

Antares Inflation Linked Bond Fund

Monthly Investment Report

31 March 2025



Performance

	1 Mth %	3 Mths %	1 Yr %	3 Yrs %	5 Yrs %	7 Yrs %	Since Inception % pa ¹
Return	-0.003	0.86	2.42	3.49	2.88	3.00	3.77
Bloomberg Govt Inflation Index 0-10	0.008	0.86	2.46	3.44	2.76	2.85	3.63
Excess Return	-0.011	0.00	-0.03	0.05	0.13	0.14	0.14

Valuation at month end: \$28M

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

1. Since Inception 07/06/2011.

Portfolio Review - Key Drivers of Performance

- Long real & nominal duration: Positive attribution from muted outright nominal rally, with some drag from real yield sell-off.
- Short real curve: Negative attribution from flattening real yield curve positioning with long linkers and long nominals outperforming on the curve. Linker ix27/40 flattened 7bps.
- BEI: Negative attribution from long delta-adjusted BEI positioning.

Key Characteristics

	Fund	Benchmark
Real Interest Rate Duration (yrs)	3.72	359
Active Nominal Duration	0.11	-
Running Yield (Real %)	2.12	2.03
Semi Spread Duration (yrs)	0.18	0.19
Weighted Avg Credit Rating	AAA	AAA

Excess Return Attribution

Description	Jan BPs	Feb BPs	Mar BPs	Qtr BPs
Duration	-0.25	+1.0	+2.0	2.75
Curve	-1.0	+1.5	-2.0	-1.5
Sector	-	-	-	-
BEI	-0.55	-	-1.1	-1.65
ZCS	-	-	-	-
Yield Enhancement	-	-	-	-
CPI Accrual	-	-	-	-
Other (t-costs, pricing tracking error)	-	-	-	-
Total Excess Return	-1.8	+2.5	-1.1	-0.4

Portfolio Activity and Positioning

- 10y Futures trading.

Portfolio Strategy

Strategy	Rationale & Implementation
Duration	<ul style="list-style-type: none"> • Long duration but cautious on rising term premia: Duration was biased long through March, primarily via real rates. Linkers, however, continue to significantly lag nominal rallies with the market experiencing supply indigestion compounded by lower inflation carry, concerns over global growth, and investor preference for liquidity. Rising protectionism and retaliatory responses could prove inflationary in the short-term presenting a risk for long duration positioning. Global growth concerns remain the dominant theme for now, with the safe haven status of bonds coming under increasing scrutiny.
Yield Curve	<ul style="list-style-type: none"> • Preference for nominal curve steepening via the US 2/10s: Over recent months the US 2/10s curve has moved within a 25bp range, struggling to steepen above 45bps. This appears to be changing with material steepening taking place in April with elevated concerns over fiscal deficits, inflation and the safe haven status of US treasuries. The prospect of higher term premia and more Fed cuts in the face of a marked economic slowdown supports further steepening. In the short term the Aussie curve should move in sympathy with the US curve, despite less supply risk in ACGB issuance and likely lower tariff-related impacts on growth and inflation.
Sector Exposure	<ul style="list-style-type: none"> • Cautious on semi spread risk: For TCorp, TCV, and QTC linkers there is potential for material widening in semi-bond spreads. State deficits are also resulting in material supply risk for the nominal market.
BEI	<ul style="list-style-type: none"> • Neutral on BEIs: Disinflation, declining carry, and additional government rebates have placed downward pressure on BEIs. This theme has continued as global growth risks have risen given US tariff policies and deteriorating investor and consumer sentiment. While much better value has returned to BEIs, the medium-term direction of BEIs will be largely determined by how the local economy and our major trading partners respond to the headwinds currently facing the global economy.
RV	<ul style="list-style-type: none"> • RV – Preference for BEIs in the belly of the curve relative to the wings: Whilst positioning on BEIs remains neutral overall, the preference for any exposure is in ix32 and ix35s. Longer tenors (ix40s and ix50s) have experienced ample supply in recent times with lower liquidity evident in these lines, while shorter tenors (ix27s) continue to be weighed down by low inflation prints and expectations for moderating growth. Additional subsidies on energy announced at the Federal Budget (March 25) will continue to place downward pressure on headline CPI over the next 6 months.
Stock Selection	<ul style="list-style-type: none"> • Case by case.

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Market Review

Markets became increasingly nervous and uncertain about the global implications of Trump's tariffs policy for growth and inflation after a month of back-and-forth tariff policy announcements which drove market volatility higher and rattled confidence.

The US Treasury curve steepened, driven by both a sharp fall in front-end bond yields due to growth concerns, and a rise in back-end bond yields driven by rising real yields. US2s10s steepened around 10bps and AU3s10s steepened around 14bps over the month.

US and AUS 10 year Government bonds traded in a 30bp range with US 10 year yields ending the month at 4.24% and AUS 10 year yields at 4.45%, after Trump announced tariffs on Canada and Mexico, retaliatory tariffs on China and Canada, and then gave the US auto industry a one month exception from tariffs on Canada and Mexico. He also announced a 25% tariff on all US auto imports.

The escalating tariff war and uncertainty around tariff policy implementation saw sharp falls in consumer sentiment due to increased consumer concerns about the outlook for growth. Risk off sentiment saw market pricing of rate cuts increase to around three cuts for 2025 in both the US and Australia. US economic data over the month showed recent tariff announcements are yet to impact hard economic data with stronger than expected home sales, labour market data and higher revised GDP.

Long term breakeven inflation rates fell as the market priced a higher risk of a tariff induced recession. The Fed noted it is paying close attention to the acceleration of price increases and higher inflation expectations, particularly in longer term market measures.

In Europe, German bunds sold off 30bps on the expectations of a material increase in military and infrastructure spending after the then German "chancellor in waiting" said they needed to drastically expand their military resources in response to increasing geopolitical risks.

In Australia, there was a large fall in employment of -52.8k vs a +30k expected increase. The unemployment rate remained at 4.1% due to a fall in the participation rate from older workers exiting the workforce.

Credit markets started to reflect the impact of tariff uncertainty on the global economy with AU 5-year iTraxx, widening around 20bps, US CDX IG +12bps, and EU iTraxx IG +10bps.

Marco Outlook

In an environment of increasing uncertainty and risk off sentiment, markets are trying to grapple with the back-and-forth tariff policy announcements to assess the short and longer-term impacts of Trump's tariff policy trajectory on growth and inflation.

For now, markets have been focussed on the potential "growth tax" implications of a possible widespread breakdown of global free trade. Consumer sentiment has plummeted while economic data is still showing the US economy is doing ok. If confusion and uncertainty continue to drive a deterioration in consumer and business sentiment, markets are likely to increase recession risks and remain volatile. In this environment, we would expect to see credit spreads widen materially and the risk of a stagflation scenario increase.

While short term breakeven inflation rates have increased in response to Trump policies to tax trade, looking forward, a potential area of vulnerability for the US are long term breakeven inflation rates. If the expected impact of tariffs on inflation is viewed as more than transitory, the back end of the US yield curve could steepen sharply as long-term inflation risk premiums increase. For now, long term inflation expectations remain well anchored with 10-year breakeven rates have been driven lower by deteriorating growth concerns and the expectations this will lead to a reduction in demand side inflationary pressures.

Another factor that could drive a sell-off in longer term bond yields is the risk that markets start to question the safe haven status of US Treasury bonds and the reserve currency status of the USD. If markets lose faith in the US administration's ability to manage the large US fiscal deficit, bond investors could demand higher yields to buy US Treasury bonds. If foreign buyers decide to sell down their US Treasury holdings this could see a material rise in US bond yields given foreigners own around one third of US Treasury bonds.

Geopolitical risks remain high with Trump's tariffs adding strain to existing US-China tensions and Israel ending the ceasefire in Gaza.

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 - Australia				
Scenario		AU GDP	AU Inflation	Probability Weighting
1	Strong Growth	4.50%	4.50%	0.0%
2	Above Trend	3.50%	3.50%	5.0%
3	Trend	2.50%	2.50%	28.3%
4	Below Trend	1.50%	1.50%	21.1%
5	Recessionary	-2.00%	0.50%	7.9%
6a	Stagflation Light (Low Growth, Above Trend Inflation)	1.50%	3.25%	32.4%
6b	Stagflation (Negative Growth, High Inflation)	-1.00%	3.00%	5.3%

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

In Australia, while actual economic data over the quarter showed evidence of disinflation, unemployment remaining low and positive growth, consumer sentiment was softer towards the end of the quarter due to the uncertainty of the potential impact of US trade policy on the Australian economy.

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

Short term bond yields declined in March, with the main catalyst being Trump's tariffs, driving expectations higher of a negative growth shock. Upon the tariff announcement, the US White House listed a range of tariff measures, including a minimum 10% universal reciprocal tariff on all exporters to the US (excluding Canada and Mexico). China was singled out with far more punitive tariffs, although the situation remains fluid and can change rapidly.

While there will likely be further negotiations in the near term, the immediate response in markets has been to price in a rapid slow-down in growth. Many forecasts have US growth expected to slow by at least 1-1.5 percentage points. The tariff impact on US CPI is estimated to be 1-2 percent higher over the next 12 months.

For now, growth concerns are dominating inflationary risks with domestic and offshore markets pricing material rate cuts from global central banks. OIS pricing for the RBA indicates 33bps of cuts priced into May, while 2yr BEIs have fallen to 1.89%. Currently 10yr BEIs are near 2%, showing little market concern over the impact of tariffs on Australian inflation over the longer term.

Credit Outlook

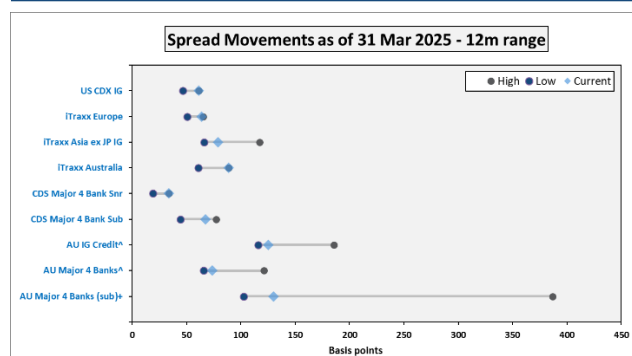
Australia's credit market saw some underperformance in March after we saw credit spreads continue to compress throughout January and February. The March spread widening was limited to 4-10bps across most sectors and was a result of increasing market concerns that US tariff policies might lead to a US or global recession. The increasing concerns around growth that resulted in a general rise in "risk off" sentiment and widening of credit spreads has been playing out in the US since January but started to be transmitted to Australia's higher grade credit market in late February and into March.

As noted previously, credit valuations were stretched with credit spreads close to historically lows, so the softness seen in March was not unexpected. The movement in credit spreads was also not unexpected given the rise in equity market volatility. As of the end of March the repricing of credit spreads wider was reflective of an unwind of tight credit spreads rather than pricing for a recession. We continue to prefer exposure to short-dated credit 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 breakeven credit spreads.

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But this did not eventuate, with the final list of recommendations from the ACCC being relatively minor and unlikely to affect Woolworths and Coles credit profiles. Separately, the ACCC legal proceedings against Woolworths and Coles around misleading price discounting claims remain ongoing. We believe both companies have substantial balance sheet buffers to absorb any potential fallout from this litigation.

Secondly, as part of the political campaigning for the upcoming Australian federal election, Prime Minister Albanese pledged to ban supermarkets from price gouging. While we need to wait to see the details of such a proposal, we see the potential impact as likely limited as:

1. the ACCC, in its inquiry, was unable to conclude that the Australian supermarkets are currently price gouging;
2. potential proposals by a new federal government would likely focus more on setting rules and penalties in the event supermarkets were found to be abusing its pricing power, rather than material alteration of the existing industry structure or pricing levels.

Thirdly, in New Zealand, the government is exploring options to break its existing supermarket duopoly and increase competition. While this has the potential to result in more material industry changes, we view any potential credit impact for Woolworths, which operates in NZ, to be limited given Woolworths' NZ operations contributed just 5% of EBIT in the first half fiscal 2025.

ESG

In the month of March, there were several developments relating to the Australian supermarkets sector, which has been subject to negative publicity around price gouging amid cost of living pressures.

Firstly, the ACCC published its final report relating to its inquiry into the supermarket sector. We saw the final report as credit positive outcome for Woolworths and Coles. Heading into this event, there were some concerns around the possibility of more material measures being proposed by the ACCC that could negatively impact the supermarkets' operations and financial performance.

Market Movements

Australian Rates	March 2025	Quarterly Change	1 Yr Change
RBA Cash Rate (%)	4.10	-0.25	-0.25
90 Day Bank Bill (%)	4.13	-0.29	-0.22
3 Yr Futures	96.31	0.12	-0.14
10 Yr Futures	95.58	-0.03	-0.45
3/10 Spread (bps)	73.00	14.50	30.50
iTraxx Australia 5Y (bps)	88.63	19.62	24.38
10Yr BEI (%)	2.16	-0.17	-0.29

Australian Economic Data	Latest Print	Previous Quarter Print	March 2024 Print
Employment Change (k)	-52.8	56.3	-61.8
Unemployment Rate (%)	4.1%	4.0%	3.9%
Retail Sales (MoM%)	0.2%	0.8%	-2.1%
Trade Balance Value (m)	2968.0	7079.0	10743.0
Building Approvals (MoM%)	-0.3%	-3.6%	-10.5%
Consumer Confidence (Westpac)	95.9	92.8	82.1
Business Confidence (NAB)	-2.5	-2.8	-0.1
Business Conditions (NAB)	3.6	2.4	9.5

Global Sovereign Rates	March 2025	Quarterly Change	1 Yr Change
Fed Fund Rates (%)	4.33	0.00	-1.00
ECB Main Refi Rate (%)	2.65	-0.50	-1.85
US Sovereign 2 Yr (%)	3.88	-0.36	-0.74
US Sovereign 10 Yr (%)	4.21	-0.36	0.00
Japan Sovereign 10 Yr (%)	1.49	0.39	0.78
German Sovereign 10 Yr (%)	2.74	0.37	0.44

Australian Economic Data	Latest Print	Previous Quarter Print	March 2024 Print
Private Capital Expenditure (QoQ%)	-0.2%	1.1%	0.8%
GDP (YoY%)	1.3%	0.8%	1.5%
Inflation (YoY%)	2.40%	2.80%	4.10%

Currencies	March 2025	Quarterly Change	1 Yr Change
AUD/USD	0.625	0.006	-0.027
EUR/USD	1.082	0.046	0.003
USD/JPY	149.960	-7.240	-1.420

Global Economic Data	Latest Print	Previous Quarter Print	March 2024 Print
US Non-Farm Payrolls (k)	228	256	290
US Unemployment Rate (%)	4.2%	4.1%	3.7%
US Manufacturing ISM	49.0	49.3	47.1
US Non-manufacturing ISM	50.8	54.1	50.5
China Manufacturing PMI	50.5	50.1	49.0
China Non-Manufacturing PMI	50.8	52.2	50.4
German Factory Orders (MoM%)	0.0%	-5.4%	12.0%
German Industrial Production (MoM%)	-1.3%	1.5%	-2.0%

Equities	March 2025	Quarterly Change	1 Yr Change
ASX200	7843	-3.9%	-0.7%
S&P500	5612	-4.6%	6.8%

Commodities	March 2025	Quarterly Change	1 Yr Change
WTI Crude	71.5	1.0	-3.6
Gold	3123.6	499.1	893.7

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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\$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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