

Antares Income Fund

Monthly Investment Report

January 2023



Fund Performance

Period Ended 31/01/2023	1 Mth %	3 Mths %	1 Yr %	3 Yrs %	5 Yrs %	7 Yrs %	Since Inception %pa ¹
Antares Income Fund	0.55	1.40	0.91	0.97	1.46	1.87	2.10
Bloomberg AusBond Bank Bill Index	0.27	0.77	1.52	0.61	1.03	1.28	1.58
Difference	0.28	0.63	-0.61	0.36	0.42	0.60	0.52

Valuation at month end was \$210,630,964.61

Antares Income Fund returns are expressed after investment management fees and before taxes; The difference in returns between the Fund and the benchmark may be out due to rounding; 1. Since Inception 31/01/2013

Key Characteristics at 31/01/2023

	Fund	Benchmark
Interest Rate Duration (yrs)	0.10	0.13
Yield to Maturity*	4.70	3.24
Credit Spread Duration (yrs)	2.21	-
Average Credit Rating	A	-
Liquidity**	70%	N/A

*Estimated return if held to maturity. Market yield for Fixed Rate Bonds whilst FRNs uses a swap assumption rate as an input.

**Liquidity deemed available within 24 hours. Consisting of: (1) Cash and short-term securities, government & semi government bonds 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 which there is no buy/sell spread and next day redemption facility if notified by 2pm.

Rating Exposure (by market value %)

Asset Type	MV %
AAA	15.13%
AA+	1.08%
AA	4.73%
AA-	17.85%
A+	5.66%
A	1.34%
A-	14.31%
BBB+	21.50%
BBB	18.39%
BBB-	0.00%

Portfolio Strategy

Strategy	Implementation
<p>Duration and Yield Curve: Our scenario analysis points to an increasing probability of structurally higher inflation for longer with a potential bear steepening of yield curves if central banks are unable to contain longer term inflation expectations. The resilience of the economy and labour markets to date means the extent of the economic impact of aggressive tightening by central banks may look to play out beyond 2023 where we see increasing risks of a "stagflation" scenario.</p>	<ul style="list-style-type: none"> The first half of January saw a strong rally in bond markets after a steep sell off at the end of 2022. The second half of January saw a large retracement as yields rose in response to strong Australian CPI and US employment data. The market continues to maintain confidence that central banks will be able to bring inflation back down to 2%, which would provide the conditions for a pivot in the rate cycle. Current market pricing has 50bps of rate cuts priced by the end of the year in the US and 10bps in Australia. We continue to see risks around this outcome with the resilience of the economy, labour markets and recent easing in financial conditions. Over the medium to long term, we see structural drivers of inflation which may challenge the continued appropriateness of a 2-3% target band. Yield curve: With terminal cash rates rising off the back of hawkish higher rates for longer rhetoric from central banks, and long-term inflation expectations remaining anchored for now, we continue to favour a curve steepening strategy based on our view of the potential risks of structurally higher long-term inflation. However, given the possibility of recession risks being pushed out into next year and beyond due to resilience in the economy, we may look for opportunities to reduce curve steepening positions across portfolios that use derivatives. Duration: Given our outlook, we are positioned between neutral and short duration across mandates depending upon mandate objectives. If bond yields continue to rise, we will look to reduce short duration positions opportunistically.
<p>Credit exposure: Our scenario analysis points to rising risks of recession and stagflation risks that make us more selective about credit exposure in portfolios.</p>	<ul style="list-style-type: none"> Valuations: Credit spreads continued to narrow in January, reflecting the resilience seen to date in both the economy and the labour market, despite central banks continuing to increase rates. We are focusing on high quality credit, targeting credits in the 3-5yr area where yields are attractive. High quality issuers: We are targeting credits with low leverage, strong cashflows, some pricing power and robust balance sheets, i.e., issuers that are less exposed to inflation and recession risks. Synthetic credit: iTraxx is back trading below 80 after reaching highs of around 150 in October. We will continue to monitor credit protection and potentially buy protection opportunities for those portfolios that can use CDS.
<p>Optimising yield through carry and rolldown: Focusing on high quality credits and inflection points on steep curves.</p>	<ul style="list-style-type: none"> Portfolio construction: We are using our proprietary analytics to harvest attractive rolldown while maximising opportunities per unit of risk. Rate and swap term premia: For long maturity portfolios we see value in semi-government bonds in 8-10yrs versus Commonwealth government bonds. Credit term premia: Recent major bank issuance in the 3-5yr area has value in the major bank curve and created attractive switch opportunities between shorter bonds and newly issued 5-year bonds.
<p>Liquidity: Where appropriate, we are maintaining liquidity that can be realised in stressed conditions.</p>	<ul style="list-style-type: none"> Portfolio construction: Selective semis, major banks and government bonds are seen as core liquidity building blocks across portfolios. We have maintained the liquid structure of Funds where appropriate.

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.

Distribution History

Distribution Information	Date
Distribution Date	31-Dec-22
Distribution Amount	0.62 Cents Per Unit
Next Distribution Date	31-Mar-23

Portfolio Review

Key Drivers of Portfolio Performance:

- The 3-10 yield curve flattened, detracting from returns
- Corporate spreads narrowed 10-15bps, contributing strongly to positive excess returns
- Sub debt tightened 10bps, adding 3bps to excess returns
- CDS protection detracted from returns as spreads compressed
- Yield enhancement and rolldown of quality investment grade bond holdings added to returns.

Portfolio Activity and Positioning

- Bought CBA 01/28 and Ben Adelaide Bank 01/27 FRNs.
- We have maintained the liquid structure of the Fund.

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Market Review

Bond markets rallied in January due to evidence of disinflation in the US, and a dovish interpretation of Powell's speech outlining a path for slower hikes for 2023. Despite various Fed members supporting 25bps hikes going forward, the key message remained Hawkish; that inflation is still too high, and that Monetary Policy will need to remain restrictive for some time to bring inflation back down to 2%.

This is at odds with market pricing which reflects rate cuts in the US towards the end of 2023. The path from slow, to pause, to central bank pivot is uncertain as economic data remains mixed. Another key area of uncertainty is the risk of structurally embedded inflation due to a persistent tight labour market which has seen wage and services inflation remain strong, despite falls in prices across the energy and goods sectors.

Stagflation concerns remain for Europe with Spain's inflation coming in higher than expected and German GDP coming in lower than forecasted. However, overall, there was weaker economic data from the US compared to Europe over the month. The IMF raised global growth forecasts driven by China's economy reopening after abandoning its COVID zero policy.

Inflation in Australia came in above expectations in January with the RBA delivering a 25bps hike, mirroring the global message of maintaining a contractionary policy stance for longer to bring inflation down to 2%. Retail sales were a strong downside surprise at -3.9% for December, outweighing the seasonal adjustment higher in November from black Friday sales.

Credit spreads continue to narrow, reflecting the muted economic impact of rate rises to date and pricing a soft economic landing.

Macro Outlook

While central banks have continued to hike rates over recent months, they have reduced the magnitude of rate increases in anticipation of the lagged economic impact of their actions. This has resulted in a market rally which has led to an easing in financial conditions.

However, despite the overall sharp and aggressive rate hiking cycle to date, there has not been clear and pervasive evidence of an economic contraction. In the context of historical rate structures, cash rates have normalised but may have some way to go to provide the restrictive conditions required to have the desired impact on inflation outcomes.

The key risk to bringing inflation back to a 2% level comes from a persistent labour market which has to date provided wages growth and services inflation which is inconsistent with a 2% inflation goal. Central banks have made it clear that higher rates may be required for an extended period. The challenge for markets in 2023 will be navigating the timing and magnitude of central banks' reaction function. Evidence of this is already clear with a stark dichotomy between markets currently pricing in cuts before the end of the year and a Hawkish central bank thematic of higher rates for longer.

Antares Scenario Analysis

The Antares Scenarios table below 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.

Scenarios	AU GDP	AU Inflation	1YR	AU 3YR Bond	AU 5YR Bond	AU 10YR Bond	AU 30YR Bond	US 10YR Bond	ITraxx
Strong Growth	5.00%	4.50%	5.00%	5.50%	6.00%	6.50%	7.25%	6.50%	150
Above Trend	4.00%	3.50%	4.50%	4.50%	4.25%	4.00%	4.00%	4.25%	110
Trend	3.00%	2.50%	3.25%	3.50%	3.75%	4.00%	4.50%	4.00%	75
Below Trend	1.50%	1.50%	2.50%	2.50%	2.50%	2.50%	2.75%	2.00%	100
Recession	-2.00%	0.50%	0.25%	0.50%	1.00%	1.50%	2.25%	1.25%	250
Stagflation low growth/high inflation	1.50%	4.00%	3.75%	4.25%	4.75%	5.25%	5.75%	5.50%	150
Stagflation -ve growth/high inflation	-1.50%	4.00%	2.00%	2.50%	3.50%	4.75%	5.75%	4.75%	150
Antares' Latest Fair Value (FV)	1.69%	3.00%	3.15%	3.43%	3.78%	4.12%	4.59%	4.06%	124
Market Yield Latest			3.67%	3.54%	3.63%	3.82%	4.19%	3.73%	85
FV - Market (+exp - cheap)			-0.52%	-0.11%	0.14%	0.29%	0.41%	0.33%	39

Antares' continues to have a greater than 50% probability weighting to structurally higher inflation outcomes; 41% probability being assigned to the stagflation scenario of higher inflation with weak/negative growth (Scen 6); and 14% probability of higher inflation with strong growth (Scen 1 & 2). After the 20-40bp selloff in February, current market yields are looking less expensive versus Antares' Fair Values (FVs) (-11 to +40bps) with 3yr bonds looking the best value. The aforementioned are weighted average FVs and it should be noted that there is a wide dispersion of potential yield levels under the various scenarios.

Interest Rate & Inflation Outlook

The year began with an unremitting rally in bonds and a continuation of the trend established early last quarter. Both nominal and real rate bonds posted strong performances with the rally in rates coinciding with better risk sentiment in credit and equity markets. Underpinning the move appeared to be some moderation in expectations around Fed Funds, with the market pricing in material rate cuts between 2H23 and 1H24.

When looking at the performance of risk markets the rally gained momentum following the precipitous drop in Fed Funds expectations. The Eurodollar strip saw further inversion highlighting the market's assessment that peak rates were near and that the rate cutting phase was not far off. Underpinning the fall in rate expectations has been an improved outlook for inflation, following 6 months of modest headline numbers. This stands in contrast to upbeat inflation that gripped markets in the year prior.

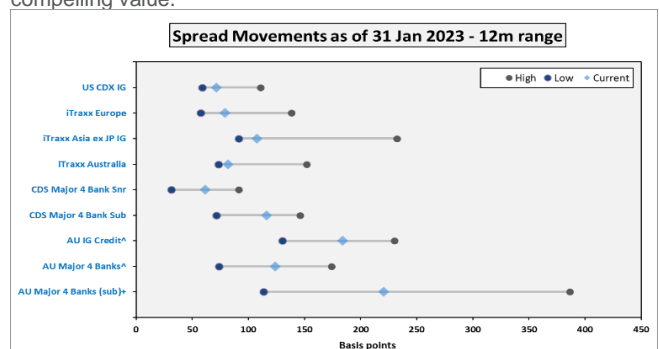
Locally, rate expectations inched upwards following the higher than expected Q4 CPI, with further rate hikes priced-in following the RBA's February rate hike decision. The domestic CPI print released on 25 January highlighted ongoing inflation pressures across the board with headline inflation levelling at 7.8% for the year.

The RBA's own forecast reveals that inflation is likely to remain persistently high over the next year, forecasting headline CPI of 4.75%. While peak rates are behind the US and potentially in Australia, inflation remains sufficiently high enough to warrant further rates hikes from both central banks. The terminal rate for Australia is currently shown to peak by August at above 4.10%, which implied 3 more hikes following the February decision to lift rates by 25bps.

Credit Outlook

For January, financial issuance headlined domestic deal sheets with CBA's 3 and 5-year transaction coming with new issue concessions. This paved the way for smaller regional and mutual institutions, with their deals also offering concessions but correspondingly being met with solid investor demand. Positive market sentiment saw credit spreads grinding tighter through January, in line with the broad-based rally in risk assets.

Despite improved sentiment of late, we foresee some headwinds persisting for bank funding profiles, not least from upcoming Term Funding Facility maturities. Notwithstanding these headwinds, we may selectively lean into pockets of tight funding conditions if we see compelling value.

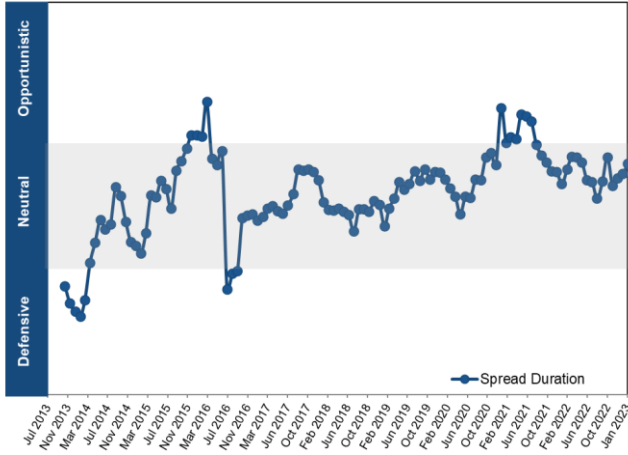


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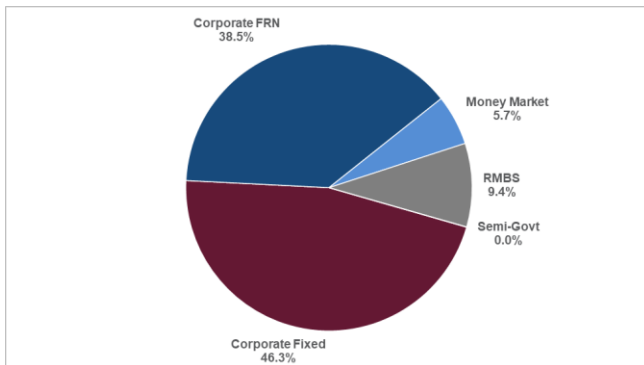
Defensive to Opportunistic



ESG

We declined to participate in a regional bank's primary issuance in January 2023 due to concerns about the bank's corporate governance. This bank has been on our radar for some time as there have been numerous news articles about the CEO's questionable management style, a track record of favouring growth over risk management, and numerous senior executive departures under his leadership. We are concerned about the bank's risk culture and potential losses which may surface in the future, and therefore declined to participate in the new transaction due to insufficient price compensation.

Sector Breakdown (Market Value %)



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\$25.41 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 2022

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