Antares Diversified Fixed Income Fund

Monthly Investment Report
August 2024

Fund Performance Net of Fees

Period Ended 31/08/2024	1 Mth %	3 Mths %	1 Yr %	2 Yrs %	3 Yrs %	Since Inception %pa[1]
Composite Portfolio – Net*	1.273	3.84	6.37	4.70	-0.87	0.67
Bloomberg AusBond Composite Bond Index	1.208	3.50	5.15	3.45	-1.79	-0.08
Difference	0.066	0.34	1.22	1.25	0.93	0.75

Valuation at month end was $376.54M
Composite Portfolio – Gross returns are expressed before investment management fees and taxes; The difference in returns between the Fund and the benchmark may be out due to rounding;
Composite Portfolio – Net returns are expressed after investment management fees and before taxes; 1. Since Inception of the new fund was 09/07/2019; *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.

Sector Exposures

Sector	Interest Rate MDC	Credit Spread MDC	MV%
Cash	0.00	0.00	0.53
Govt Nominal	0.17	0.00	1.31
Govt Inflation	0.19	0.00	1.90
Semi-Gov Nom	2.27	2.27	26.28
Supra/Agencies	0.00	0.00	0.00
Corp Fin Fixed	0.75	0.75	21.56
Corp Fin FRN	0.01	0.13	9.36
Corp Others Fixed	1.06	1.06	31.75
Corp Others FRN	0.00	0.00	0.00
Derivatives Interest Rate	0.68	0.00	0.18
Derivatives CDS	0.00	-0.28	-0.17
RMBS	0.00	0.01	1.04
Money Market	0.01	0.01	6.25
Total	**5.14**	**3.95**	**100.00**

Portfolio Review

Key Drivers of Portfolio Performance:

- Long duration added to returns.
- The steepening 10-30 curve added to returns.
- Long Semis tightened 5bp adding to returns.
- Yield enhancement and rolldown of quality investment grade bond holdings added to returns.

Investment Return Objective

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

Gross Excess Return Attribution

Description	Jun BPs	Jul BPs	Aug BPs
Duration	+0.7	+2.6	**+1.7**
Curve	+1.0	+3.0	**+2.0**
Sector	+4.2	+7.8	**+1.5**
Yield Enhancement	+6.3	+7.0	**+5.5**
Total Excess Return*	+12.2	+20.4	**+10.7**

*Total excess return is gross. The difference in attribution and fund performance is due to the investment management fee for the month and rounding.

Key Characteristics at 31/08/2024

Description	Fund	Benchmark
Interest Rate Duration (yrs)	5.13	5.03
Yield to Maturity*	4.65	4.12
Credit Spread Duration** (yrs)	3.94	2.39
Average Credit Rating	A+	AA+
Liquidity***	35%	

* Yield is Yield to Maturity for Fixed Rate Bonds & (BBSW + TM) for FRNs.
**Includes credit spread duration from semi government bonds.
***Liquidity deemed available within 48 hours; includes government and semi government bond holdings plus major bank senior bonds maturing within 12 months.

Portfolio Activity and Positioning

- Bought long dated Semis.
- Bought 7yr bond issued by Mirvac.

Portfolio Strategy

Strategy	Implementation
Duration and Yield Curve: Antares continues to still see risks of a structurally higher inflation than the pre-Covid trend, but we also acknowledge the potential for the disinflation trend seen since April to continue. As such, Antares' core scenarios currently have a mix of either sticky (slightly elevated) inflation or disinflation driving inflation back towards trend. On the growth side, Antares' core scenarios are still skewed towards lower growth outcomes. We continue to question the consensus expectation of a goldilocks "soft landing".	• In the US, markets have increased rate cut expectations for this year off the back of softer economic and inflation data, and evidence of the labour market softening. This has supported the broad rally in US bonds driving yields lower. Australian yields have followed the trend lower. • While the RBA has chosen a longer timeframe to bring inflation back to target, we have seen the disinflation trend re-established in Q2 and Q3 after the Q1 bounce. Soft growth and falling inflation has seen the market price an upcoming Australian easing cycle, albeit one that is slower and shallower than in the US. • **Yield curve:** We are biased to retaining an outright curve steepening position but see the Australian Government bond 3-10year curve still range trading broadly between 20bps to 50bps. • **Duration:** In November 2023 we shifted from being short duration to close to neutral duration. Around April we moved the portfolios to a slight long duration position given higher outright real yields and a slight rise in longer term BEIs. We have maintained overall duration long although have adjusted it tactically and while looking for attractive opportunities to add to our duration position. • **BEI:** Inflation linked bonds are currently held within nominal diversified fixed income portfolios as a partial hedge should the market price in longer term structurally higher inflation.
Credit exposure: We continue to be selective about credit issuer exposure within portfolios as credit has become more expensive with spreads tight.	• **Valuations:** There have been strong positive returns from credit as spreads have continued to narrow, reflecting the market's confidence of lower recession risks and a base expectation of a soft landing. As a result, overall credit has become more expensive, and we have been actively reducing our credit spread sensitivity by buying CDS protection. We will continue to monitor and look to potentially add more protection. • **High quality issuers:** With our outlook for below trend 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.
Optimising yield: Security selection targeting quality, rate, swap and credit term premia. Focusing on maximising carry and rolldown using the steep semi government bond yield curve and/or high-quality credits.	• **Rate, Swap & Credit term premia:** long term corporates have rallied strongly, delivering a strong capital gains from tighter credit spreads, but are likely to provide lower expected returns looking forward. We continue to target shorter duration credit exposure to harvest yield enhancement while minimizing credit spread sensitivity. Semi-government bonds in the 10-15yr part of the curve where we have seen supply side pressure continue to look attractive versus Commonwealth government bonds and offer good value relative to historical spread ranges. • **Portfolio construction:** We are using our proprietary analytics and breakeven assessments to harvest attractive rolldown while maximising opportunities per unit of risk. This leads to security selection at inflection points on steep yield curves.
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.

Antares Diversified Fixed Income Fund

Monthly Investment Report
August 2024

antares

Market Review

Since the late April 2024 peak in bond yields, we have seen yields trend lower on the back of softer growth and lower inflation. Australian 10-year bond yields declined by 15bps in August. Communications from the Fed, including from Fed Chair Powell, have been suggestive that the Fed's focus has shifted from fighting inflation and towards preserving employment. Current expectations are that the US easing cycle will begin at the September FOMC meeting with the market divided between a 25bps and 50bps cut. Although there are only three FOMC meetings to go, the market is pricing around 115bps of cuts by year end. The softer growth and lower inflation data that has supported the easing expectations has also supported the overall rally in bonds.

The US Treasury yield curve bull steepened throughout August and into September as front-end yields fell more than longer term bond yields. Australia's yield curve also steepened, but the 3-10yr yield curve continues to trade inside the broad 20-50bps range that it has traded inside for most of the last two years. As of the end of August, the Australian 3-10yr curve was around +40bps and the US 2-10yr yield curve was close to 0bps.

Macro Outlook

Markets continue to price a soft-landing scenario outcome as central banks commence monetary policy easing's given the softer economic backdrop and falling inflation rates.

The US has continued to exhibit a softening in economic momentum and employment growth. The economic weakness in Europe is more pronounced than in the US. The data out of China continues to show a country struggling to reignite domestic growth, weighted down by an overindebted property sector and a consumer struggling with confidence.

Domestically, in Australia growth has continued to be weak, with the real GDP rising only 0.2% for Q2 2024, to be up just 1.0% on year ago levels (well below trend). Household consumption data released in the Q2 GDP data continued to contract and has now contracted on a per capita basis over the past six quarters.

The RBA has pursued a longer, more patient path to getting inflation back to target in order to preserve the gains made in the labour market. This has meant Australia's inflation has remained well above global peers. In Australia, the market is pricing rate cuts in 2024 and into 2025 totaling around 100bps. This is around half of the rate cuts priced into the US market. The differential in the cutting cycle between the US and Australia is due to the relative differences between the starting (current) cash rates as well as the expectations of the respective countries inflation trajectories.

There continue to be risks to Australia's inflation outlook, such as structural imbalances in the construction sector, large government infrastructure spending, and a more structured wage setting framework, all of which present risks to the RBA's inflation timeline and the market's current expectations of a goldilocks landing for Australia.

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%	0.9%
3	Trend	2.50%	2.50%	21.1%
4	Below Trend	1.50%	1.50%	18.9%
5	Recessionary	-2.00%	0.50%	9.5%
6a	Stagflation Light (Low Growth, Above Trend Inflation)	1.50%	3.25%	41.6%
6b	Stagflation (Negative Growth, High Inflation)	-1.00%	3.00%	8.1%

Economic data has continued to be weak domestically with GDP at 0.2% for the 2nd quarter and 1% for the year to June. Australia's inflation, although lagging the global trend, has been heading lower. Antares has retained a material weight to the "Stagflation Light" (6a) scenario, which is a low growth, above trend inflation scenario.

Currently, Antares three key Antares' scenarios are:

- "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

Market pricing for RBA cuts by year-end ebbed and flowed through August, with the latest pricing indicating less than one full cut by year-end. Expectations for cuts have persisted despite the RBA's stated intention of not cutting this year.

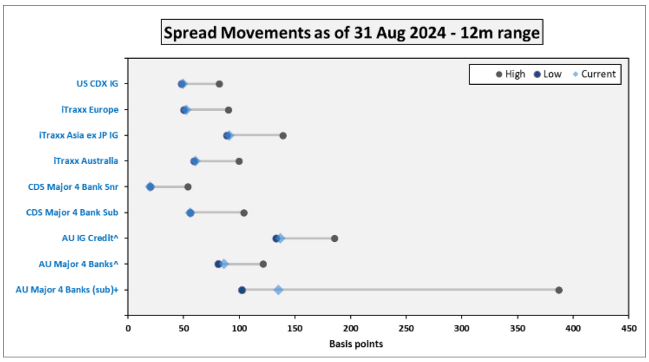
In contrast, the Fed provided the clearest indication so far that the next move would be a cut as early as September. In his Jackson Hole speech, Powell noted the time had to come for policy to adjust, noting inflation was contained and the emphasis had shifted to preserving gains in the labour market.

Pricing (as of early September) for Fed cuts sits at 115bps by year-end, and just over 200bps of cumulative cuts by the end of 2025. Inflation at the same time continues to moderate towards 2% in the US and the 3yr ZCS has been levelling around 2.05%. This compares with a 2.5% Australian 3yr ZCS, with expectations that the RBA will take longer to achieve its target given the persistence of inflation and the potential that Australia's inflation may stay structurally higher than the US.

Credit Outlook

Volatility returned in August on the back of weaker than expected U.S jobless claim data, which reignited fear of U.S recession and caused a flight-to-safety frenzy in the financial market. The sell-off in equity markets was further exacerbated by systematic trade unwinding, triggering a widespread market contagion, including the credit market. However, as the market digested the subsequent data points, which pointed to relatively healthy economic conditions, volatility subsidised, and credit spreads recovered most of their losses by the end of the month.

August reporting season in Australia showed clear evidence of weaker economic conditions, with the high interest environment continuing to hurt consumers and small-to-medium enterprises. Most banks reported an increase in mortgage delinquencies and stressed loans across a broad-range of segments, while consumer-led stocks saw a negative trend in earnings. Despite most corporates within our investment universe having resilient balance sheets and good cash flows, we remain cautious about the risk of a potential consumer-led economic downturn in a higher-for-longer interest environment. Thus, we continue to favour a defensive credit positioning strategy and take into consideration the industry cycle, bond tenor, and company-specific characteristics when making credit selections.



ESG

We previously increased Governance risk on TD bank from Low to Moderate due to concerns about the potentially large remediation cost associated with its AML breaches. In August, TD Bank announced that it decided to provision an additional $US 2.6bln of capital for the remediation plan of the AML breach, which will reduce its CET1 ratio from 13.9% to 12.8%. This is within our expectation as we were assessing the risk based on US2bln – 4bln potential provisioning. The $2.6bln provisioning might not be the final figure, as there could be further investment required to strengthen the company's compliance system and governance practice. However, we believe this would be the bulk of the cost relating to this matter and therefore comfortable to maintain the current Governance risk score at Moderate and continue to hold our AAA rated Covered Bond exposure.

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

Contacts

Investor Relations
Address: 347 Kent Street, Sydney NSW 2000
Email: client.services@mlcam.com.au
Phone: 1300 738 355