

Portfolio Profile

Antares Ex-20 Australian Equities Model Portfolio (closed to new investments) May 2019



Termination of the Antares Direct Separately Managed Accounts

After careful consideration, Antares Capital Partners Ltd, as responsible entity (RE) of the DSMA, has decided to terminate the DSMA effective 17 June 2019 (Termination Date). We will no longer accept new and additional investments, switches or in specie transfers into the DSMA from 2 April 2019.

Model description and investment return objective

The Antares Ex-20 Australian Equities Model Portfolio is an actively managed, highly concentrated portfolio of Australian equities. It invests in shares from outside of the largest 20 companies by market capitalisation that Antares identifies as having the potential to offer significant long term capital growth.

The investment objective is to outperform the Benchmark (after fees) over rolling five year periods.

Manager's commentary

May saw another positive return for the portfolio, which returned 1.4% (net of fees)¹, despite more volatility sweeping global markets in the aftermath of the failed trade talks between the United States and China. Our return compared favourably with our benchmark, which posted a return of 0.26%. This marked the fifth month of positive return in succession, which is pleasing after the disruption caused by the volatility of the December quarter.

The main driver in the Australian market was the federal election, which saw a surprise Coalition victory. This had an immediately positive impact on market sentiment, particularly to cyclical stocks exposed to the Australian economy. With the overhang of changes to negative gearing and franking credits now removed, banking and Australian consumer stocks performed very well, despite the growing risk aversion offshore.

Our best contributor to the portfolio for the month was Fortescue Metals Group (FMG). The very strong iron ore prices continued in May, as a resumption of full production in Brazil seemed, if anything, to move further away. FMG also surprised the market with the announcement of a \$0.60c fully franked special dividend outside the course of reporting, reflecting its very strong cashflows.

Nine Entertainment (NEC) contributed strongly for the month as investors absorbed positive details of its presentation made at an investor conference in late April.

Finally, Medibank Private (MPL) also contributed strongly. MPL is a direct beneficiary of the Coalition election victory as the Labor Party had indicated its willingness to impose a cap of 2% on health insurance premium price rises over the next two years, well below recent annual increases. The stock responded strongly to the removal of this risk.

BlueScope Steel (BSL) declined over the month as steel spreads narrowed and the US removed some tariffs on steel imports from Canada. With steel prices falling and raw material inputs rising, BSL shares fell in anticipation of a weaker earnings outlook. We sold down some of our BSL shares in response to this.

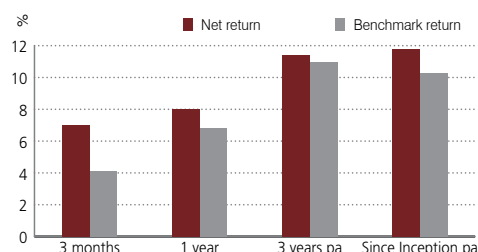
QBE Insurance was also weaker in the month. QBE faced twin headwinds. Lower global bond rates hurt the earnings from its investment portfolios (as an insurer, QBE invests its reserves mainly into fixed interest securities to provide earnings on these reserves). Further, with the cold and wet start to spring in the US, there is increasing speculation that QBE will face losses in its US crop insurance business.

Finally Janus Henderson (JHG) continued to be out of favour following its poor quarterly report issues in April. We have now sold our JHG shares as we believe the merger between Henderson and Janus has destroyed value and we are concerned about the retention of key investment staff in the current climate.

Portfolio facts

Inception date:	27 May 2015
Strategy size at 31 May 2019:	\$76.7m
Benchmark:	S&P/ASX 200 Accumulation Index excluding the S&P/ASX 20 Accumulation Index.
Investment timeframe:	At least 5 years
No. of shares:	15 to 30

Net return¹ vs benchmark return



Investment returns as at 31 May 2019¹

Period	1 month	3 months	1 year	3 years pa	5 years pa	7 years pa	Since inception pa
Net return² %	1.4	7.0	8.0	11.4	-	-	11.8
Gross return %	1.4	7.2	8.8	12.3	-	-	12.7
Benchmark return %	0.3	4.1	6.8	11.0	-	-	10.3
Net excess return %	1.1	2.9	1.2	0.4	-	-	1.5
Gross excess return %	1.1	3.1	2.0	1.3	-	-	2.4

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 Performance is based on the income and market value of the Model Portfolio and is net of fees. The performance of individual portfolios may differ to the performance of the Model Portfolio due to cash flows, portfolio reweighting and timing issues.

Investor profile

The Ex-20 Australian Equities SMA is designed for investors seeking an actively managed, highly concentrated portfolio of Australian securities that excludes the top 20 stocks by market capitalisation. The SMA aims to provide investors with long term capital growth.

Investment details

Status:	Closed to new investments
Income treatment:	Monthly distribution or re-investment
Administration fee:	Nil
Entry fee:	Nil
Exit fee:	Nil
Management fee:	0.75% (incl. net effect of GST) per annum

Investment guidelines and ranges

	Minimum	Benchmark Allocation	Maximum	As at 31 May 19
Australian shares	90%	100%	99%	95%
Cash and cash equivalents	1%	0%	10%	5%

Top 10 share holdings

as at 31 May 2019 (alphabetical order)

- Aristocrat Leisure
- Afterpay Touch Group
- DuluxGroup
- Fortescue Metals Group
- Goodman Group
- Medibank Private
- Nine Entertainment Co Holdings
- QBE Insurance Group
- Seek
- Star Entertainment Group

About Antares

Antares is a dedicated asset management business managing more than \$34.4bn on behalf of Australian investors, with \$6.3bn in Australian equities and more than \$28.1bn in fixed income (as at 31 March 2019).

At Antares we are wholly focused on delivering performance for investors through an investment approach underpinned by dedication, experience and discipline. We recognise and are ready for market uncertainty, and believe great performance is achieved through a focus on both risk and return. Antares consists of two divisions – Antares Equities (formerly Portfolio Partners and Aviva Investors) and Antares Fixed Income (formerly National Specialist Investment Management).

For further information please contact our Client Services Team - Toll Free: 1800 671 849

Stock Activity

Buys / Additions

We added Boral (BLD) to the portfolio in May. We funded the exposure with the sale of some of our exposure to BlueScope Steel. We feel that despite our reservations about the management at BLD, and the situation in the Australian housing cycle, the valuation of BLD looks compelling. We also note the wide-spread negative sentiment to the business, which overlooks its strategic strengths, particularly its access to upstream aggregate supplies here in Australia and to a lesser extent in the United States.

Sales / Reductions

We sold Janus Henderson Group (JHG) due to another poor earnings report, with no end in sight to the outflows from its business. Of particular concern are reports of key investment personnel leaving. The merger between Henderson and Janus looks to us to have destroyed value and reports of key staff leaving two years after the merger suggest poor morale. Investment management is a people business, and while valuation is cheap, this will need to be rectified before we reconsider another investment.

Important information: Antares Capital Partners Ltd ABN 85 066 081 114, AFSL 234483 ('ACP'), is the Responsible Entity of the Antares Direct Separately Managed Accounts ARSN 147 194 983 ('DSMA'). The DSMA will terminate effective 17 June 2019. This report has been prepared in good faith, where applicable, using information from sources believed to be reliable and accurate as at the time of preparation. However, no representation or warranty (express or implied) is given as to its accuracy, reliability or completeness (which may change without notice). This communication contains general information and may constitute general advice. This report does not take account of an investor's particular objectives, financial situation or needs. Investors should therefore, before acting on information in this report, consider its appropriateness, having regard to the investor's particular own objectives, financial situation or needs. We recommend investors obtain financial advice specific to their situation. 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. Any projection or other forward looking statement ('Projection') in this report is provided for information purposes only. No representation is made as to the accuracy or reasonableness of any such Projection or that it will be met. Actual events may vary materially. Any opinions expressed by ACP constitute ACP's judgement at the time of writing and may change without notice. ACP is a subsidiary of the National Australia Bank Limited group of companies ('NAB Group'). An investment in the DSMA is not a deposit with or liability of National Australia Bank Limited ('NAB') or any other member of the NAB group of companies ('NAB Group') and is subject to investment risk, including possible delays in repayment and loss of income and capital invested. Neither ACP nor any other member of the NAB Group guarantees the repayment of your capital, payment of income or the performance of your investment. NAB does not provide a guarantee or assurance in respect of the obligations of ACP.