Quarterly Investment Update

Antares High Growth Shares Fund – March 2024

For adviser use only

Highlights for the quarter

Performance: The Fund returned 3.2% (net of fees) for the March quarter, compared to its benchmark return of 5.3%.

Contributors to performance: Positive contributors – Goodman Group, Fortescue Metals (short) and Resmed; Negative contributors – BHP, Wesfarmers (not owned) and APM Human Services

Stock activity: Buys/additions – Mineral Resources; Sales / reductions – APM Human Services, Goodman Group, Wisetech

Fund snapshot

Inception date	7 December 1999
Benchmark	S&P/ASX 200 Total Return Index
Investment objective	To outperform the benchmark (after fees) over rolling 5-year periods

Investment returns as at 31 March 2024[1]

Period	3 months	1 year	3 years pa	5 years pa	7 years pa	10 years pa	Since inception pa
Net return[2] %	3.2	9.4	9.1	9.3	8.7	8.7	9.8
Benchmark return %	5.3	14.4	9.6	9.2	8.6	8.3	8.4
Net excess return %	**-2.1**	**-5.0**	**-0.5**	**0.1**	**0.1**	**0.4**	**1.4**

[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 7/12/1999

Contributors to performance

March quarter returns were 3.2%, compared to the benchmark's return of 5.3%. It was a challenging start to the year for the fund, trailing the benchmark by 2.1% after fees. January saw several portfolio stocks issue unexpected downgrades and heightened volatility during the February reporting season further impacted our performance. Notably, consumer discretionary companies including Wesfarmers showed unexpected resilience during this period and not owning the stock detracted. Although March delivered a respectable performance rebound, it fell short of offsetting previous underperformance.

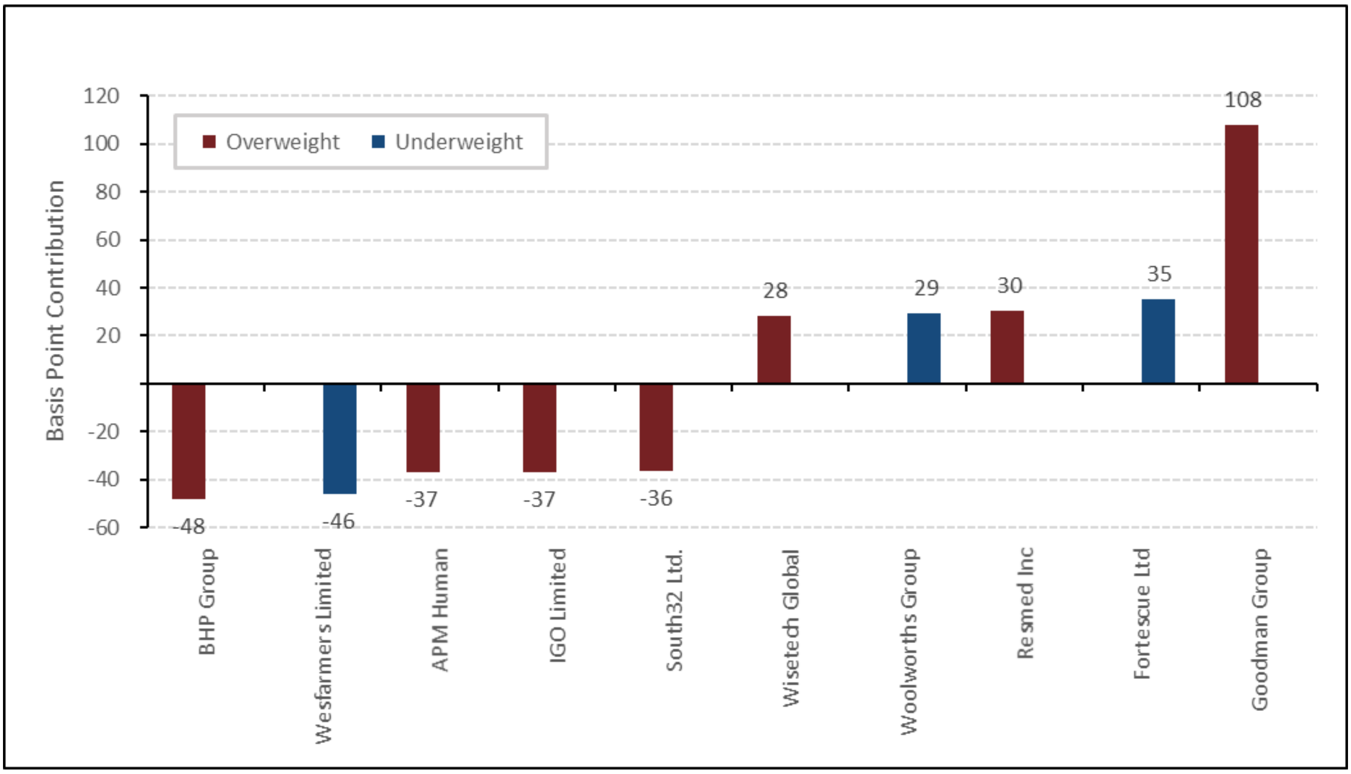
Positive

Goodman Group (GMG, overweight) **-** GMG, our largest active position, outperformed the market, returning 33.6% compared to the benchmark's 5.3%. The company's robust performance was fuelled by an impressive FY 24 earnings growth guidance upgrade from 9% to 11%. Additionally, progress in its data centre rollout plans instilled confidence in sustained earnings growth beyond FY24. The surge in demand for companies facilitating AI deployment, coupled with GMG's inclusion in FTSE's global indices, further bolstered its share value.

Fortescue Metals (FMG, short) - FMG faced downward pressure amidst growing apprehension over Chinese economic growth, notably in the property market. The decline in iron ore prices, influenced by concerns surrounding Chinese steel consumption, particularly impacted FMG's performance. The Fund is short FMG.

Resmed (RMD, overweight) - RMD delivered a strong result during the quarter demonstrating continued good volume growth (particularly in the US) and pleasingly, margin expansion. Margins grew by 0.9% from the previous quarter after RMD had flagged they would be flat. The company continues to grow its user base and there is no sign yet of its competitor Philips returning to the US market. The fund has an overweight position in RMD.

Figure 2: Fund attribution – March quarter



Source: Antares, March 2024

Negative

BHP (BHP): BHP also faced downward pressure given the decline in iron ore prices on concerns surrounding Chinese steel consumption and growing apprehension over Chinese economic growth. Despite these challenges, the fund maintains a significant overweight position in BHP.

Wesfarmers (WES, not owned): WES delivered a strong result during the quarter that saw its share price react favourably. The result was surprisingly driven by the Kmart segment that showed good volume and margin growth demonstrating good operating leverage. Bunnings continues to trade well across both the DIY and trade segments with the new Pet and Cleaning categories resonating well with consumers. The fund does not own WES shares.

APM Human Services (APM, overweight) - APM was sold off heavily following another earnings downgrade only two months following its AGM update due to the impacts of prolonged unemployment, higher interest costs and tax leading to a greater than expected decline in 1H24 earnings only two months after the company's AGM update.

Stock activity

During the quarter, our fund initiated a position in **Mineral Resources** (MIN) driven by compelling factors that underpin its potential for significant growth and value creation.

- Diverse and Valuable Asset Portfolio: MIN boasts a unique portfolio of assets including Iron Ore, Mining Services, Lithium and Energy. We believe its undemanding valuation coupled with the diversity of its asset base positions it favourably in the market.
- Transformational Iron Ore Business: MIN is on the brink of a game-changing transformation with the imminent delivery of the Oslo project. This initiative is set to revolutionise its iron ore business, enabling the production of 35 million tonnes per annum (mtpa) of low-cost iron ore. At current market prices, this development is anticipated to yield over A$1 billion in annual EBITDA (attributable to MIN's ~60% stake).
- Strategic Partnerships Driving Additional Revenue Streams: The agreement with Baowu (a leading Chinese steel mill) not only enhances MIN's iron operations but also presents lucrative opportunities for additional revenue streams. Through service fees associated with other operations, MIN stands to generate nearly A$0.5 billion in annual EBITDA, reinforcing its financial strength and providing ample room for debt reduction.
- Unlocking Embedded Value: MIN holds substantial potential beyond its Iron Ore operations. Its world-class lithium assets represent a valuable resource that can be substantially expanded over time, capitalizing on the burgeoning demand for lithium-driven technologies. Furthermore, the gas development project remains an untapped source of value, presenting significant upside potential that we believe is not adequately reflected in the current share price.

Sales / reductions
The portfolio exited the position in **APM Human Services** (APM) following a third earnings downgrade in 5 months. While the stock appears prima-facie cheap following the sell off, the last downgrade confirms our ongoing governance concerns and concerns around the balance sheet.

During the quarter, the fund strategically trimmed its overweight positions in two stocks that have exhibited exceptional performance over the past 12 months: **Goodman Group** (GMG) and **Wisetech** (WTC). Despite their status as global leaders in their respective sectors and their impressive track record of robust earnings and cashflow generation, the substantial appreciation in their share prices prompted us to re-evaluate our holdings.

Both GMG and WTC have delivered outstanding results, reflecting the strength of their businesses and their ability to generate value for shareholders. However, with much of their stellar performance already factored into their share prices, we decided it was prudent to reduce our exposure to these positions. This adjustment aligns with our disciplined approach and commitment to maintaining a balanced and diversified portfolio.

A summary of our shorts and related stock activity over the quarter is presented in Table 1.

Table 1: Stock Activity

Portfolio Trades	Buy / Close	Sell / Initiate
Long	BPT, EVN, FFM, IAG, MTS, MIN	AWC, APM, NEC
Short	ALX, BWP, CSR, LTR, NHF	JHX, PMV, SUN

ASX Codes: Alumina (AWC), APM Human Services (APM), Atlas Arteria (ALX), Beach Energy (BPT), BWP Trust (BWP), Evolution (EVN), Firefly Metals (FFM), James Hardie (JHX), Liontown Resources (LTR), Metcash (MTS), Mineral Resources (MIN), NIB Holdings (NHF), Nine Entertainment (NEC), Premier Investments (PMV), Suncorp (SUN)

During the quarter, several countries surprised consensus expectations with their manufacturing data, indicating an upswing in activity not seen since September 2022 in the US. Coupled with strong Chinese performance and Europe showing signs of life, it suggests the early stages of a synchronized global manufacturing recovery. This coincides with expectations of interest rate cuts in the US, potentially boosting demand, especially at a time when supply is challenged across various commodities, notably copper and oil, and inventory levels are relatively low. Interestingly, this resurgence occurs amid a market fervour for digital and AI-related assets, leaving resource and energy stocks overlooked. This presents an opportune moment for commodity stocks, prompting us to selectively bolster our positions in the energy and metals and mining sectors.

Conversely, we took the opportunity to close some of our longstanding short positions, which performed well, particularly Atlas Arteria, BWP Trust and Liontown Resources. Additionally, we exited our modest CSR short position before and after the formal announcement of a takeover from Saint-Gobain. Furthermore, we initiated small positions in James Hardie and Premier Investments, anticipating potential growth in our short should recent interest rate hikes persist.

Outlook

In our previous quarterly report, we discussed the contrasting perspectives of the bond and equity markets. At that time, the bond market had factored in an expectation of 7-8 rate cuts throughout 2024, while the equity market remained optimistic, projecting EPS growth in the mid-teens. Fast forward three months, and it appears that the equity market's bullish outlook has been vindicated, as the bond market now anticipates only three rate cuts (with a downward trend in expectations) priced into the 2024 rate expectations.

The uncanny staying power of the consumer in the current cycle sheds a lot of light on the resilience of the global economy and has caught us by surprise. Despite the upward trajectory of global interest rates, consumers persist in their spending habits, propelling global growth beyond long-term trend rates.

Given this evolving landscape, it's somewhat surprising to witness the continued strong rally in global tech stocks, epitomized by the "magnificent 7." Despite the rise in yields, which traditionally might have tempered enthusiasm for such high-growth assets, the fervour surrounding the AI theme remains unabated. In fact, the increase in yields has seemingly bolstered this cohort, driving their valuations even higher.

Looking back at previous periods of high market concentration such as the tech bubble of 2000, the Japan financial bubble of 1989 and the Nifty50 of the early 70's, the current cycle does not seem as extreme which may indicate that perhaps there is more in the current cycle if the lofty heights of previous cycles are to be reached.

Table 2: Magnificent 7 compared to prior cycles

Theme	Market Weight %	24 month fwd PE(x)	24 month Value/Sales (x)
Magnificent 7 (2024)	30.2	25.1	4.8
Tech Bubble (2000)	19.0	52.0	8.2
Japan Financial Bubble (1989)	27.0	67.0	-
Nifty 50 (1973)	19.9	34.3	-

Source: Goldman Sachs Research; March 2024

Furthermore, looking back at periods of high market concentration it is not certain that a fall in the market is imminent; Table 3 highlights that it is more likely the market rises (4 out of 7) than falls. Of the seven periods of high market concentration over the last 100 years, the average S&P500 return over the subsequent 12 months was +23%.

However, historical patterns also reveal that market leadership tends to shift, with a "catch up" observed among stocks that have previously lagged the rally. This phenomenon is exemplified by the momentum factor, which has consistently underperformed (7 out of 7 instances) following periods of high concentration, experiencing an average decline of 28%.

Table 3: Historic S&P500 market concentration

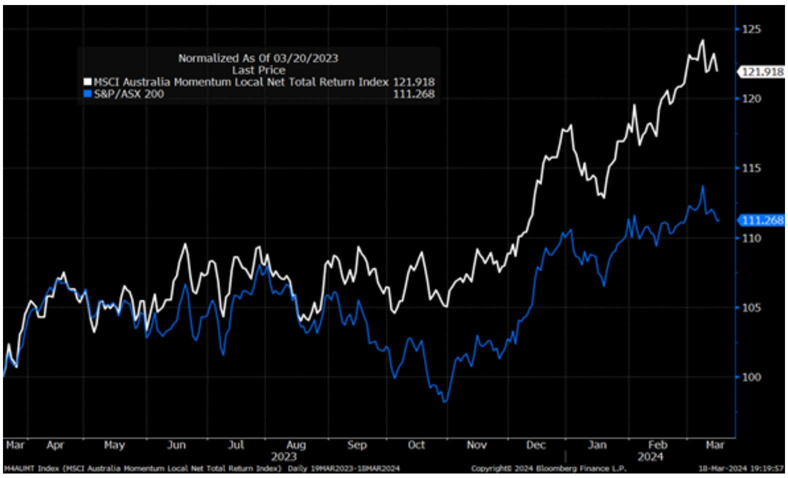
Year	Months until (since) nearest recession	Unemploy-ment rate	10-year Treasury yield	S&P 500 Shiller P/E: P/E	S&P 500 Shiller P/E: Yield gap vs. 10y UST	12 months prior: S&P 500 return	12 months prior: Momentum factor return	12 months after: S&P 500 return	12 months after: Momentum factor return
1932	0	22%	3.5%	8x	858 bp	(66)%	96 %	116 %	(51)%
1939	(14)	16	2.4	19	286	(7)	18	(6)	(29)
1964	(36)	5	4.2	26	(26)	21	9	12	(5)
1973	6	5	6.9	18	(149)	(3)	66	(18)	(13)
2000	12	4	6.0	42	(386)	16	36	(23)	(22)
2009	0	8	3.0	12	513	(46)	62	50	(54)
2020	0	8	0.7	28	288	20	9	29	(22)
Averages									
All episodes	(5)	10%	3.8%	22x	198 bp	(9)%	42 %	23 %	(28)%
Near market peaks	9	4	6.5	30	(267)	7	51	(20)	(17)
Current		4%	4.1%	27x	(44)bp	31 %	19 %		

Source: Goldman Sachs Research; March 2024

Strategy

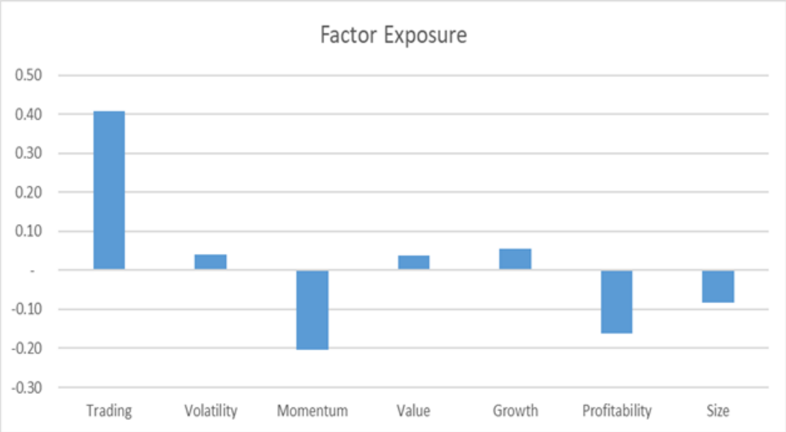
In light of these insights, our strategy remains cautious. While acknowledging the enduring success of the momentum factor, we are hesitant to chase the current group of momentum stocks higher. The extreme performance divergence and our bottom-up analysis, particularly regarding stocks like GMG and WTC, which appear stretched, have led us to take a position of being underweight momentum. This decision is supported by the chart below illustrating the strong performance of the momentum factor in the Australian market and the fund's current positioning across standard risk factors, notably highlighting our meaningful underweight stance on momentum.

Figure 2: Australian market momentum



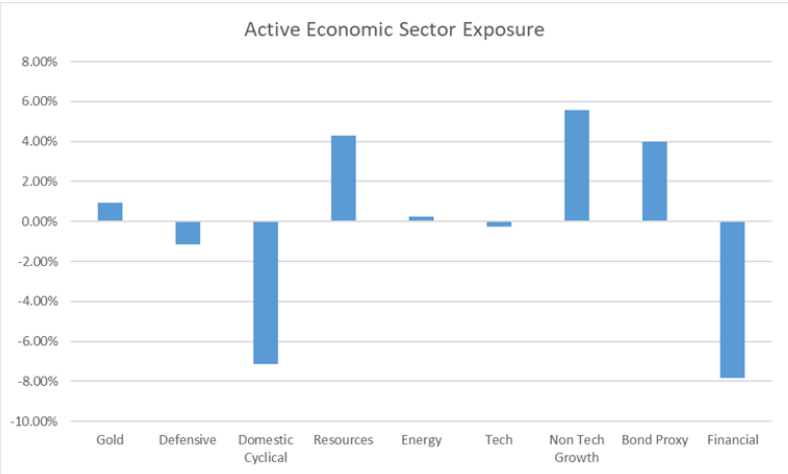
Source: Bloomberg; March 2024

Figure 3: Antares High Growth factor exposures (%)



Source: Antares Equities, Bloomberg; March 2024

Figure 4: Antares High Growth sector exposures



Source: Antares Equities, Bloomberg; March 2024

Expanding on our current sector exposures, the fund maintains an underweight position in domestic cyclicals and financials, balanced by overweight positions in non-tech growth and resources.

Increasing Overweight in Resources:
We have been steadily increasing our overweight position in the resources sector for several reasons. Firstly, we identify strong valuation support within this sector, which has historically been undervalued and overlooked. Additionally, recent indications of a bottoming out in global PMIs towards the latter part of the quarter serve as a positive sign for future demand. Coupled with the burgeoning demand for electric vehicles (EVs) and artificial intelligence (AI), as well as a dearth of supply resulting from years of underinvestment, we anticipate firmer prices in the resources market moving forward.

Underweight Domestic Cyclicals and Financials:
Despite opportunities within domestic cyclicals and financials, we have chosen to maintain an underweight position in these sectors. This decision is influenced by our assessment of the current economic landscape where we still expect the consumer to come under pressure at some stage together with our preference for sectors offering more compelling growth prospects and valuation dynamics.

Overweight Non-Tech Growth:
Our overweight position in non-tech growth sectors is predicated on our perception of better valuation support compared to the tech sector. We believe that the growth potential offered by non-tech segments, particularly in healthcare, presents attractive opportunities. Key drivers of this overweight are companies such as Resmed (RMD) and CSL, which we believe demonstrate strong fundamentals and promising growth trajectories.

Strategy

We have maintained our quality bias in the portfolio. Portfolio ROE and long term EPS growth (LT EPSg) are higher than the benchmark. The large sector overweights include Healthcare and Metals & Mining. While underweight sectors include Financials Ex-REITS, Consumer Discretionary and Materials ex Metals & Mining.

Table 3: March quarter relative sector positions

High Growth Shares Fund at 31 March 2024	Portfolio weight %	Benchmark weight %	Difference %
Energy	5.2	5.0	0.2
Metals & Mining	25.6	19.1	6.5
Materials ex Metals & Mining	-0.3	2.9	-3.2
Industrials	4.3	6.8	-2.5
Consumer Discretionary	3.2	7.3	-4.1
Consumer Staples	5.5	4.1	1.5
Healthcare	18.0	9.6	8.4
Financials (ex REITS)	23.3	30.3	-6.9
Information Technology	2.8	2.9	-0.1
Communication Services	6.0	3.8	2.2
Utilities	1.6	1.3	0.3
Real Estate	7.7	6.9	0.8
Cash	-0.1	0.0	-0.1*
Futures	-2.9	0.0	-2.9
Total	100	100	0.0

Source: Antares, Bloomberg; March 2024
Note:*A discrepancy between estimated and final distributions resulted in net shares and cash being out of alignment at month end.

Table 4: Portfolio Statistics – High Growth Shares Fund

High Growth Shares Fund at 31 March 2024	Portfolio %	Benchmark %	Difference %
B'Est ROE Forward 12M (%)	28.3	18.6	9.7
B'Est Price to Cashflow Ratio (P/CF) Forward 12 Months (x)	10.1	11.0	-0.9
B' Est Price to Book Ratio (P/B) Forward 12 Months (x)	2.1	2.1	0.0
B'Est P/E Ratio Forward 12M (x)	20.1	16.2	3.9
B'Est Dividend Yield Forward 12 M (%)	3.4	4.0	-0.6
B'Est Long Term (LT) Growth EPS (%pa)	15.4	7.1	8.3
Near term (NT) / Last 12m EPS Growth (x)	1.7	1.1	0.6
Net Debt / B'Est EBITDA (x)	1.2	1.8	-0.6
B'Est EV/EBITDA Forward 12M (x)	9.8	9.4	0.4

Source: Antares Equities, Bloomberg; March 2024; Note: B'Est is Bloomberg Estimated; LTG EPS is EPS growth over 3-5 years %pa; NT is Near term ie next 12 months.

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