Antares Diversified Fixed Income Fund

Monthly Investment Report
31 March 2025

Performance

	1 Mth %	3 Mths %	1 Yr %	3 Yrs %	5 Yrs %	Since Inception % pa[1]
Return – Net*	0.126	1.38	4.08	2.57	0.47	0.90
Bloomberg AusBond Composite Bond Index	0.174	1.29	3.20	1.67	-0.51	0.16
Excess Return	-0.048	0.08	0.88	0.90	0.99	0.74

Valuation at month end: $307M
Returns – Net are expressed after investment management fees and before taxes; The excess returns may be out due to rounding.
*From July 2024 fund performance in all periods since inception are based on soft close net returns, prior to July 2024 fund performance was based on hard close net returns.
1. Since Inception 09/07/2019.

Investment Return Objective

The Antares Diversified Fixed Income Fund aims to outperform the Benchmark over rolling three-year periods, after deducting management fees.

Portfolio Review - Key Drivers of Performance

- The steepening of the 10/3 yield curve added value.
- Credit spreads widened 4-10bps detracting from returns. This was partially offset by iTraxx widening 15bps.
- ILB's widened 10-13bps versus nominal bonds detracting value.
- 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	1.31
Govt Nominal	0.19	0.00	1.54
Govt Inflation	0.36	0.00	3.32
Semi-Gov Nom	1.87	1.87	21.45
Corp Fin Fixed	0.78	0.78	23.64
Corp Fin FRN	0.01	0.19	9.28
Corp Others Fixed	1.10	1.10	36.26
Corp Others FRN	0.00	0.06	1.16
Derivatives Interest Rate	0.81	0.00	0.06
Derivatives CDS	0.00	-0.41	-0.16
RMBS	0.00	0.01	0.74
Money Market	0.00	0.00	1.41
Total	**5.12**	**3.60**	**100.00**

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

Excess Return Attribution - Gross

Description	Jan BPs	Feb BPs	Mar BPs	Qtr BPs
Duration	-0.5	+2.5	**-0.5**	**+1.5**
Curve	+2.9	-1.0	**+3.7**	**+5.6**
Sector	-0.8	+5.3	**-9.7**	**-5.2**
Yield Enhancement	+5.9	+4.8	**+5.0**	**+15.7**
Other*	-	-	**-**	**-**
Total Excess Return	**+7.5**	**+11.6**	**-1.5**	**+17.6**

*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

	Fund	Benchmark
Interest Rate Duration (yrs)	5.12	4.97
Yield*	4.74	4.28
Credit Spread Duration** (yrs)	3.59	2.45
Average Credit Rating	A+	AA+
Liquidity***	29%	

*Yield is yield to maturity for fixed rate bonds & (BBSW + TM) for FRNs.
**Includes credit spread duration from semi government bonds.
***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

- Sold a wide range of banks and corporates to provide liquidity for cashflow movements.
- Bought iTraxx protection.
- Maintained a long duration and 3-10 year curve steepening profile.

Portfolio Strategy

Strategy	Implementation
Duration and yield curve: With the current level of uncertainty around US trade policy it is difficult to assess the longer-term impacts, but we see potential risks to higher long term real yields, term premiums and breakeven rates. Given the strong correlation of the Australian curve to the US treasury curve, this could impact Australian bond yields. Markets are pricing in a short-term inflation impact from Trump's trade policies. If inflation turns out to be less transitory that expected, bond markets may reprice higher the current compressed inflation risk premium embedded within nominal yields. If markets become more concerned about the sustainability of larger US deficits, or a loss of US Treasury safe haven status, we could see real yields and term premiums move higher. The current consensus view on tariffs is it is likely to see higher inflation and lower growth. This plays into a stagflation scenario and puts the Fed in a difficult position if they need to shift to a more balanced focus on their dual mandate if inflation was at risk of becoming more entrenched. Currently the market is pricing the impact of higher inflation as temporary and thus a negative impact on growth can be addressed by cash rate easing.	• US bond yields have rallied strongly across the curve over the quarter with Trump's tariff policies driving a risk off tone, sending sentiment plunging and rattling bond and equity markets. • Over the quarter, the AU government curve saw a similar rally at the front end, however, underperforming the US due to its lower beta movement. Longer term AU yields rose, and the AU curve steepened. • Market pricing of rate cut expectations increased in the US over the quarter by around 2.5 cuts as markets priced in a deterioration in the growth outlook off the back of tariff policy announcements. There were around 3.25 rate cuts priced in at the beginning of the quarter in Australia. The RBA delivered a 25bps cut in February, with markets still pricing in 3 additional cuts for 2025 as at the end of March. • **Yield curve:** We continued 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 tariff policy announcements and implementation. Recent back-end curve steepening has been driven by increases in term premiums, while pricing of longer-term inflation risk remains anchored and has fallen. • **Duration:** We have been maintaining a long duration bias with a focus on shorter term bonds. For those portfolios that can trade interest rate optionality, we hold put options as a hedge against a more aggressive rise in yields. Rate volatility increased over the quarter. • **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. With the pullback in BEIs, we have recently added to this exposure via buying additional government ILBs.
Credit exposure: Credit spreads have started to widen, and we see risks to further spread widening. We continue to reduce our overall exposure to credit sensitivity and will continue to be selective about credit risk exposure within portfolios.	• **Valuations:** We see downside risks from credit spreads widening due to the potential negative growth impact of US tariff policies. As a result, we have reduced our overall credit spread sensitivity 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 maximizing 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 minimising credit spread sensitivity. Semi-government bonds in the 10-15yr part of the curve, where we have seen supply side pressure, continue to remain attractive versus Commonwealth government bonds which offer good value relative to historical spread ranges. • **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
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 Isreal 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 break-even credit spreads.

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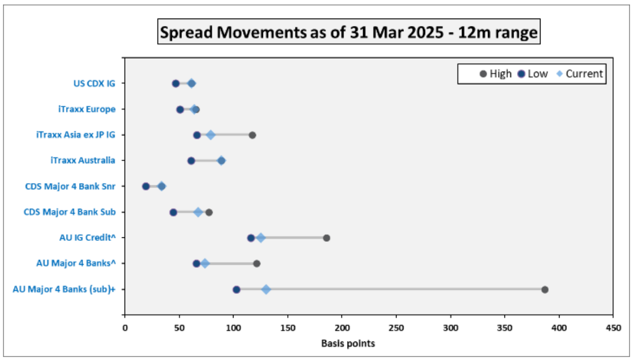

ESG

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.

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 fallouts 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.

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

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

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

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

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

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%

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%

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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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