

Antares Income Fund

Monthly Investment Report

August 2020



Fund Performance

Period Ended 31 August 2020	1 Mth %	3 Mths %	1 Yr %	2 Yrs %	3 Yrs %	Since Inception %pa ¹
Antares Income Fund	0.29	1.15	1.34	1.82	1.99	2.49
Bloomberg Bank Bill Index	0.01	0.03	0.66	1.24	1.44	1.91
Difference	0.28	1.12	0.68	0.58	0.55	0.58

Valuation at month end was \$124,479,945.20

Returns are expressed after deducting tax and investment management fees

1. Since Inception 31/01/2013

Investment Return Objective

The Antares Income Fund aims to provide investors with a regular income and a return (after fees) that exceeds the Bloomberg AusBond Bank Bill Index over rolling three-year periods.

Buy/Sell Spread Changes

Buy/sell spreads tightened by 5bps during August down from +/-10bps to +/-5bps.

Portfolio Review

Key Drivers of Portfolio Performance:

- Spreads on Banks and Corporates were volatile, tightening 2-20bps. Sub debt was the strongest performer tightening 15-20bps. Overall credit contributed 21.5bps to returns.
- Bought CDS protection on iTraxx and major banks detracted 4.1bps from returns.
- The steepening of the 3-10yr yield curve added 3.5bps to returns.
- Yield enhancement & roll down of quality investment grade bond holdings added 11bp to returns.

Portfolio Activity and Positioning

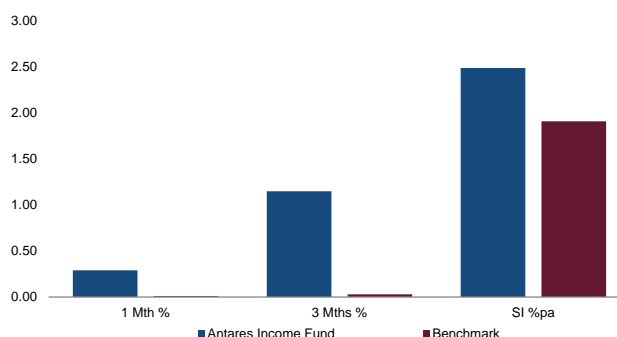
- We took advantage of a spate of issuance during the month;
 - Bought sub debt; Suncorp, QBE, IAG and ANZ
 - Bought corporates; Coles 2030 and GTA Finance 2027
- Rebalanced some corporates to make space for new issues.
- Bought QTC 2028 on EFP vs 10yr futures.
- We have maintained the very liquid structure of the fund.

Key Characteristics at 31 August 2020

	Fund	Benchmark
Interest Rate Duration (yrs)	0.12	0.12
Running Yield + Roll-down (%)	1.46	0.12
Credit Spread Duration (yrs)	2.01	-
Average Credit Rating	A+	
Liquidity*	56%	100%
Fund Size (millions)	\$124.53	-

* Liquidity deemed available within 24 hours. Consisting of; (1) cash and short-term securities that are expected to be able to be liquidated at mid-market yields and thus no transaction costs, and, (2) unit holdings of other Antares managed sub funds for with no there is buy/sell spread and next day redemption facility if notified by 2pm.

Net Return vs Benchmark Return (%)



Distribution History

Distribution Information	Date
Distribution Date	30-Jun-20
Distribution Amount	1.12 Cents Per Unit
Next Distribution Date	30-Sep-20

Rating Exposure (by market value %)

Asset Type	MV %
AAA	17.69%
AA+	0.77%
AA	4.72%
AA-	27.28%
A+	3.23%
A	1.35%
A-	13.47%
BBB+	16.53%
BBB	14.95%

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Market Outlook

Markets retain their positive approach to risk assets as reflected in well supported equity and credit markets.

Global

- **On the positive side** activity data out of the US continues to surprise on the upside including a better than expected August jobs report and an improving housing market.
- COVID infection rates in the US have been falling from peaks in July and excited talk of a vaccine before year-end is improving sentiment and lifting President Trump's prospects for the election.
- **On the negative side** is the continuing impasse over the new fiscal package in the US. It appears unlikely that an agreement will be reached before November's election.
- The US election is also unnerving investors, particularly the handling and counting of mail votes. The recent protests, riots and looting in many US cities appear to be favoring President Trump, with the polling margins tightening by 50% since the protests and riots in Wisconsin.
- Markets are very sensitive to any signs of rising inflation given the dependency of both equity and bond markets on the mantra of 'lower for longer'.

Australia

For Australia, there appears to be a growing urgency to accelerate the opening of the economy, no doubt spurred by the appalling June quarter GDP figures. Aside from Victoria, all states are containing COVID outbreaks successfully, particularly NSW who appear to be the "gold standard" in contact tracing. The October budget may contain more than the stock standard "tax cuts and infrastructure" stimulus measures. There could be new initiatives on clean energy projects as well as insourcing some manufacturing with strong incentives for new players. Notwithstanding the Australian Office of Financial Management's large debt issuance program to fund the growing deficit, bond markets have been keen to buy AUD bonds, driven mainly by their very attractive relative yield versus other bond markets, both on a hedged and unhedged basis.

In summary, Antares Fixed Income remains very cautious about the short to medium term economic prospects, globally and in Australia, and apply that caution to the management of client portfolios.

Strategy

Our strategy continues to focus on three key objectives

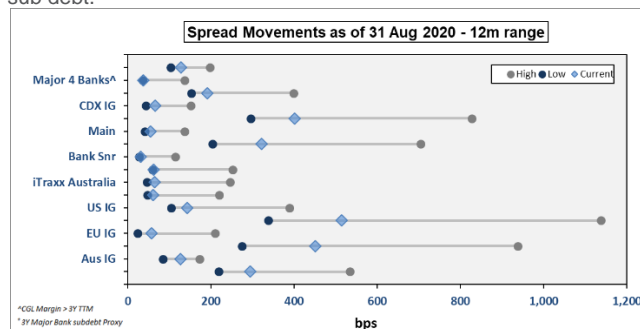
1. Optimising yield through carry and rolldown, focusing on the inflection points on steep curves.
2. Capital preservation by targeting credits with strong balance sheets and those issuers that are expected to show more resilience to the pandemic's impact and economic deterioration.
3. A strong level of liquidity that could be realised in stressed conditions.

Duration/Yield curve

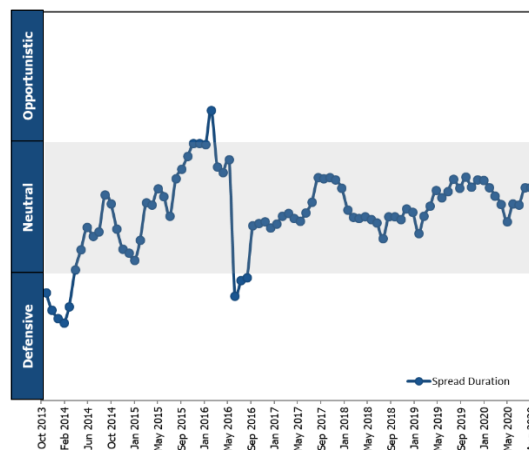
With 3yr yields anchored at 25bps by the RBA and near zero return on short term securities, there is a steady reach for yield out along the yield curve, which has flattened out to 5 years. We are focusing on 5-8yr Government and Semi Government bonds where the curve is steepest. We are hedging duration by selling 3yr or 10yr bond futures, depending on the level of the 3-10 curve. We remain very cautious about the damage rising inflation would inflict on markets and target underweighting longer AUD government maturities, notwithstanding their attraction versus global long bond yields.

Credit

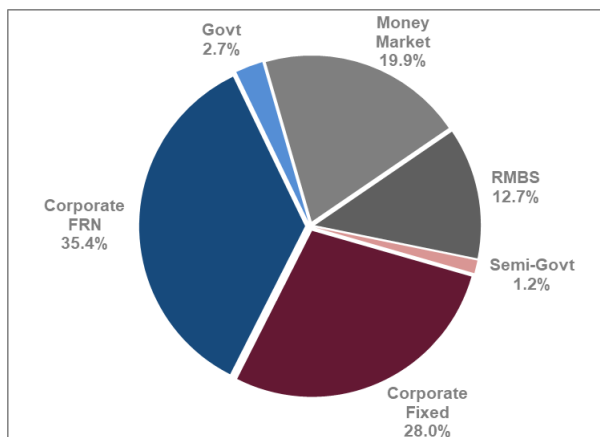
Australian corporate IG spreads have rallied further over the past month and are now trading close to their 12mth lows, as reflected in the chart below. In the process they have largely caught up with global equivalents. Notwithstanding the recent outperformance of Semis and major bank sub debt versus major bank senior unsecured bonds, we still see attractive switching opportunities into Semis and sub debt.



Defensive to Opportunistic



Sector Breakdown (Market Value %)



Antares Income Fund

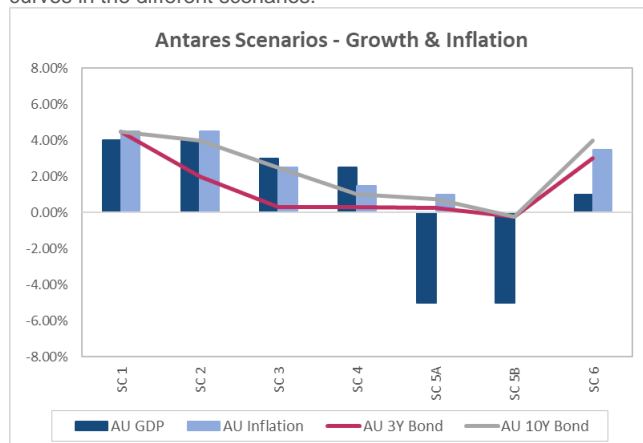
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Antares Fixed Income Fair Value Assessment

The chart 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.



Growth

Improving growth scenarios 5>4>3>2>1 will be driven by:

- **1-6mths:** reduction in COVID infection rates allowing economies to reopen.
- **6-12mths:** success of a vaccine or anti-viral drug.
- Actual growth rates will depend on **realisation** of the above.... not just the **anticipation**.

Inflation

- Will be the key determinant of a sustainable recovery.
- If inflation returns to 2018 levels (1-3% in the US and AUS), central banks are likely to keep cash rates very low, allowing the economies to gather pace. Bonds may bear steepen in this scenario, extrapolating a rising trend in inflation. **Scenario 3.**

- The commitment of central banks to low cash rates for a long time may be severely tested if inflation rises into the 3-5% range. **Scenario 2 & 1 or stagflation Scenario 6.**
- The bond vigilantes may return from hibernation in these scenarios, boycotting bonds at negative real yields. An aggressive bear steepening in bond markets would prove devastating for both equities and bond portfolios.

We consider a deflationary scenario as well, where growth recovers but inflation is subdued, driven by an oversupply of labour, too many zombie companies and more automation of processes. Bond markets hold their ground in this scenario.

We have introduced a “**stagflation**” **Scenario 6** where inflation rises but growth is very slow. Central banks are reluctant to tighten with growth sluggish and unemployment stubbornly high. In this Scenario, bonds and carry assets selloff-in a bear steepening.

Credit

Desperate investor “search for yield” is still creating a wide deviation between Antares’ fundamental fair value assessment (including the 70bps QE adjustment) and market pricing.

We have factored in two QE options for Scenario 5:

- 5a)** Cash rates held at 0.25%. **5b)** Cash rates go negative.

In the event of negative rates, 10yr bond yields fall to -0.25%, a 100bp fall from current levels. We assume the spread between 10yr and 30yr bonds will be 50bps, similar levels to Europe and Japan.

The table below provides a summary of the respective Fair Values and comparisons to current market pricing.

The standouts are:

- Aus 30yr bonds look 20bp cheap.
- Aus iTraxx looks 20bp expensive.

Instrument	Fair Value (FV)*	Fair Value (FV) Range^	Market Price	FV – Market Price (+)/cheap (-)/expensive
Cash (6mth forward)	0.20%	-0.25 - 0.25%	0.12%	-0.08%
3YB	0.35%	-0.25 – 1.00%	0.30%	-0.05%
10YB	0.95%	-0.25 – 2.00%	0.95%	0%
30YB	1.70%	0.25 – 2.70%	1.90%	+0.20%
3/10 Spread	0.60%	0 – 1.00%	0.65%	0
iTraxx (forward contract*)	95	50 - 125	63+10	-22
US 10YR	0.75%	-0.50 – 1.55%	0.70%	-0.05%

*Antares current Fair Value (FV) based on current probability weighting.

^Antares assessment of the broad range of Fair Values across all of Antares’ scenarios.

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Market Movements

- Equity markets rallied in August with the ASX200 up 2.2% and the S&P500 hitting record highs, up 7.0% for the month.
- Aus bond yields bear steepened in August with 3yr rates up 2bps and the 10yr yields rising 17bps to 1.00%. The 3-10 curve steepened 15bps to 0.32%.
- BBSW rates closed at all-time lows as prime banks flush with cash, from both retail deposits and cheap funding from the RBA's Term Funding Facility, held margins steady. BBSW3m closed at 0.09% while BBSW6m fell 3bps to close the month at 0.145%.
- Credit spreads continued to tighten through August with sectors with little or no exposure to COVID risks outperforming. Telcos and utilities' spreads are trading close to pre-COVID levels while major and non-major bank senior spreads traded through these levels. AUS iTraxx tightened 11bps over the month to close at 64.5bps.

Australian Rates	Aug-20	Mth +/-	1 Yr +/-
RBA Cash Rate	0.250	0.00	-0.75
90 Day Bank Bill	0.090	-0.01	-0.88
3 Yr Futures	99.680	-0.02	0.35
10 Yr Futures	99.000	-0.17	-0.11
3/10 Spread (bps)	68.000	14.00	46.00
iTraxx Australia 5Y	64.484	-11.38	0.93
10Yr BEI	1.436	0.07	0.30

Global Sovereign Rates	Aug-20	Mth +/-	1 Yr +/-
Fed Fund Rates	0.09	-0.01	-2.04
ECB Main Refi Rate	0.00	0.00	0.00
US Sovereign 2 Yr	0.13	0.03	-1.37
US Sovereign 10 Yr	0.70	0.18	-0.79
Japan Sovereign 10 Yr	0.05	0.03	0.32
German Sovereign 10 Yr	-0.40	0.13	0.30

Currencies	Aug-20	Mth +/-	1 Yr +/-
AUD/USD	0.738	0.023	0.064
EUR/USD	1.194	0.016	0.095
USD/JPY	105.910	0.080	-0.370

Semis * vs Gov Bonds	Aug-20	Mth +/-	1 Yr +/-
3yr (bps)	7.305	-4.02	-13.72
7yr (bps)	22.775	-14.74	-14.53

* Semi calculation compromises an equal weighting of NSWTC and WATC

Equities	Aug-20	Mth +/-	1 Yr +/-
ASX200	6060	2.2%	-8.2%
S&P500	3500	7.0%	19.6%

Commodities	Aug-20	Mth +/-	1 Yr +/-
WTI Crude	42.6	2.0	-9.0
Gold	1967.8	-8.1	447.4

Australian Economic Data	Latest Mthly Print	Mth +/-	1 Yr +/-
Employment Change (k)	114.7	-113.7	72.6
Unemployment Rate (%)	7.5%	0.0	2.3%
Retail Sales (MoM%)	3.2%	0.5%	2.7%
Trade Balance Value (m)	4607.0	-3542.0	-2105.0
Building Approvals (MoM%)	12.0%	16.2%	7.5%
Consumer Confidence (Westpac)	79.5	-8.4	-20.4
Business Confidence (NAB)	-13.9	-14.4	-13.2
Business Conditions (NAB)	0.3	8.0	0.2

Australian Economic Data	Latest Quarterly (Q3)	Qtrly +/-	1 Yr +/-
Private Capital Expenditure (QoQ%)	-5.9%	-3.8%	-5.5%
GDP (YoY%)	-6.3%	-7.9%	-7.9%
Inflation (YoY%)	-0.30%	-2.5%	-1.9%

Global Economic Data	Latest Monthly Print	Mth +/-	1 Yr +/-
US Non-Farm Payrolls (k)	1371	-363	1,164
US Unemployment Rate (%)	8.4%	-1.8%	4.7%
US Manufacturing ISM	56.0	1.8	7.2
US Non-manufacturing ISM	56.9	-1.2	0.9
China Manufacturing PMI	51.0	-0.1	1.5
China Non-Manufacturing PMI	55.2	1.0	1.4
German Factory Orders (MoM%)	2.8%	-26.0%	3.3%
German Industrial Production (MoM%)	8.9%	0.0%	8.9%

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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\$26.4 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 our clients within a carefully managed and defined risk framework.

*as at 30 June 2020

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