Antares Enhanced Cash Trust

Monthly Investment Report
November 2021

antares

Trust Performance

Period Ended 30/11/21	1 Mth %	3 Mths %	1 Yr %	3 Yrs %	5 Yrs %	7 Yrs %	Since Inception %pa[1]
Composite Portfolio	-0.12	0.02	0.04	1.15	1.64	1.92	3.62
Bloomberg AusBond Bank Bill Index	0.01	0.01	0.02	0.68	1.14	1.45	3.11
Difference	-0.12	0.01	0.02	0.47	0.51	0.47	0.52

Valuation at month end was $5,850,209,204.52
Composite Portfolio returns are expressed before investment management fees and taxes; The difference in returns between the Trust and the benchmark may be out due to rounding;
1. Since Inception 17/01/2007

Sector Exposures

Sector	Interest Rate MDC	Credit Spread MDC	MV%
Cash	0.00	0.00	5.74
Govt Nominal	0.13	0.00	2.19
Semi-Gov Nom	0.99	0.99	22.93
Supra/Agencies	0.00	0.00	0.00
Corp Fin Fixed	0.06	0.06	5.32
Corp Fin FRN	0.02	0.14	11.31
Corp Others Fixed	0.00	0.00	0.24
Corp Others FRN	0.00	0.02	0.93
Covered Bonds	0.00	0.00	0.00
Derivatives Interest Rate	-1.27	0.00	0.72
Derivatives CDS	0.00	-0.11	-0.11
RMBS	0.01	0.17	8.18
Money Market	0.03	0.02	42.55
Total	**-0.04**	**1.30**	**100.00**

Key Characteristics at 30/11/2021

	Trust	Benchmark
Interest Rate Duration (yrs)	-0.03	0.13
Running Yield + Rolldown (%)	0.80	0.04
Credit Spread Duration (yrs)	1.30	0.00
Average Credit Rating	AA	AA-
Liquidity*	55%	100%

*Liquidity deemed available within 24 hours; includes govt & semis. Based on our definition of liquidity the fund has 73% liquidity. But given the size of this fund, we have reduced the effective liquidity to 55%.

Expected Return Objective

The Antares Enhanced Cash Trust aims to outperform the Bloomberg AusBond Bank Bill Index by 50 basis points per annum (before fees and expenses) over a full market cycle.

Return Attribution

Description	BPs
Duration	-3.5
Curve	-2.1
Sector	-11.5
Yield Enhancement	+4.7
Total Excess Return	**-12.4**

Portfolio Review

Key Drivers of Portfolio Performance:

- The 0.1yr short duration detracted 3.5bps as yields fell 25-48bps
- The 5bp flattening of the 10-3yr yield curve detracted 3bps
- Financial and corporate spreads widened 3-15bps, driven by widening swaps spreads vs bonds, detracting 4.2bps
- Semis widened by 5-8bps detracting 7bps
- Yield enhancement and rolldown of quality investment grade bond holdings added 5.6bps

Portfolio Activity and Positioning

- We rolled short securities and maintained the liquid structure of the Fund.

Portfolio Strategy

Strategy	Implementation
Duration and Yield Curve: Our Scenario analysis points to increasing probabilities of global reflation with a bear steepening of yield curves	• We have been playing duration strategically from the short side at an aggregate portfolio level. The recent 25-50bps fall in bond yields has left longer term market yields expensive versus our fair values. • Markets have priced in faster RBA rate hikes with an ensuing bear flattening, with 2-3yr bonds performing worst and 7yrs and longer bull flattening. • In contrast, a slower RBA, in line with Governor Phil Lowe's patient approach, could see support for 2-3yrs, but a bear steepening from 7yrs out. • We are looking at a "safe harbour" position on the yield curve in the 4-7yr area with some protection against both the "faster" and "slower" scenarios.
Optimising yield through carry and rolldown, focusing on the inflection points on steep curves. With yields so low and curves still steep, **in many cases the expected annual rolldown exceeds the running yield**	• We are using our proprietary analytics to find attractive rolldown maximisation opportunities per units of risk; currently semi and Commonwealth bonds in the 25-26 maturities are the most attractive, hedging with 3yr 5yr or 10yr futures.
Control credit risk	• Semis, led by NSW & TCV still present attractive relative value, especially in the 4-6yr maturities, and we maintain overweight positions. • Credit spreads have widened 20-30bps over the past three months, primarily driven by widening swaps spreads versus Commonwealth bonds. In contrast, iTraxx is only 7 bps wider than its 18-month lows. We are considering buying iTraxx protection at current levels to reduce overall credit exposure. • We are targeting credits with strong balance sheets and those issuers that are expected to show more resilience through the rolling pandemic and the recovery.
A strong level of liquidity that could be realised in stressed conditions	• Selective semis and government bonds provide both liquidity and attractive carry and rolldown, which is so important in this current low rate environment.

Market Review

November saw bond yields fall and yield curves flatten off the back of more hawkish comments from Fed Chairmen, Jerome Powell, removing the word transitory from the Fed's vocabulary and news of the Omicron variant providing a new source of uncertainty in markets. As a result the US treasury yield curve bear flattened and the AUD yield curve bull flattened.

Credit markets underperformed with credit spreads continuing to widen over the month. Major banks underperformed with the expectation of supply to increase in 2022. Credit spread volatility picked up towards the end of the month with the Omicron news. 5 Year AUD iTraxx pushed out from 65 to 75.

Coming off the back of the strong October CPI data, November saw a fall in BEIs, driven by the same factors as per noted earlier. AUD government 10 year BEIs fell from a peak of around 2.3% after the US CPI data release in mid November to 2.05% at the end of November.

Macro Outlook

Global

Geopolitical risks have escalated recently and could dampen 2022 growth prospects somewhat.

China - threat to acquire Taiwan by force.

Iran – playing "hardball" on curtailing nuclear program.

Russia – threatening an invasion of Ukraine.

The common theme is to challenge the USA at a time of perceived weakness including Biden's slump in the polls and the 2022 mid-term elections where the Democrats could lose control of Congress. There's definitely some coordination in the escalation of these flashpoints.

The new COVID virus, Omicron, has unnerved investors but there is a developing consensus that the risks could be more symmetrical. It appears more infectious than the Delta strain but shows milder symptoms and lower hospitalisation rates.

Australia

Australia is at a sweet spot on vaccinations with some states above 90%. Furthermore, there are still three months of relatively high immunity in the community as the bulk of vaccinations were in the September quarter, providing six months of immunity up to March.

Antares Scenario Analysis

The Antares Scenarios table below reflects the interplay between growth, inflation and bond yields, and how they will drive the level and shape of yield curves in the different scenarios.

Scenarios	AU GDP	AU Inflation	AU 3YR Bond	AU 5YR Bond	AU 10YR Bond	AU 30YR Bond	US 10YR Bond
Strong Growth	4.00%	4.50%	4.50%	4.50%	4.50%	4.25%	4.00%
Above Trend	4.00%	3.00%	2.00%	2.50%	3.50%	4.50%	3.50%
Trend	3.00%	2.25%	1.25%	1.75%	2.25%	3.00%	2.25%
Below Trend	1.50%	1.50%	0.30%	0.50%	1.00%	1.75%	0.75%
Recession	-2.00%	1.00%	0.10%	0.30%	0.50%	1.40%	0.50%
Stagflation	1.00%	3.00%	1.50%	2.25%	3.00%	4.25%	3.00%
Antares Latest Fair Value (FV)	2.20%	2.15%	1.04%	1.47%	2.04%	2.88%	1.97%
Market Yield Latest			0.95%	1.37%	1.70%	2.40%	1.52%
FV - Market (+exp / -cheap)			0.09%	0.10%	0.34%	0.48%	0.45%

Given the record levels of household debt, Antares has lowered the expected real yields for the stronger growth scenarios. This produces nominal bond yields close to the inflation rate, implying real yields close to zero. As a result, fair values have fallen marginally but longer bonds are still well above market pricing.

Interest Rate & Inflation Outlook

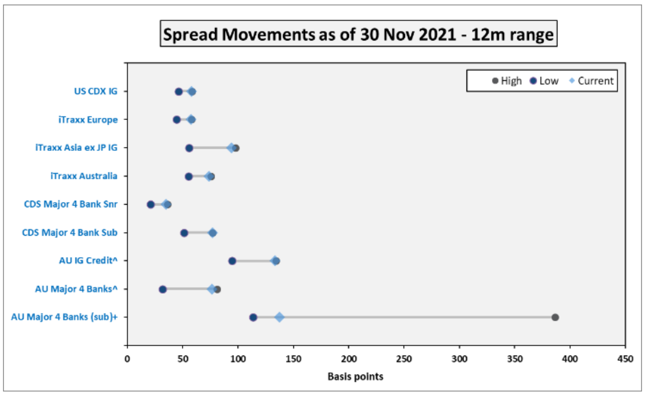
The direction of interest rates continues to be driven by central banks' policy stance and their characterisation of current inflation. With improving economic data and rising core measures of inflation, central banks are reconsidering the transitory nature of inflation. The recent pricing of more aggressive rate hike paths are resulting in falling near term inflation expectations, while inflation curves remain very flat to mostly inverted.

For yield curves to re-steepen, this would require more term premia, balanced growth and demand-driven inflation coinciding with central banks falling deliberately behind the curve.

Credit Outlook

With a hawkish Fed and the Omicron variant driving a deterioration of risk sentiment, credit spreads pushed wider in November and we would not be surprised to see this trend continue as we move into the end of the year especially in light of fixed income funds being seen to build up liquidity buffers.

APRA has also announced its finalised requirement for major bank loss-absorbing capacity. Whilst this announcement will require marginally higher issuance volumes of Tier 2 capital, the majors are well progressed on their respective funding tasks. Post the announcement, Tier 2 spreads were well behaved.



ESG

In November, Mercury NZ brought to market its debut AUD issuance under its Green Financing Framework. Issuance proceeds are earmarked to finance expenditures relating to renewable energy and other eligible projects. In Mercury's case, eligible projects include hydroelectric, solar and wind powered electricity generation capacity. Antares did not participate in this 7-year deal as we continue to prefer deploying capital in shorter dated credit exposures, where we see better risk adjusted returns from a spread duration perspective.

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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$27.91 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 its clients within a carefully managed and defined risk framework.

*as at 30 June 2021

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