

# Ex-20 Australian Equities Fund



## Monthly Performance Report August 2023

### Fund description and investment return objective

The Fund is an actively managed, concentrated portfolio of equities outside the largest 20 Australian listed companies by market capitalisation (as defined by the S&P/ASX 20 Total Return Index) that Antares identifies as having the potential to offer significant long-term capital growth. The Fund may also invest in equities expected to be listed on the Australian share market.

The Fund's objective is to outperform (after management fees) the 'Benchmark' (S&P/ASX 200 Total Return Index excluding the companies listed in the S&P/ASX 20 Total Return Index) over rolling five year periods.

### Investment returns<sup>1</sup>

Period	1 month	3 months	1 year	2 years pa	3 years pa	Since inception pa
Net return <sup>2</sup> %	-3.1	1.2	7.5	0.1	9.7	7.7
Benchmark return %	-1.4	2.8	8.0	1.1	8.0	4.7
Net excess return %	-1.7	-1.6	-0.5	-1.0	1.7	3.0

<sup>1</sup> Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market.

### Investment commentary

August was a disappointing month for the strategy, which delivered a return of -3.1 (net of fees), compared to that of its benchmark at -1.4%. While the market's return for the month was relatively benign it masked some substantial volatility at a stock specific level in response to the results season outcomes. Over 20 companies in the ASX 200 moved up or down by more than 10% post report release – the highest number we can recall. This was despite limited levels of earnings revisions. Positioning and liquidity seem to be in command of stock prices at present.

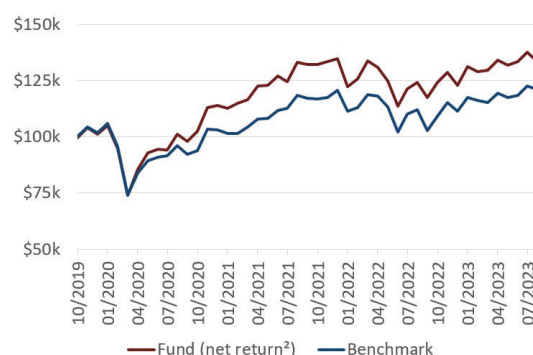
Our best contributor for the month was Cochlear (COH), which delivered strong earnings growth as implant surgeries normalised as hospital waiting times globally began to return to pre COVID levels. More encouragingly, the outlook provided by COH was above expectations, even after allowing for a lift in development expenses, while implant surgery into older cohorts was called out as a focus of future growth. Given the importance of social interaction in a healthy aging process, we have been hoping to see this progress.

Medibank (MPL) also performed well in August. Like COH, it recorded a solid profit result, above the market's expectations. It also showed a strong fourth quarter recovery in new policy additions, indicating the company was putting the operational impacts of last year's cyber attacks behind it.

TPG Telecom (TPG) also had a good month. It confirmed it was in negotiations with Vocus to sell its fibre network for a sum of approximately \$4.1bn. This is a very good price. It also enjoyed the benefit of market leader, Telstra, driving up mobile telephony yields, which it followed.

Detracting from performance were Block Inc (SQ2) and Judo (JDO). Having risen by more than 21% in July, SQ2 shares were sold down in August after reporting its 2Q23 results. This was despite the company exceeding expectations and upgrading full year EBITDA guidance. The decline appears to be driven by the outlook provided by management whereby 3Q23 gross margins were decelerating, as well as overall macroeconomic concerns. A material portion of SQ2's earnings

### \$100,000 invested since inception



### Sector allocation

GICS <sup>3</sup>	%
Industrials	26.6
Consumer Discretionary	14.9
Metals & Mining	10.4
Financials Ex Reits	9.3
Health Care	8.1
Communication Services	8.0
Consumer Staples	7.7
Real Estate	4.9
Information Technology	4.5
Utilities	3.6
Energy	1.9
Materials Ex Metals & Mining	0.0

are exposed to transaction volumes in small and medium sized businesses, which are adversely impacted by a slowdown in US consumer spending.

JDO shares declined after reporting its FY23 results. The company met consensus expectations, however disappointed with regard to its future outlook. JDO is currently overearning due to the use of the Reserve Bank of Australia's Term Funding Facility (TFF), with a Net Interest Margin (NIM) of 3.29% for FY23, compared to its "at-scale" target of 3.0% by FY26. The market believed that the NIM would decline linearly from its current level to 3.0%, however management indicated that the NIM will fall below 3.0% during FY24 as the TFF is refinanced with higher cost deposit and wholesale funding. The market remains sceptical as to whether the company can restore its NIM back to 3.0% by FY26.

Also detracting was Iress (IRE), who delivered a very disappointing intermediate result. Most concerning was the fall in auxiliary X-plan licenses, which was not anticipated. Nor was the inability to pass through the full extent of the 9% price rise of which the company previously spoke to off-set the weaker trading conditions. We have now formed the view that the rebasing of IRE may be further away than we had anticipated and may start from a lower level. Hence we exited the stock.

## Top 10 share holdings

(alphabetical order)

- Aurizon
- Brambles
- Cochlear
- IDP Education
- Lottery Corporation
- Medibank Private
- Metcash
- Northern Star Resources
- Qantas Airways
- Seek

## Stock Activity

### Buys / Additions

**Brambles (BXB)** - We added BXB to the portfolio in August following our recent European trip. We were impressed by management and various channel checks which we were able to undertake whilst abroad. As the BXB share price weakened into the result we added the stock to the portfolio.

**Breville (BRG)** - We also added BRG to the portfolio on the back of its better than expected FY 23 result. We saw good underlying trends in demand for its higher end coffee makers, which put to rest our fears that the market would see a post covid destocking of coffee makers. Further, we were enthusiastic about the range of new products scheduled for release this financial year, highlighted by a lift in design and marketing spending in the result, ahead of the new launches.

**Megaport (MP1)** - Finally, we added MP1 back to the portfolio. With key MVE and MRE metrics already growing strongly ahead of the boost in marketing spend, we see the building blocks in place for a multi year growth story, underpinned by increasing demand for data from AI related services.

### Sells / Reductions

**Iress (IRE)** - As noted we exited our position in IRE.

**TPG Telecom (TPG)** - We also exited TPG on the back of the surge in its share price associated with the Vocus deal. Our analysis, the implied valuation of the remaining business, should the transaction actually go ahead, would see TPG as a very expensive, low-growth telecommunications company.

**QBE Insurance (QBE)** - Finally, we also exited QBE in the month. While the result was in line with expectations, more or less, we disliked the announcement of yet another senior management change in the troubled US business. Further, we feel that positioning of insurance companies is somewhat extreme - the market sees them as lower risk beneficiaries of rising rates. We are not so sure.

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#### Investor profile

The Ex-20 Australian Equities Fund is designed for investors seeking an actively managed, highly concentrated portfolio of Australian securities that excludes the top 20 stocks by market capitalisation. The Fund aims to provide investors with long term capital growth. The Fund may suit investors who are willing to accept a very high level of risk in exchange for the opportunity to earn higher potential returns.

#### Investment guidelines and ranges

	Minimum	Benchmark Allocation	Maximum	As at 31 August 2023
<b>Australian shares</b>	90%	100%	100%	97.3%
<b>Cash and cash equivalents</b>	0%	0%	10%	2.7%

#### Portfolio facts

<b>Inception date</b>	1 October 2019
<b>APIR Code</b>	PPL5308AU
<b>Fund size as at 31 August 2023</b>	\$27.2m
<b>Benchmark</b>	S&P/ASX 200 Total Return Index excluding the companies listed on the S&P/ASX 20 Total Return Index.
<b>No. of shares</b>	15 to 30
<b>Distribution</b>	Half-yearly distribution or reinvestment
<b>Management fee<sup>4</sup></b>	0.85% pa
<b>Performance fee<sup>5</sup></b>	15% of the Fund's net quarterly return in excess of the benchmark quarterly return

#### Distribution history<sup>6</sup> and Franking levels

	Jun 23	Dec 22	Jun 22	Dec 21	Jun 21	Dec 20	Jun 20
<b>Distribution (cents per unit)</b>	4.00	0.85	11.21	0.57	3.43	0.60	0.91
<b>Franking levels</b>	40.3%	-	11.7%	-	29.5%	-	97.6%

#### Portfolio managers

##### JOHN GUADAGNUOLO

Head of Fundamentals

Years with the group: 16

Years of Industry Experience: 23

Key Responsibilities:

John is the Portfolio Manager of the Ex-20 Australian Equities Model Portfolio and Managed Fund.



##### WINSTON CHONG

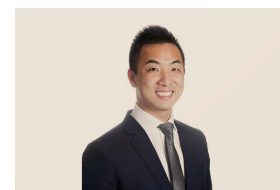
Investment Manager

Years with the group: 5

Years of Industry Experience: 12

Key Responsibilities:

Winston is the Deputy Portfolio Manager of the Ex-20 Australian Equities Model Portfolio and Managed Fund.



#### Platform availability

- BT Panorama
- eXpand Extra
- Hub 24
- Macquarie Wrap
- MC Wrap / Navigator
- Netwealth Wrap
- Praemium
- PowerWrap

<sup>2</sup> Investment returns are based on exit prices, and are net of management fees and assume reinvestment of all distributions. The performance inception date is 2 October 2019.

<sup>3</sup> GICS - Global Industry Classification Standard % are absolute ie sector proportion of portfolio. Source: Antares Equities.

<sup>4</sup> Management fee is % per annum of the Fund's net asset value (including net effect of GST).

<sup>5</sup> Performance fee is calculated as 15% of the difference between the Fund's quarterly return (after deducting the management fee and assuming the reinvestment of distributions) and the Benchmark's quarterly return (the Benchmark of the Fund is S&P/ASX 200 Total Return Index excluding the S&P/ASX 20 Total Return Index).

<sup>6</sup> Distribution rates have been rounded to two decimal places. As a result, the actual payment rate may differ slightly to the rates listed above. A full distribution history and franking levels can be found on our website at <https://www.antarescapital.com.au/home/prices-and-performance/distributions>

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### August 2023



## About Antares Equities

Antares Equities (Antares) is a specialist Australian equities manager. Since 1994, Antares has managed portfolios for wholesale, advised and direct investors through a suite of products including segregated mandates, investment funds and managed account models. Antares has A\$4.9 billion (at 30 June 2023) under advice across a range of strategies including large capitalisation, concentrated, income and long-short. Antares believes in bottom-up stock picking. A consistent process and detailed, quality research executed by a highly experienced, stable and diverse team underpin this approach. The investment philosophy is based on the belief that markets can misprice stocks and these opportunities can be identified using the proven, proprietary Antares research process. Antares Equities is part of Antares Capital Partners Limited (ABN 85 066 081 114, AFSL 234483).

**For further information please contact our Client Services Team - Toll free: 1800 671 849**

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