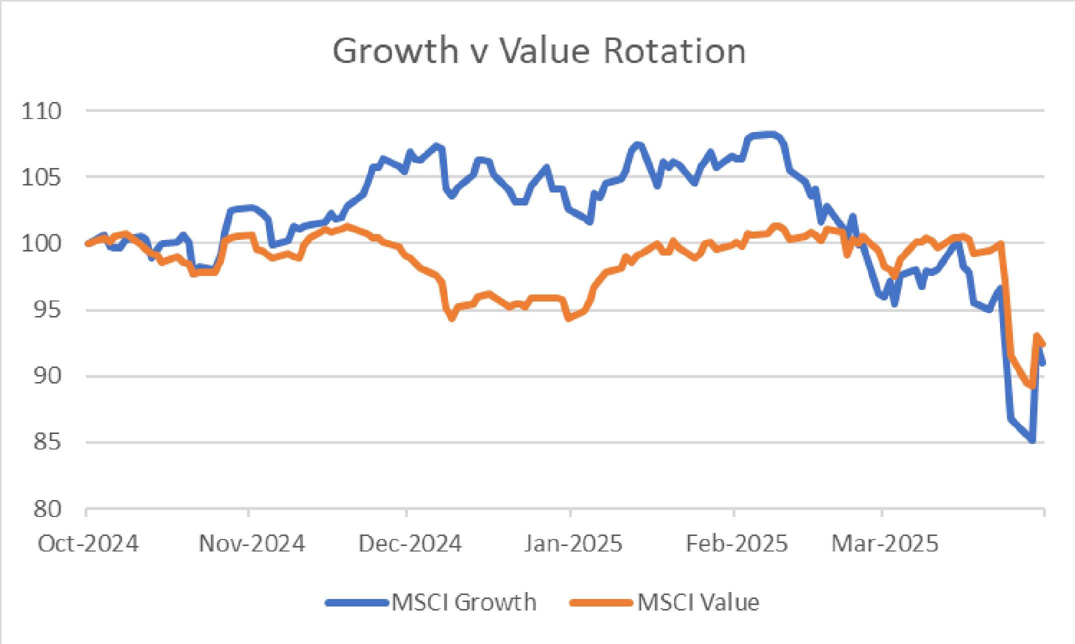
The portfolio delivered a net return of -4.5% in the March quarter compared to its benchmark return of -1.7%. March in particular saw a degree of panic relating to tariff policy begin to enter the market leading to volatile swings in the prices of certain shares, with longer duration tech and consumer shares bearing the brunt of the moves. These are typically higher quality in earnings and so favoured by this portfolio.

Quarterly Update and Outlook

March saw some ominous signs of volatility emerge as markets began to realise that the Trump administration was to be taken literally at its slogan of "America First". Long standing relationships and treaties were all in the firing line if a direct and clear benefit was not observable to the Administration from a particular situation. This ranged from support for Ukraine in its war with Russia to tariffs for long standing allies and neighbours such as Canada and Mexico despite various free trade agreements that were thought to be in place.

This saw market leadership rapidly change course and direction.

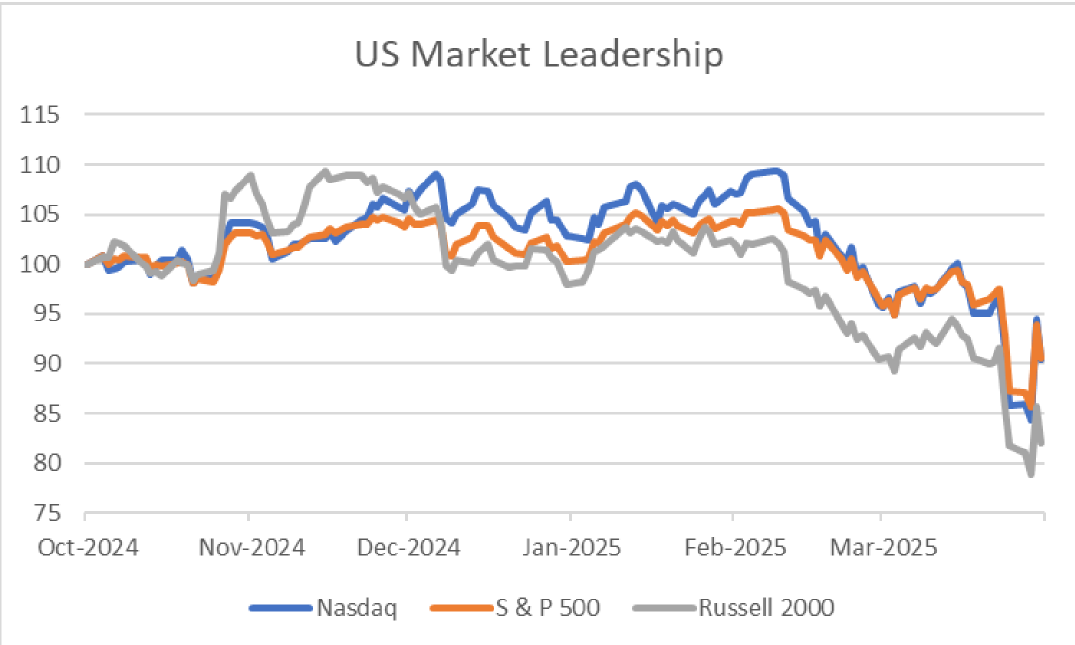
Figure 1: Growth v Value in Global Equity Markets



Source: Bloomberg and Antares Equities April 2025

As Figures 1 & 2 highlight, Growth assets were the markets' preference around the US election results. This highlighted early optimism that the incoming Trump Administration would strengthen the concept of "American Exceptionalism". This would see US tech leadership accelerate the US economy's competitive advantages. The reality, however, is proving different - and difficult. Figure 2 highlights the move of optimism to pessimism through the lens of US Small Cap companies (Russell 2000) which were thought to have been beneficiaries of Trump's desire to extensively deregulate the US economy.

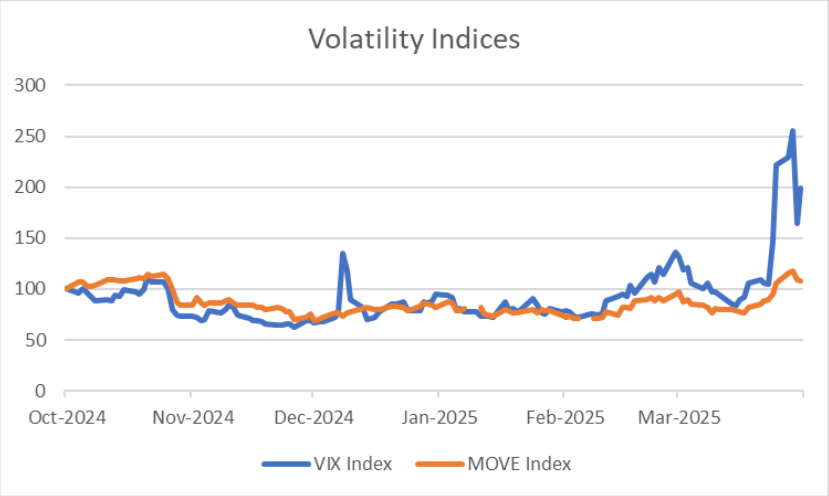
Figure 2: US Share Index Performance



Source: Bloomberg and Antares Equities; April 2025

This unexpected twist in policy has led markets to exhibit increasingly high volatility, with both the VIX, highlighting share markets and the MOVE, which represents fixed interest markets, both moving higher, as per Figure 3. Further, fixed interest markets are showing some interesting developments which we will discuss next as they will ultimately pertain to our local market.

Figure 3: Volatility Indices



Source: Bloomberg and Antares Equities; April 2025

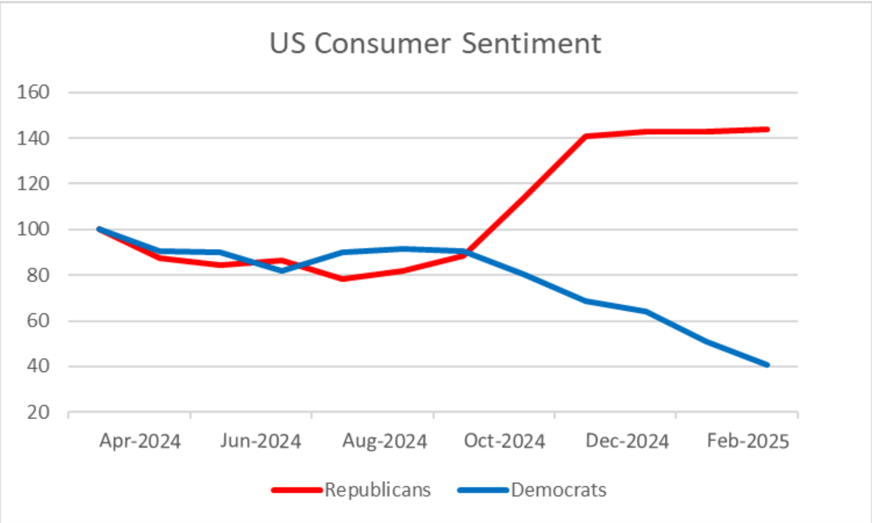
Is the Governance of the US Changing and why would this matter?

It is worth briefly noting that the Constitution of the United States is heavily modelled on that of Republican Rome (ie before Rome was ruled by Emperors). Indeed, the seat of power in Washington is named the Capitol after the Capitoline Hill in Rome, on whose slopes sat the Senate House. The Roman Republic was a proportional democracy, albeit with limited suffrage. Over time, as Rome's empire grew, so too did the power of its leaders and this led to significant bouts of civil strife and in some cases outright civil war between factions favouring the old elite (the Patricians) and the common people, the plebeians.

Essentially this led to a decline in the institutions and conventions of the old constitution which was unable to reconcile the various competing interests. Ultimately Julius Caesar would emerge as Dictator for Life (another abuse of a long standing convention) until he was murdered on the Ides of March in 44BC. Caesar was from a wealthy patrician family but was a populist ideologue who saw himself as a descendant of a deity with a divine mandate to restore Rome in his own view of how that should look. In the end, though, it was his heir Octavian (Augustus) who founded the Imperial System and broke completely with the Republican system of government and concentrated all power in the hands of one person, himself.

As Figure 4 highlights, Americans are deeply polarised around political beliefs to the point that it is difficult to see any easy path to reconciliation.

Figure 4: Consumer Sentiment Republicans & Democrats



Source: University of Michigan, Bloomberg and Antares Equities; April 2025

History does not repeat, but it does rhyme, and if this sounds vaguely familiar, it should as this is precisely what seems to be happening in the US post the global recession of 2007/08. The emergence of the populist Donald Trump echoes much of those developments that played out some 2,000 years ago in the very system on which the US system was based. And we are seeing the outcome of a more "Imperial" style US Presidency, in which more and more executive power is vested in the Office of the President, rather than Congress.

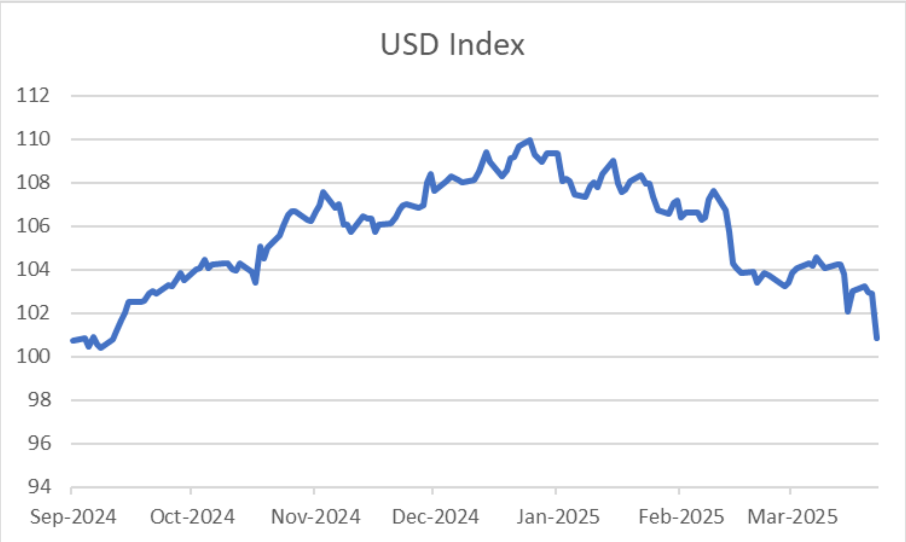
(Note: To read more on the parallels between the Roman Republic and Empire with the US, see our article: is-the-us-echoing-the-roman-republic.pdf)

The tariff announcements are evidence of this shift. Taxes and levies, which are what tariffs are in essence, are the prerogative of the Congress, although in a little known exemption known as the International Emergency Economic Powers Act (IEEPA), the President can wield certain economic powers. It is this act that has been used to levy the tariffs.

While it is early days, these acts may, potentially, be undermining the global trust in US assets. US economic power has many sources, but at its core is the US Dollar which is the world's reserve currency and grants enormous control to the US over many facets of the global economy. Everything is ultimately priced in US dollars and risk is measured against US government securities.

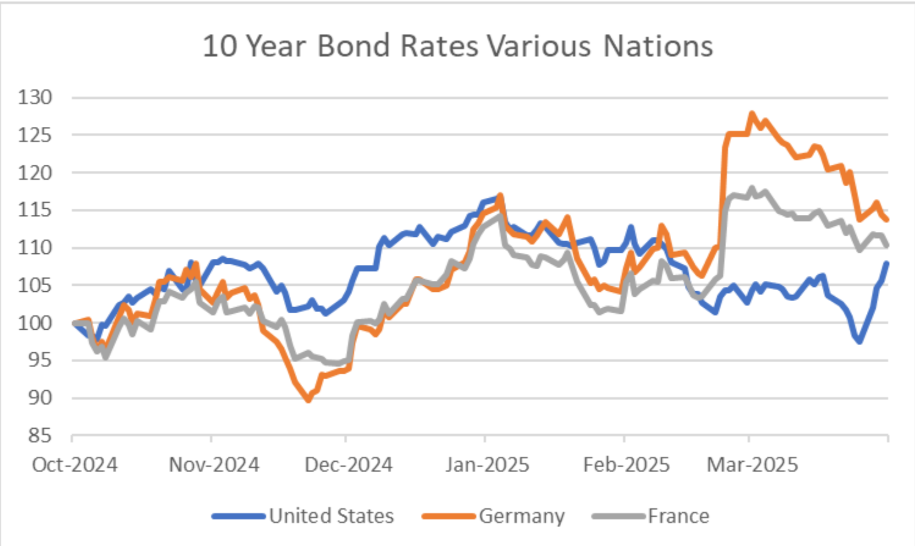
This is why the way the US is governed matters so much. If the world increasingly decides that US policy making is increasingly volatile, being more and more based on the views solely of the President rather than the various processes and committees of congress, risk assets globally face a difficult time adjusting to new risk benchmarks. And as Figures 5 and 6 show, we are seeing a weakening of the US dollar versus its major trading partners, as well as an increase in alternative "risk free assets" such as Gold and the bonds of larger European countries, despite their own debt issues.

Figure 5: The US Dollar Index



Source: Bloomberg and Antares Equities; April 2025

Figure 6: French and German 10 Year Bonds v 10 Year US Treasuries



Source: Bloomberg and Antares Equities; April 2025

Outlook

So what does all of this mean right now for our portfolio?

The above is a recipe for volatility as shown in Figure 3 above. We do not expect that volatility to recede but we think this is ultimately advantageous for our style. It is opening up investment opportunities in quality businesses with deep moats and now much more reasonable valuations.

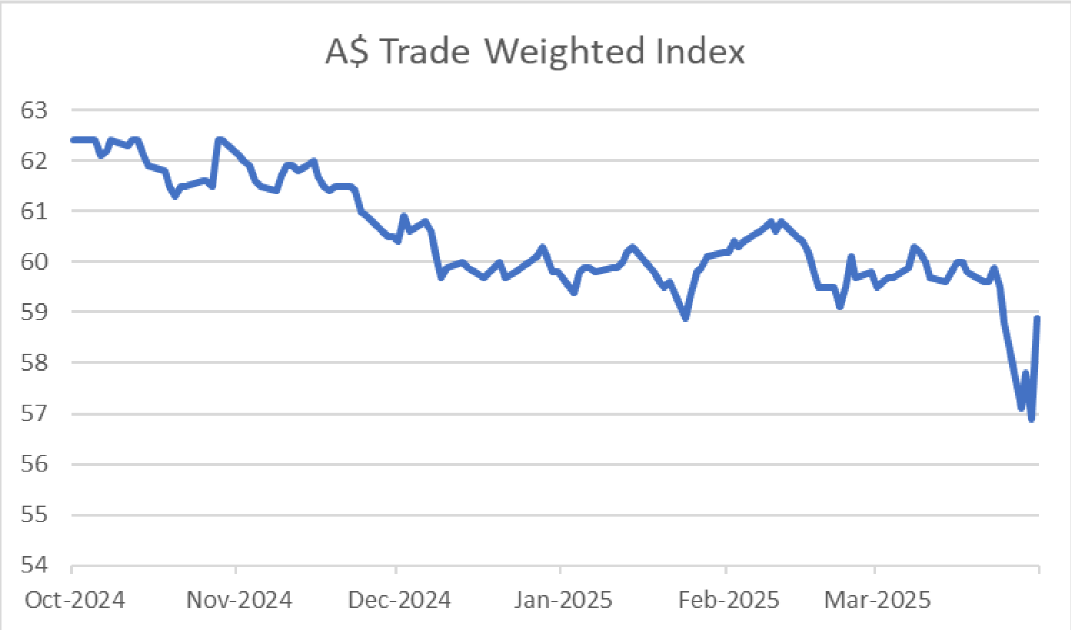
While true market pricing will take time to adjust to the current volatility and the panic around asset prices will need to settle, we expect that over time such businesses will emerge as the winners in a relative sense.

We are also aware that such adjustments do not take place in a linear fashion and as such we retain some riskier exposures to ensure a better relative profile in the portfolio when better news hits the markets given the increasingly bearish tone taken by many in markets – this can make risk rallies particularly intense, but these are to be faced until a more stable relationship emerges between China and the US.

The true target of the US Administration's trade concerns is, of course, China. This makes the backdrop difficult for Australia as China is our largest trading partner. Despite that, there are several reasons not to be overly pessimistic on our local economy.

Firstly, our currency acts as a balancing mechanism and it has fallen materially, especially against the Euro and Yen, currencies of major trading partners in their own right, as highlighted in Figure 7 highlighting this fall in the value of the currency versus these peers.

Figure 7: AUD v TWI



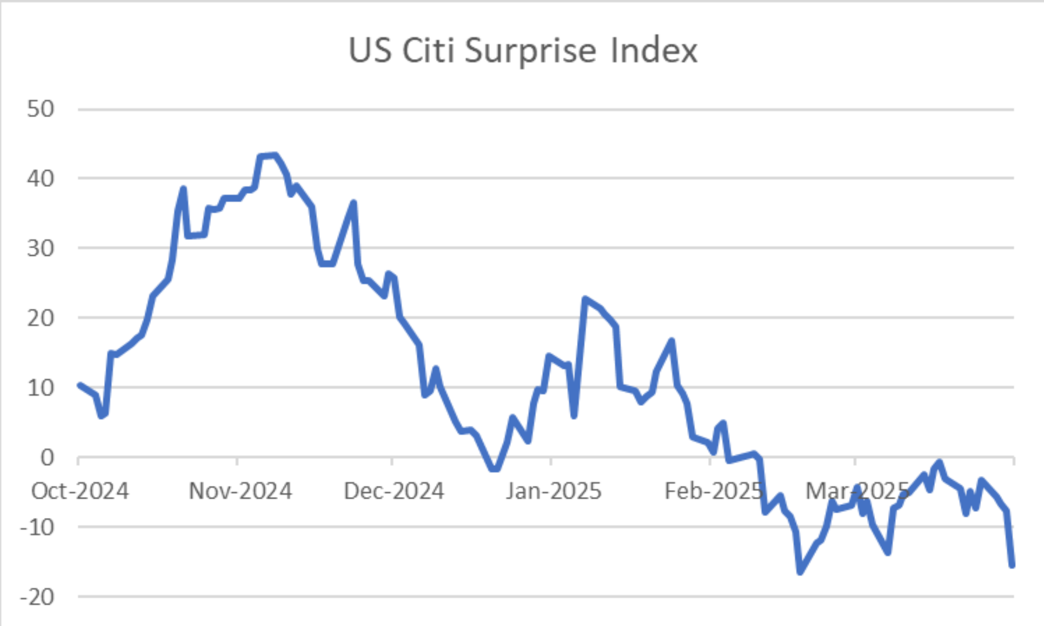
Source: Bloomberg and Antares Equities; April 2025

Secondly, there is scope for Reserve Bank to materially cut rates in Australia. With high levels of floating rate mortgages and significant personal debt levels, this would act a material stimulus, as it did in 2007/08.

Thirdly, like most developed economies, Australia's is over 60% service based which provides protection from trade based shocks such as those currently echoing around the world.

Finally, while no longer pristine, Australia enjoys a relatively low level of sovereign debt which provides policy flexibility to governments. While the path to such announcements would be difficult, the back stop is real and provides protection to the worst down side cases, unlike the situation in the US, for instance, where consumer confidence is already falling materially as the tariff impact dawns on US consumers. Indeed, it would seem to us that the US is probably already in a recession as companies such as Delta Airlines begin to withdraw any forward earnings guidance and hard data begins to roll over, as per Figure 8.

Figure 8: US Citi Surprise Index



Source: University of Michigan, Bloomberg and Antares Equities; April 2025

Stock attribution

Contributors

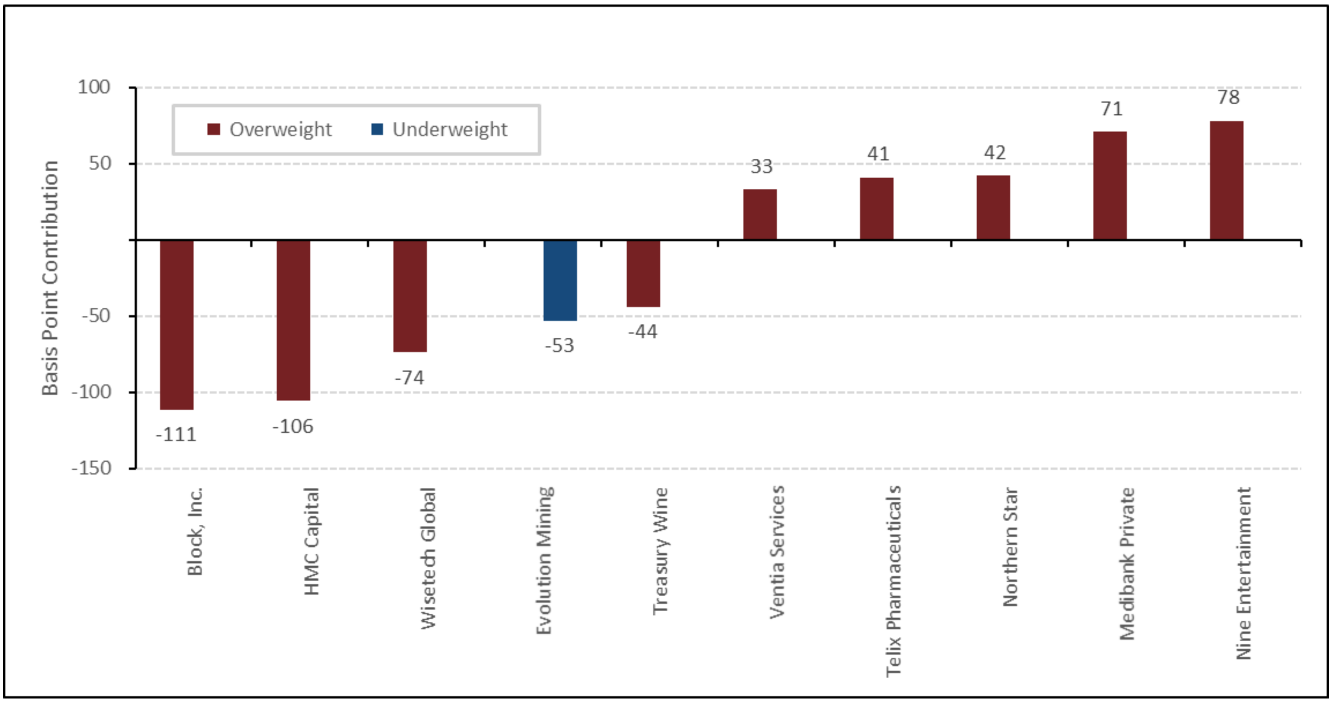
Nine Entertainment (NEC): NEC performed well driven by a bid from US Tech and Property company, Costar, for its majority owned Domain Group. The bid came at a 40% premium to Domain's undisturbed share price and highlighted the value in the NEC portfolio of assets. Further, NEC reported a better than expected advertising outlook.

Medibank (MPL): MPL reported a strong result with moderate policy holder growth assisted by good claims cost management and strong investment income from its statutory reserve portfolios. This saw the market upgrade its earnings outlook. This, coupled with its defensive profile as a health insurer in a market which requires people on medium incomes and more to have private health insurance saw continued support as a safe haven asset.

Northern Star (NST): Gold was a favoured asset class in markets generally as investors began to fret about the impact of the US tariff policies on both US and Global growth, as well as the possible inflationary aspects in the world's largest economy, the US. NST shares benefitted from the rising gold price.

Ventia Services (VNT): Another company to report strongly in February was VNT. More importantly, VNT also announced above market guidance for calendar year 2025, despite the overhang of the ACCC investigation into its Department of Defence Contracts and the company continued to announce material new contract wins in the telecommunications area, which are generally higher margin. Further, its clients are either government or major corporations such as Telstra in defensive areas which helps in the current markets.

Figure 9: Fund attribution – March quarter



Source: Antares, March 2025

Detractors

Block (XYZ): Whilst Block re-affirmed FY25 full-year guidance, the market was disappointed by a softer guide for 1Q25 due to Forex headwinds and the lack of a leap year resulting in one less trading day in February. Therefore, Block will require a larger acceleration in 2H25 to compensate for the slower start to the year. Further, the market is also concerned that its Cash App segment will comprise a larger portion of earnings than Square. Cash App is considered a lower multiple business than Square.

However, we believe that this is adequately reflected in the price, with the stock trading on around 15x forward earnings despite guiding to 15% earnings growth in FY25. Further, its client base for cash app is generally unbanked Americans of lower socio economic background. This creates the perception of earnings risk in a US recession, albeit most of the spend on Cash App is food and staples.

HMC Capital (HMC): HMC fell following the disappointing listing outcome of its data centre real estate investment trust, DigiCo Infrastructure REIT. The market is concerned that this disappointment will make it harder for HMC to raise third party money for other planned investment vehicles in alternative energy and private credit in particular. These fears are amplified by the problems with its healthcare REIT centred on the struggling private hospital chain, Healthscope. Despite these challenges, we remain committed to HMC as the investment is premised on backing talented and aligned teams in the mould of a mini Macquarie bank.

Wisetech Global (WTC): WTC fell after the simultaneous release of downgraded earnings guidance for FY25 based on a delay to the launch of its much anticipated Container Optimisation Module and, more importantly, the resignation of its four independent Board Directors. This saw founder, Richard White, return to the company as Executive Chairman. The Independent Directors resigned due to an intractable impasse between them and White over his role at the company. While this is a difficult situation for us as investors, the commercial reality of WTC’s Cargowise Platform is that it has no peer in the logistics industry and is becoming increasingly ubiquitous in the way that Microsoft has become in Office Software. Hence, we have stayed invested as even when we increase the risk premium for the governance issues, we see WTC as attractive.

Portfolio activity

Buys and Additions

Nextgen (NXG): We added Nextgen (NXG) to the portfolio in February after meeting with management. NXG is an emerging uranium producer and is currently in the approval process in Canada. It is the largest undeveloped uranium ore body in the world and has excellent mine dynamics. We understand the project has the full support of all key stakeholders including local First Nations. Uranium is a noisy commodity but looking through to fundamentals we see significant unmet demand from existing users beyond 2026.

Sales and exits

JB Hi Fi (JBH): We sold JB Hi Fi (JBH) from the portfolio in February following the release of its 1H FY25 results. The results were above expectation and the company provided an outlook ahead of expectations. Despite all this good news, the market's reaction was muted as the stock is expensive on all of our valuation metrics. We like JBH but we see better value in the market elsewhere for now.

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Get in contact

antarescapital.com.au

Phone: 1300 738 355
Email: investorservices@antaresequities.com.au
Mail: PO Box 200, North Sydney NSW 2059