Antares Enhanced Cash Trust

Monthly Investment Report
February 2024

Trust Performance

Period Ended 29/02/2024	1 Mth %	3 Mths %	1 Yr %	3 Yrs %	5 Yrs %	7 Yrs %	Since Inception %pa[1]
Composite Portfolio	0.416	1.24	4.82	2.32	1.94	2.06	3.55
Bloomberg AusBond Bank Bill Index	0.345	1.09	4.10	1.95	1.47	1.58	3.04
Difference	0.072	0.15	0.72	0.37	0.47	0.48	0.51

Valuation at month end was $5.121B
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	-3.21
Govt Nominal	0.00	0.00	0.00
Semi-Gov Nom	0.00	0.00	0.00
Supra/Agencies	0.00	0.00	0.00
Corp Fin Fixed	0.26	0.26	14.09
Corp Fin FRN	0.04	0.51	27.57
Corp Others Fixed	0.01	0.01	0.92
Corp Others FRN	0.00	0.00	0.98
Covered Bonds	0.00	0.00	0.00
Derivatives Interest Rate	-0.27	0.00	-0.05
Derivatives CDS	0.00	-0.05	-0.02
RMBS	0.01	0.22	9.50
Money Market	0.11	0.11	50.23
Total	**0.15**	**1.07**	**100.00**

Portfolio Review

Key Drivers of Portfolio Performance:

- Bank senior spreads tightened 3-5bps adding to returns.
- Yield enhancement and rolldown of quality investment grade bond holdings added to returns.

Expected Return Objective

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

Excess Return Attribution

Description	Dec BPs	Jan BPs	Feb BPs
Duration	-1.3	0	**-0.2**
Curve	-2.4	+1.8	**-0.4**
Sector	+2.7	-2.7	**+2.1**
Yield Enhancement	+5.4	+4.6	**+5.7**
Total Excess Return	+4.4	+3.7	**+7.2**

Key Characteristics at 29/02/2024

	Trust	Benchmark
Interest Rate Duration (yrs)	0.15	0.13
Yield to Maturity*	4.92	4.32
Credit Spread Duration (yrs)	1.06	0.00
Average Credit Rating	AA-	AA-
Liquidity**	52%	N/A

*Estimated return if held to maturity. Market yield for Fixed Rate Bonds whilst FRNs uses a swap assumption rate as an input. **Liquidity deemed available within 2 days; includes money market securities, government and semi government bond holdings and major banks less than 365 days.

Portfolio Activity and Positioning

- Sold 83M QTC28 and 71M TCV28.
- Bought IMB 2024-1A, REDS 2024-1A and NBN 3/25.
- We have maintained the liquid structure of the Fund.

Portfolio Strategy

Strategy	Implementation
Duration and Yield Curve: Our scenario analysis assessment suggests that the inflation outlook has become more balanced in 2024 when compared to 2022 and 2023, a period when "elevated inflation" over the medium term was our core expectation. Antares still see risks of structurally "higher for longer" inflation but also acknowledge the potential for the disinflation trend to continue. As such, Antares' core scenarios currently have a mix of either sticky inflation or the disinflation trend persisting. On the growth side, Antares' core scenarios are clearly skewed towards slower growth outcomes. We continue to question the consensus expectation of a goldilocks "soft landing" but have reduced our weighting of a hard landing scenario. We still retain a bear steepening curve bias given the low long term inflation expectations currently priced by the market, but this positioning has been reduced substantially.	• Markets have pared back rate cut expectations to be more in line with central banks after stronger economic data and push back from central banks. Current market pricing in the US shows around 3 rate cuts priced, in line with the Fed DOTS plot. In Australia, 1.6 cuts are discounting, down from 2.75 at the beginning of the year. • Now that market price action has started to consider outcomes other than a goldilocks scenario, it would seem that both central banks and markets will now be more data dependent in a period of uncertainty where there is expected to be increased rate volatility. • In Australia, while core inflation remains above global peers, we are starting to see evidence of slowing growth. If this continues, the RBA at some point will need to make some trade off between their dual mandate objectives. • For the RBA to have confidence that it can ease policy settings it will need to see sustainable evidence that disinflation is broad based, across both goods and services. For now, the RBA remains concerned about wage and services inflation, and the impacts of structural, supply side constraints, and government infrastructure spending. • The risk remains that if inflation proves "sticky" at above target levels, or we see inflation increase due to geopolitics or event risks, we could see a repricing of longer-term bond yields to reflect a higher inflation risk premium. • **Yield curve:** In February, the Aussie curve saw a general parallel shift. Market pricing of long-term inflation expectations increased both in the US and Australia but more so in the US. Longer term inflation expectations in Australia still remain above the US. We still retain an outright curve steepening position in acknowledgement of the risks around the potential for inflation risk premiums to increase. We have reduced such positioning when the 3-10 year yield curve has approached 50bps given the broad trading range of 20-50bps seen for the last couple of years. • **Duration:** Antares held a strategic short duration position from the start of the rising rate cycle but actively reduced the exposure as rates rose. Towards the end of last year, in November we moved from being short duration to targeting neutral duration across all portfolios, and more recently we have move towards targeting a slight long duration position. Going forward, we will continue to monitor for opportunities to extend duration.
Credit exposure: We remain selective about credit issuer exposure within portfolios as economic growth slows and credit becomes more expensive with spreads narrowing. We continue to look for opportunities to add value as well as rebalancing to manage overall spread duration exposure. Given the economic resilience to the current rate cycle, without an event (which can't be ruled out) a traditional hard landing scenario may be less likely, and this has been supportive of credit.	• **Valuations:** There have been strong positive returns from credit exposure as credit spreads have continued to narrow, reflecting the market's confidence of lower recession risks. Overall credit has become more expensive and thus we may look to rebalance some credit exposure going forward. • **High quality issuers:** With our outlook for slowing economic growth, we remain focused on holding high quality credit issuers, which we assess as being more resilient to an economic downturn. These include credits with low leverage, strong cashflows, some inflation protection/pricing power, and robust balance sheets. • **Synthetic credit:** Synthetic credit (such as iTraxx CDS) at current levels is tight and could present an opportunity to de-risk portfolios by buying protection. We continue to monitor the economic outlook to determine the timing of potentially adding protection for those portfolios that can use CDS.
Optimising yield through carry and rolldown: Focusing on high quality credits and inflection points on steep curves.	• **Portfolio construction:** We are using our proprietary analytics to harvest attractive rolldown while maximising opportunities per unit of risk. • **Rate and swap term premia:** For long maturity portfolios, we see value in semi-government bonds in the 10-15yr part of the curve versus Commonwealth government bonds. • **Credit term premia:** Long term corporates have rallied strongly reducing the previously good term premiums available. February has continued to see very strong deal issuance across supras, banks and corporates.
Liquidity: Where appropriate, we are maintaining liquidity that can be realised in stressed conditions.	• **Portfolio construction:** Selective semis, major banks, and government bonds are seen as core liquidity building blocks across portfolios.

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Market Review

Bond yields rose in February off the back of stronger than expected economic data and central banks pushing back on market pricing of rate cuts for 2024. Various Fed members highlighted the need for caution and patience to have more confidence that target inflation would be achieved and sustained before easing monetary policy.

The US economy continued to show resilience, with economic data largely surprising to the upside. Labour market, productivity, home sales, ISM manufacturing, services, and prices paid data all printed stronger than expected. Markets responded by paring back rate cut expectations from 5.8 rate cuts at the end of January to 3.4 cuts by the end of February to be more in line with the Fed's DOTS plot projections of 3 rate cuts for 2024.

The Australian economy is showing signs of slowing, with softer economic data over the month from building approvals, retail sales, and the labour market. Markets responded by paring back rate cut expectations from around 2.5 cuts at the end of January to around 1.7 cuts at the end of the month.

Macro Outlook

For a while now, markets and central banks have been diametrically opposed in their rate cut expectations, with markets pricing in rapid rate cuts and central banks being cautious and hawkish around their forward guidance. This month, that changed.

Markets pared back their rate cut expectations to be more in line with central banks in recognition of the risks around a goldilocks outcome. There are risks on both sides of that outcome, and markets are struggling to form a directional view right now.

The longer central banks wait to start rate cuts, the higher the risk of a negative growth outcome. There is evidence that the Australian economy is starting to slow, but the RBA still needs to see more evidence of inflation coming back towards target before easing.

Conversely, the US economy continues to show resilience and provides little reason for the Fed to pivot to an imminent easing cycle, especially if reinflation risks increase.

As inflation moves closer to target, it will also get more difficult for central banks. The disinflation trend to date has largely been driven by supply chains normalisation and base effects. The hardest challenge lies ahead to reign in sticky services inflation and to ensure unit labour costs are maintained.

If market's aggressive rate cut expectations have contributed to the economic resilience we have seen, then perhaps the recent paring back of those expectations may start to feed into a slower economic outlook ahead.

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.

Antares Scenarios - Growth & Inflation - Latest Market Yields

	Scenarios	AU GDP	AU Inflation	1YR	AU 3YR Bond	AU 5YR Bond	AU 10YR Bond	AU 30YR Bond	US 10YR Bond	iTraxx	Probability Weighting
1	Strong Growth	5.00%	4.50%	6.53%	6.98%	7.43%	7.88%	8.38%	7.88%	150	0%
2	Above Trend	4.00%	3.50%	5.22%	5.28%	5.79%	5.91%	6.41%	6.13%	151	4%
3	Trend	3.00%	2.50%	3.50%	4.00%	4.39%	4.54%	5.04%	4.25%	152	24%
4	Below Trend	1.50%	1.50%	2.03%	2.30%	2.40%	2.63%	2.93%	2.40%	153	28%
5	Recession	-2.00%	0.50%	1.25%	1.50%	1.75%	2.25%	2.75%	2.00%	154	12%
6a	Stagflation Light...Growth & employment softens but inflation sticky	1.50%	3.50%	4.55%	4.55%	4.73%	4.90%	5.20%	5.44%	155	26%
6b	Stagflation...Growth & employment fall sharply but inflation still elevated	-1.50%	3.25%	3.25%	3.58%	3.90%	4.23%	4.73%	4.23%	156	6%
	Market Yield Latest	15/03/2024		4.15%	3.74%	3.79%	4.13%	4.51%	4.28%	60.6	

In February, Antares continued to reallocate probability weighting away from Antares' "Stagflation Scenario" (6b) which has negative/recessionary growth but still elevated inflation.

The resilience in the economic data seen in January and February, particularly in the US, has seen Antares probability assessment shift towards Antares' "Trend Scenario" (3) and Antares' "Below Trend Scenario" (4).

Currently Antares probability assessment is equally distributed across three key Antares' scenarios being:
3) Trend – with both growth and inflation tracking towards longer term averages,
4) Below Trend – with both growth and inflation tracking below longer-term averages, and
6a) Stagflation Light – with growth being below trend but inflation still being elevated, i.e., the disinflation trend seen in late 2023 stalls.

Interest Rate & Inflation Outlook

Real yields continued to bear flatten through February following a disappointing Q4CPI print and growing expectations for a new syndicated line. As Australia currently experiences a disinflationary impulse while US inflation surprises to the upside (again), the 10y BEI spread between the two markets continues to compress.

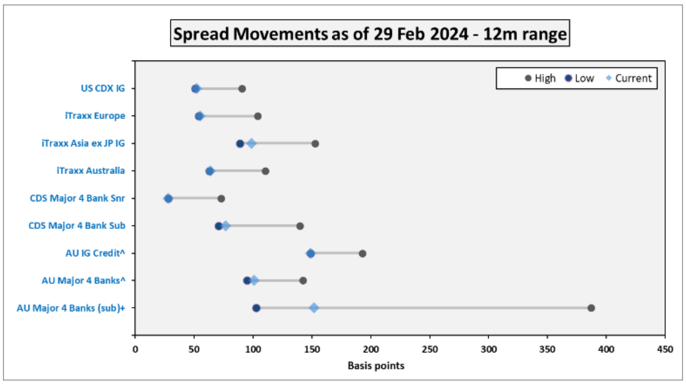
A similar theme has been evident with the outperformance of Aussie nominal yields relative to US bonds, with the latter experiencing a run of positive economic surprises.

More positive economic data in the US may have been buoyed by the Fed's pivot in December. Expectations for Fed cuts have since been pared back significantly, with a little over 3 cuts now expected in 2024. The flow of economic news in Australia stands in contrast to the US, although the domestic economy remains resilient enough to ensure rate cuts are unlikely for the foreseeable future.

Credit Outlook

Credit spreads remained resilient in February despite a continued large volume of primary market supply. Major investment grade indices and synthetic indices were mostly unchanged, while US high yield credit spreads moderately narrowed from already tight levels. There has been a record amount of money flowing into US Investment Grade debt, which is supporting the resilience being seen in credit spreads globally. The markets consensus in a soft landing is supporting this flow. Some of the flow is driven by capital leaving emerging markets due to a loss of investor confidence in the Chinese economy.

The Australian credit market has also been functioning well and absorbing many primary issuances without pressuring credit spreads wider. February was the interim reporting season for Australian corporates, who, on average, reported a resilient result with moderate revenue expansion and flat earnings growth, reversing the negative growth trend experienced in the previous interim. Non-discretionary consumer segments such as supermarkets and insurers did particularly well, expanding both revenue and profit margins.



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ESG

Worley Ltd (ASX: WOR) was accused of making a bribe to the Ecuadorian government during a recent tribunal over a contract dispute, and the company had previously not disclosed this issue to the ASX. The company subsequently made public announcements defending its position and denied any corruption or illegality. The individual being accused of bribery was a Worley's subcontractor and Worley has claimed it strictly followed its proper processes and due diligence. When the news came out, we had an internal debate and concluded not to take pre-emptive portfolio actions without further engaging the company. Whilst the incident rings an alarm bell for a potential governance failure, it is difficult at this stage to determine if Worley had participated in a corrupt act or if its internal controls and due diligence processes are weak, noting they do operate in Emerging Markets (EMs). From a credit risk perspective, at this stage, we do not think this issue will have a material impact on Worley given the company is highly diversified across a large number of projects and countries, and noting, EM countries only to constitute a minor part of its operations.

When we first acquired bonds issued by Worley, we were aware that the company operated in many EM countries and that these countries typically have higher exposure to corruption, human rights issues, geopolitical tensions, and sanction risks. We thus assigned a 'moderate' risk score to Worley's ESG score. We continue to monitor and currently accept the EM-related risks for Worley given the company derives only a small portion of revenue from these countries does not have large amounts of capital invested in EM countries. Currently, only portfolios with higher risk/return credit appetite have exposure to Worley. We will continue to monitor and investigate the above issue that has been raised but at this stage do not intend to undertake any immediate action regarding our bond exposure to Worley.

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$25.67 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 2023

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