

Antares Income Fund

Monthly Investment Report

October 2018



Fund Performance

Period Ended 31 October 2018	1 Mth %	3 Mth %	1 Yr %pa	2 Yr %pa	3 Yr %pa	SI %pa ³
Antares Income Fund ^{1,2}	0.21	0.62	2.20	2.57	2.67	2.75
Bloomberg AusBond Bank Bill Index	0.17	0.49	1.89	1.83	1.93	2.18
Difference	0.05	0.13	0.31	0.75	0.73	0.57

¹ Past performance is not a reliable indicator of future performance. Returns are not guaranteed and actual returns may vary from any target returns described in this document.

² Investment returns are based on exit prices, and are net of management fees and assume reinvestment of all distributions.

³ Performance inception 4 November 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.

Portfolio Review

Performance

The Fund marginally beat the benchmark after fees for the month of October.

Contributors to performance (relative to the benchmark)

- The main contributor to the Fund's excess returns was the additional yield earned from the high quality investment grade securities held by the Fund.
- The fund increased interest rate duration when yields rose during the month. This added 2bp to the fund's excess return as yields rallied into monthend.
- The widening of credit spreads detracted from returns but this was partially offset from bought protection positions held in the Fund to hedge such risks.

Key Activities:

- Continued to buy 180 day NCDs at elevated levels to take advantage of the steep bank bill curve.
- Selectively added good quality credit securities as opportunities presented.

Current positioning:

Duration: Portfolio duration is 0.50 years mdc, 0.38 years longer than the benchmark.

Curve: Overweight 5 years vs 6 month investments.

Credit: Spread duration of 1.75 years mdc.

Market Outlook

Global:

- Substantial sell-offs in global equities produced the expected risk-off rally in bonds; however, the FED remains confident that growth, employment and wages will sustain their upward trends and are **unlikely to restrain their tightening strategy**.
- China's central bank, the PBOC said the global outlook is worsening and that it will "pre-emptively adjust and fine-tune policies according to the changing conditions."

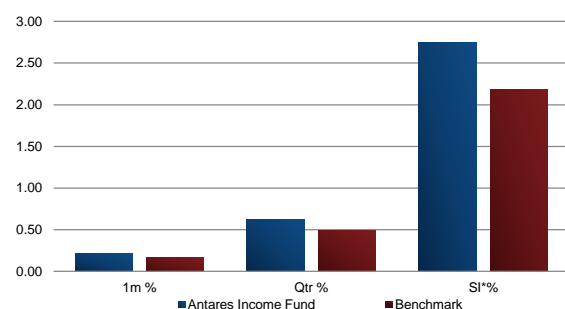
Australia:

The RBA's Statement of Monetary Policy was quite upbeat, forecasting marginal improvements in growth, employment and wages over the next 2 years; however in contrast to the FED who are tightening monetary policy into a strengthening economy, the RBA remain concerned about the "stretched" consumer. The savings rate has fallen to 1%, a similar level to pre GFC. Furthermore, the valuation of the consumer balance sheet (wealth effect) has been falling over 2018 led by falling house prices and more recently falling equity markets. So an overly indebted consumer has limited pricing power in the jobs market as well as limited scope for discretionary spending. This prognosis points to a lengthy period of unchanged cash rates.

Strategy

- We continue to invest into attractive credit securities where they are appropriately priced but are cautious given the slowing global growth environment and the continuation of geo-political risks.
- We have been opportunistically adding duration at levels 2.17% – 2.20% basis the 3yr futures and are currently around 0.5 year mdc.
- We continue to maintain good liquidity in the portfolio by demanding a high illiquidity premium from less liquid holdings.

Net return vs Benchmark return (%)



Key characteristics at 31 October 2018

	Fund	Benchmark
Duration (vrs)	0.50	0.13
Running yield + Rolldown (%)	2.87	1.82
Credit spread duration (vrs)	1.75	-
Average credit rating	A+	AA-
Liquidity*	79%	100%
Fund Size (millions)	\$208.3	-

* 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.

Distribution History

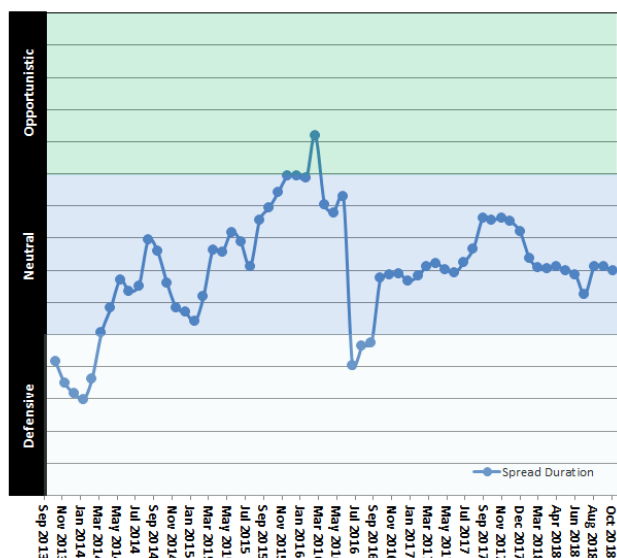
Distribution date	30 September 2018
Distribution amount	0.41 Cents Per Unit
Next distribution date	31 December 2018

Rating Exposure (by market value %)

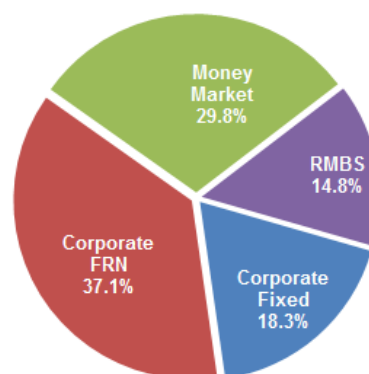
AAA	13.0%
AA+	0.0%
AA	6.3%
AA-	43.7%
A+	4.0%
A	3.6%
A-	10.9%
BBB+	9.9%
BBB	8.6%

5.4% of exposures classified in the above table as BBB+ and BBB are investments of term to maturity of less than 95 days with entities that have a short term rating of A2 from Standard & Poors rating agency.

Defensive to Opportunistic



Sector Breakdown (Market Value %)



Market and Economic Data

- Large sell-off in global equities in October with the ASX200 down 6.1% and the S&P500 down 6.9%.
- Aus bonds rallied on the risk-off tone in equities with AUS10yr bond futures up 5.5bps to 2.635%, 3yr bond futures were up 5.5bps to 2.05% with the yield curve 0.5bps steeper at 58.5bps. The AUS/US 10yrs spread continued to invert with the spread -14bps wider at -51bps.
- BBSW continued to tighten over the month with the 3m BBSW rate 3bps lower at 1.91%, while 6mBBSW was 6.5bps lower at 2.07%.
- Physical bonds outperformed synthetic credit with corporate and financial spreads relatively unchanged over the month, however, responding to weak equity markets, AUS iTraxx widened 9bps over month to close at 81.5bps.

Australian Rates	October 2018	Month Change	1 Yr Change
RBA Cash Rate	1.500	0.00	0.00
90 Day Bank Bill	1.910	-0.03	+0.22
3 Yr Futures	97.950	+0.06	-0.05
10 Yr Futures	97.365	+0.05	+0.05
3/10 Spread (bps)	58.5	+0.0	-10.5
iTraxx Australia 5Y	81.9	+7.3	+16.7
10Yr BEI	1.88	+0.02	+0.07

Global Sovereign Rates	October 2018	Month Change	1 Yr Change
Fed Fund Rates	2.20	+0.02	+1.13
ECB Main Refi Rate	0.00	0.00	0.00
US Sovereign 2 Yr	2.87	+0.05	+1.27
US Sovereign 10 Yr	3.14	+0.08	+0.76
Japan Sovereign 10 Yr	0.13	-0.00	+0.06
German Sovereign 10 Yr	0.39	-0.09	+0.02

Currencies	October 2018	Month Change	1 Yr Change
AUD/USD	0.707	-0.015	-0.058
EUR/USD	1.131	-0.029	-0.033
USD/JPY	112.940	-0.76	-0.70

Equities	October 2018	Month Change	1 Yr Change
ASX200	5830	-6.1%	-1.3%
S&P500	2712	-6.9%	+5.3%

Commodities	October 2018	Month Change	1 Yr Change
WTI Crude	65.3	-7.8	+12.3
Gold	1214.8	+23.9	-56.7

Australian Economic Data	Latest Monthly Print	Month Change	1 Yr Change
Employment Change (k)	5.6	-39.0	+1.2
Unemployment Rate (%)	5.0%	-0.3%	-0.4%
Retail Sales (MoM%)	0.2%	-0.1%	-0.3%
Trade Balance Value (m)	3,017	+675	+3,005
Building Approvals (MoM%)	3.3%	+11.4%	+5.5%
Consumer Confidence (Westpac)	101.5	+1.0	+0.1
Business Confidence (NAB)	6.2	+1.0	-3.7
Business Conditions (NAB)	14.8	+0.8	-6.2

Australian Economic Data	Latest Quarterly (Q2)	Quarterly Change	1 Yr Change
Private Capital Expenditure (QoQ%)	-2.5%	-3.7%	-4.3%
GDP (YoY%)	3.4%	+0.2%	+0.7%
Inflation (YoY%)	1.90%	-0.2%	+0.1%

Global Economic Data	Latest Monthly Print	Month Change	1 Yr Change
US Non-Farm Payrolls (k)	250	+132	-21
US Unemployment Rate (%)	3.7%	+0.0%	-0.4%
US Manufacturing ISM	57.7	-2.1	-0.8
US Non-manufacturing ISM	60.3	-1.3	+0.5
China Manufacturing PMI	50.2	-0.6	-1.4
China Non-Manufacturing PMI	53.9	-1.0	-0.4
German Factory Orders (MoM%)	0.3%	-2.2%	-0.4%
German Industrial Production (MoM%)	0.2%	+0.1%	+1.3%

Semis * vs Gov Bonds	October 2018	Month Change	1 Yr Change
3yr (bps)	20.3	-0.08	+10.47
7yr (bps)	37.8	+0.07	+14.23

* Semi calculation comprises an equal weighting of NSWTC and WATC

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\$29.7 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 Sept 2018

Important information

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