Antares Enhanced Cash Trust
Monthly Investment Report
31 May 2025

Performance

	1 Mth %	3 Mths %	1 Yr %	3 Yrs %	5 Yrs %	7 Yrs %	Since Inception % pa[1]
Return	0.461	1.19	5.06	4.42	2.76	2.55	3.65
Bloomberg AusBond Bank Bill Index	0.343	1.05	4.42	3.79	2.28	2.05	3.13
Excess Return	0.118	0.14	0.64	0.63	0.48	0.50	0.52

Valuation at month end: $839M

Returns are expressed before investment management fees and taxes; The excess returns may be out due to rounding.

1. Since Inception 17/01/2007.

Investment Return Objective

The Antares Enhanced Cash Trust aims to outperform the Benchmark by 25 basis points per annum (after fees) over rolling 12 month periods.

Portfolio Review - Key Drivers of Performance

- Credit spreads added value, reversing most of the April losses. Senior financials tightened 8-12bps while corporates tightened 10-15bps.
- Credit protection detracted value with iTraxx tightening 16bps.
- Yield enhancement and rolldown of quality investment grade bond holdings added to returns.

Sector Exposures

Sector	Interest Rate MDC	Credit Spread MDC	MV%
Cash	0.00	0.00	0.36
Corp Fin Fixed	0.08	0.08	9.38
Corp Fin FRN	0.05	0.76	38.67
Corp Others Fixed	0.00	0.00	0.52
Corp Others FRN	0.00	0.00	0.00
Covered Bonds	0.00	0.00	0.00
Derivatives Interest Rate	-0.05	0.00	0.00
Derivatives CDS	0.00	-0.27	-0.23
RMBS	0.00	0.15	8.79
Money Market	0.08	0.08	42.51
Total	**0.16**	**0.80**	**100.00**

Portfolio positions in this report may include month-end hedging.

Excess Return Attribution

Description	Mar BPs	Apr BPs	May BPs
Duration	+0.1	+0.4	-
Curve	+1.6	+1.3	**+0.9**
Sector	-0.6	-8.0	**+5.9**
Yield Enhancement	+5.0	+5.2	**+5.0**
Other*	-2.6	-	-
Total Excess Return	**+3.5**	**-1.1**	**+11.8**

*Represents the difference between the summation of attributed return drivers and the total realised return. May be due to various factors, such as security pricing differences due to different data sources, intra month portfolio transactions and/or assumptions used to estimate attribution drivers such as base yield curve shifts and sector credit spread movements.

Key Characteristics

	Trust	Benchmark
Interest Rate Duration (yrs)	0.15	0.12
Yield*	4.30	3.76
Credit Spread Duration (yrs)	0.79	0.00
Average Credit Rating	AA-	AA-
Liquidity**	51%	N/A

*Yield is yield to maturity for fixed rate bonds & (BBSW + TM) for FRNs.

**Subjective estimation of liquidity deemed available within 48 hours, including short term securities, govt and semi-govt bonds, major bank senior MTNs with a maturity date within 12 months.

Portfolio Activity and Positioning

- Bought iTraxx protection.

Portfolio Strategy

Strategy	Implementation
Duration and yield curve: Continued uncertainty around US trade policy and increasing concerns over the sustainability of the US Fiscal Deficit could result in structurally higher real yields, term premiums and breakeven inflation rates. This could impact Australian long term bond yields, given their strong correlation to the US yield curve. Market pricing in the US has reduced expectations of rate cuts for the remainder of the year with the Fed reiterating its patient, cautious approach given concerns about potential inflation risks from tariffs. Markets are currently pricing a rise in short-term US inflation due to tariffs but if the inflation is more persistent this could see a rise in inflation risk premiums. We continue to see risks of a stagflation scenario in some regions, with the global geopolitical environment and tariffs weighting on growth while also potentially driving inflation higher in some regions.	• US bond yields moved higher in May, as markets become more focused on the sustainability of the US Fiscal deficit, and expectations of cash rate reductions were lowered as economic data did not show a material US economic slowdown. The US yield curve bear flattened with front end moves leading the sell off. The Australian yield curve outperformed the US with smaller yield increases and a more parallel like shift across the term structure. • **Market pricing of rate cut expectations were pared back materially in May,** from 4 cuts to 2 cuts in the US as tariff concerns abated, and from 4 ½ cuts to around 3 cuts in AUS. • **Yield curve:** We continue to hold an outright curve steepening position in recognition of the risk of higher term and/or inflation risk premiums given the uncertainty of Trump's trade policies. Higher longer term bond yields in the US and AUS have been due to increases in term premiums, and the pricing of longer-term inflation risk remains anchored. • **Duration:** We have maintained a long duration bias with a focus on shorter term bonds. For those portfolios that can trade interest rate optionality, we hold put options on US Treasury bond futures as a hedge against a more aggressive rise in yields. • **BEI:** Inflation linked bonds (ILBs) are held in some portfolios (where deemed appropriate) as a partial hedge should the market price in longer term structurally higher inflation.
Credit exposure: Credit spreads narrowed in May, reversing most of the widening seen in April. We see continued risks for more spread widening if tariffs lead to a deterioration in the economy. We have used the contraction in spreads as an opportunity to further reduce credit sensitivity while continuing to be selective about the credit exposure we add to portfolios.	• **Valuations:** Although credit spreads have recompressed in May, we see the risk of credit spreads widening again should growth deteriorate. We have reduced our overall credit spread sensitivity over the past few months and will continue to look for opportunities to reduce further through physical cash bonds and/or derivatives. We remain focused on harvesting yield from high quality credit and maximising returns from shorter credit spread duration exposure. • **High quality issuers:** We remain focused on holding high quality credit issuers which, we view as more resilient to economic weakness. These include credits with low leverage, strong cashflows, some inflation protection/pricing power, and robust balance sheets.
Optimising yield: We are focusing on maximising carry and rolldown using the steep semi government bond yield curve and/or shorter maturity high-quality credits. Security selection targeting quality, rate and credit term premia.	• **Rate, swap & credit term premia:** We continue to target shorter duration credit exposure to harvest yield enhancement while looking to reduce overall credit spread sensitivity. Semi-government bonds in the 10-15yr part of the curve remain attractive on a spread basis vs Commonwealth government bonds. • **Portfolio construction:** We use our proprietary analytics and breakeven assessments to identify the steepest inflection points on the yield curve to maximise yield carry and curve rolldown.
Liquidity: Maintain liquidity for normal and/or stressed conditions as appropriate.	• **Liquid securities:** Selective semis, major banks, and government bonds are seen as core liquidity building blocks across portfolios.

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Market Review

Extreme volatility rattled markets through April as Trump announced much Bond yields rose and credit spreads narrowed as tariff negotiations and concessions eased tariff concerns. Market concerns over the US fiscal deficit, the Fed's hawkish patient stance and continued resilience in the macro data also drove bond yields higher.

Tariff concerns eased as the US and China agreed to reduce US tariffs from 145% to 30% and China tariffs from 130% to 10% for 3 months. The US also reached a trade framework with the UK and agreed to delay a planned 50% tariff on EU imports until July 9th. Later in the month the US Court of International Trade blocked Trump's tariffs, but this was overturned by a federal court's appeal.

Overall, US macro data continued to show the impact of tariffs has yet to show up in the hard data. The labour market remained robust with higher than expected non farm payrolls and lower jobless claims. Retail sales were higher than expected, and core CPI was 2.8% as expected. Sentiment data rebounded from the lows of April.

Fed speak reflected the uncertainty of the macro outlook amid the ongoing tariff uncertainty and the current strong macro backdrop providing little basis for monetary policy easing in the short term. Inflation risks are a key concern for the Fed as they reiterated their commitment to the 2% inflation target and stressed the need for patience to allow "time to make sure that we continue to make progress on inflation". As a result, markets pared back rate cut expectations by almost 2 cuts, to just over 2 rate cuts for the remainder of 2025.

Bond yields also rose off the back of increasing concerns over the US fiscal deficit, with Trump's "big beautiful bill" expected to add around $2.5 trillion to US debt over the next decade. Some Wall Street CEO's such as JP Morgan's Jamie Dimon, raised concerns saying that it would eventually lead to cracks in the bond market. US Treasury Secretary Bessent tried to reassure markets by saying that the US is never going to default on its obligations. Moody's also downgraded its US government credit rating to Aa1 (AA+ equitv) on the expectation that US debt will rise to 134% of GDP by 2035, up from 98% in 2024. US 30-year government bond yields reached over 5% in May.

In Australia, the RBA delivered a dovish 25bps rate cut (and considered a 50bps cut) as it moved towards a more balanced focus on its dual mandate of employment and inflation goals given the strong disinflation trend plus the uncertainty around the growth impact of tariffs. Market pricing of rate cut expectations fell around 1.5 cuts to just over 3 cuts for the remainder of 2025. Employment and wages data came in above market expectations.

Long term Japanese bond yields sold off after a weak 20-year auction. This was then followed by a weak 20-year US Treasury auction.

Credit spreads narrowed as the risk off tone abated, reversing most of the spread widening of April.

Macro Outlook

Markets are becoming more concerned about the sustainability of the US fiscal deficit due to rising global government bond yields, increased debt from Trump's "big beautiful bill", and the prospect of US bond yields staying higher for longer due to increased inflation risks from tariffs.

Trump's proposed, "big beautiful bill", if not met by future revenue growth, will see increased supply of US treasuries, as the US government looks to fund and service the estimated 3 trillion of additional funding required over the next decade.

Rising or sustainably high, long term US Treasury bond yields present a challenge for the US government to fund the increasing deficits. This year we have seen yield curves steepen across major developed markets with rising long term bond yields. Japan's 10-year government bond yield has increased over 40bps this year which has made the traditional carry trade of Japanese investors investing in US treasuries less attractive as their domestic yield curve becomes more attractive. In Germany, bund yields rose on the back of the announcement to materially increase fiscal expenditure on military and to fund infrastructure development. Higher domestic bond yields, along with less faith in the US and its fiscal position, may lead foreign investors to rebalance out of US treasuries and back into their local bond markets. Such concerns have seen the market watching longer dated US Treasury auctions for signs of weakness in investor demand, particularly from overseas investors.

Ongoing uncertainty about Trump's tariff policy end game continues to present risks to the global growth outlook and inflation. Tariffs are generally seen as inflationary for the US, but the key questions for investors are, what will be the magnitude, and will the inflationary impact be transitory or become embedded in inflation expectations. If inflation from tariffs turns out to be more persistent this will potentially put further pressure on US bond yields and thus the sustainability of funding US fiscal deficits.

Antares Scenario Analysis

The Antares Scenarios table 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.

The probability weightings in the table below reflected the team's broad distribution of expected scenario outcomes, reflecting the uncertainty around the potential impacts of US tariff policy implementation.

In Australia, the RBA delivered a dovish 25bps cut off the back of the strong disinflation trend and concerns over the potential impact of tariffs on the global and domestic growth outlook.

Antares Scenarios - Australia

	Scenario	AU GDP	AU Inflation	Probability Weighting
1	Strong Growth	4.50%	4.50%	0.0%
2	Above Trend	3.50%	3.50%	4.3%
3	Trend	2.50%	2.50%	29.3%
4	Below Trend	1.50%	1.50%	26.1%
5	Recessionary	-2.00%	0.50%	7.9%
6a	Stagflation Light (Low Growth, Above Trend Inflation)	1.50%	3.25%	26.0%
6b	Stagflation (Negative Growth, High Inflation)	-1.00%	3.00%	6.4%

Antares three key Antares' scenarios remain:
"Stagflation Light" scenario (6a) – growth below trend but inflation above trend.
"Trend" scenario (3) – growth and inflation both at longer term averages (trend).
"Below Trend" scenario (4) – growth and inflation both below longer-term averages (below trend).

Interest Rate & Inflation Outlook

Aussie 10yr futures sold off 13bps over the month to 95.71, outperforming US treasuries, which sold off 24bps to 4.40%. The US 2/10s curve remained relatively static over the month at around 50bps, while the Aussie curve steepened up primarily as a result of renewed expectations for lower domestic policy rates, keeping 3yr futures relatively steady.

Expectations for the RBA policy rate shifted over the month, with the near-term probability of cuts ratcheting up for July and August, while policy rate expectations 1yr out dipped below 3% again. This was largely on the back of a weaker 1Q GDP print and the market's dovish interpretation of the RBA's May minutes and policy stance.

Long end rates in the US remain in a 4.35%-4.60% range for now but continue to be buffeted by shifts in US policies (e.g. tariffs) as well as conflicting economic data. Catalysts for lower yields include ongoing softness in survey-based data, risks around the passage of certain tax bills in Congress and some pivoting by the US Treasury from longer tenors to shorter and intermediate maturities. Pressure for higher yields largely emanates from the risk of higher US inflation and ongoing concerns about foreign participation in US treasury auctions.

On the domestic inflation front, the release of the April monthly CPI (+0.8%) did little to dissuade market expectations of another large uptick in quarterly CPI, with early consensus building around 0.8% (or higher) print for 2Q.

Credit Outlook

Australia's credit markets performed strongly in May as credit spreads have continued to narrow from the wider levels seen in early April when the initial policy announcements were made regarding US Tariffs. US Tariffs are generally perceived as negative for global growth, and the initial levels announced were assessed as materially increasing the recession risk for the US and the global economy. Although US Tariffs are a reality for most US trading partners, the aggressive posturing of the initial announcements has been watered down (and/or delayed) and this combined with ongoing decent economic data has seen the market assess, at least for now, that US Tariffs will be less disruptive to US and global growth.

Credit fundamentals are still supportive, but the unfolding geopolitical environment continues to present material event risks and the potential for a growth deterioration and/or a recession.

We continue to prefer exposure to short-dated credit bonds to reduce portfolio sensitivity to any spread-widening while still maintaining a decent degree of yield enhancement. We are also targeting the maximisation of the roll-down profile of the portfolio and selecting bonds with high break-even credit spreads.

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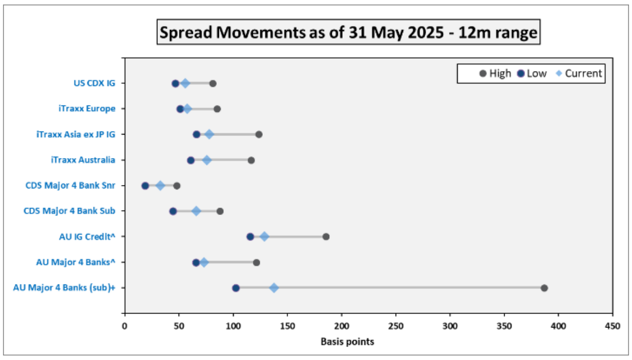
We continue to maintain exposure to credit securities and have participated in some attractive primary bond issuance since April at decent yields and/or credit spreads that enhance portfolio yield capture. We have also added some credit protection via purchasing Australian iTraxx for some portfolios were appropriate for overall credit spread duration management.



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$24.93 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 2024

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