Antares Income Fund

Monthly Investment Report
March 2023

Fund Performance

Period Ended 31/03/2023	1 Mth %	3 Mths %	1 Yr %	3 Yrs %	5 Yrs %	7 Yrs %	Since Inception %pa[1]
Antares Income Fund	0.09	1.21	2.18	1.60	1.54	1.89	2.13
Bloomberg AusBond Bank Bill Index	0.28	0.79	2.04	0.73	1.08	1.30	1.60
Difference	-0.19	0.42	0.14	0.88	0.46	0.59	0.52

Valuation at month end was $223,710,590.45
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 31/03/2023

	Fund	Benchmark
Interest Rate Duration (yrs)	0.05	0.13
Yield to Maturity*	4.50	3.66
Credit Spread Duration (yrs)	2.19	-
Average Credit Rating	A	-
Liquidity**	69%	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	13.29%
AA+	1.07%
AA	8.04%
AA-	24.47%
A+	5.41%
A	1.27%
A-	11.28%
BBB+	18.88%
BBB	16.28%
BBB-	0.00%

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-Mar-23
Distribution Amount	0.69 Cents Per Unit
Next Distribution Date	30-Jun-23

Portfolio Review

Key Drivers of Portfolio Performance:

- The 3-10 yield curve bull steepened as short end rates rallied, contributing to excess returns.
- Corporate spreads widened, detracting from excess returns.
- Yield enhancement and rolldown of quality investment grade bond holdings added to returns.

Portfolio Activity and Positioning

- Bought NAB T2 2033.
- We have maintained the liquid structure of the Fund.

Portfolio Strategy

Strategy	Implementation
Duration and Yield Curve: Our scenario analysis points to a high 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. While the initial impact of banking sector stress looks to be contained, the economic impact from tighter credit conditions may affect the trajectory of further monetary policy tightening and contribute to stagflation risks.	• March saw a strong rally in bond markets, with yield curves bull steepening as a result of the collapse of three US banks and Credit Suisse. • The market continues to expect a deterioration in economic conditions, which would see the Fed and RBA pivot to rate cuts in late 2023. This has been exacerbated by the banking stress in March, with markets pricing 70bps of cuts in the US from peak to the end of the year, compared to 50bps in February. Australia has 10bps of rate cuts priced in by the end of the year. • As a result of US regulator and central bank intervention to restore liquidity and market confidence, potential contagion risks from the banking sector seems to be contained. Economic data in March showed continued resilience in the economy and labour market. 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:** Despite banking sector concerns reducing terminal rates in March, central banks have maintained their hawkish higher for longer rhetoric and have been clear that they won't trade off the flight to bring inflation back to target to address banking sector concerns. • Long-term inflation expectations remain anchored. We continue to favour a curve steepening strategy based on our view of the potential risks of structurally higher long-term inflation. However, if we see continued resilience in the economy and labour market, 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.
Credit exposure: Our scenario analysis points to rising risks of recession and stagflation that make us more selective about credit exposure in portfolios.	• **Valuations:** Credit spreads widened during the month, reflecting increased recession risks from the stress seen in the banking sector. 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 trading in the low 80s after reaching highs of around 110 in March. We will continue to monitor credit protection and potentially buy protection opportunities for those portfolios that can use CDS.
Optimising yield through carry and rolldown: Focusing on high quality credits and inflection points on steep curves.	• **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 12-15yrs 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.
Liquidity: Where appropriate, we are maintaining liquidity that can be realised in stressed conditions.	• **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.

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Market Review

March

Bond yields rallied, yield curves bull steepened, and credit spreads widened as the collapse of three US banks; Signature Bank, Silvergate Bank, and Silicon Valley Bank (SVB) and Credit Suisse rattled financial markets in March, raising fears of contagion across the banking sector and the broader economy.

The month started with markets pricing in a Fed terminal rate of 5.50% and an RBA terminal rate of around 4.20% off the back of continued strong economic and labour market data and a hawkish Fed reiterating rates would need to be higher for longer to bring inflation back to 2%. Markets were at odds with the Fed, pricing in a hard economic landing in the second half of 2023.

On March 10, 2023, Silicon Valley Bank (SVB) failed after a bank run, marking the second-largest bank failure in United States history and the largest since the 2007–2008 financial crisis. The response from US regulators and the Fed was swift to minimise the risk of market contagion. US regulators announced that all insured and uninsured depositors at SVB would have access to their funds. The Fed then established a Bank Term Funding Program (BTFP) which offered qualifying US banks the ability to borrow funds for up to 1 year by allowing long term US treasuries to be posted as collateral at par to avoid realising losses. There was also a strong global central bank response with liquidity provisions in addition to the Fed's discount window liquidity facility. California's First Republic Bank avoided a potential collapse after a group of firms provided a cash injection.

After the collapse of SVB, Credit Suisse (CS) also faced a similar bank run, which escalated after its largest shareholder, Saudi National Bank, refused to provide additional funding. CS sought assistance from the Swiss National Bank (SNB), and a deal was done for UBS to acquire CS for less than half the market value of its last closing price.

Market reaction was savage, with treasury yields collapsing as fears of a full-blown banking crisis led to a flight to quality. Volatility, credit spreads, and credit default swaps blew out, reflecting increased credit and recession risks. Markets shifted focus from the economic impact of rate rises impacting the "cost" of credit to the emerging banking crisis and an economic contraction driven by a potential collapse in lending and thus the "availability" of credit. US Treasury Secretary Janet Yellen assured the market that there was no tradeoff between financial stability and bringing inflation down and that the Fed had the policy tools to do both. Central banks showed commitment to this stance by continuing to raise rates in March, including the Fed, the European Central Bank, and the Bank of England.

By the end of the month, terminal rates had fallen to below 5.00% in the US and below 3.70% in Australia, reflecting increased recession risks from the banking crisis. However, there was a marked improvement in risk sentiment and an acknowledgement that inflation remains high and that there is more work to be done by the Fed. Economic data over the month showed continued strong services PMI data, higher than expected consumer confidence, house prices, and home sales, but there were also signs of easing inflation in the US deflator and one year inflation expectations data. The assessment of the impact of the banking crisis on the Fed's policy actions is that it may result in a lower rate path.

Q1 2023

The first quarter of 2023 was dominated by the banking crisis in March, which resulted in the collapse of three US banks and Credit Suisse. In the broader economy, there was continued strong economic data, sticky services inflation and the labour market remained resilient. Fed rhetoric of higher for longer rate structures has been at odds with market pricing, which is pricing in rate cuts this year.

The RBA has been the outlier amongst major central banks with a more dovish stance, expressing a willingness to be more patient in bringing inflation back to target. The longer path back to target inflation set by the RBA (by 2025) reflects that they are less willing to trade off the gains made in employment to bring inflation back to target sooner compared to other central banks.

Macro Outlook

By the end of March there were signs that the peak of the banking crisis had passed, with actions from regulators and central banks averting a full-blown financial contagion situation. The key uncertainty for the economic outlook is the impact the banking crisis will have on the broader economy. Markets are currently gauging the extent to which the bank stress seen in March will tighten credit conditions and slow economic growth.

There are two key transmission mechanisms through which this can play out. The first is that if banks continue to offer low rates on deposits, they risk a continuation of deposit outflows, which will restrict their ability to lend. The second is that if banks increase deposit rates to retain and attract deposits, this will result in a compression of bank margins. Both will lead to a tightening in lending conditions, which will reduce overall lending activity and slow economic growth. The implications for the Fed rate path trajectory is that it may reduce the need for further hikes.

Despite the stress seen in the banking sector in March, economic data remains strong, underpinned by a robust labour market. Current market pricing continues to reflect a hard economic landing in 2023, with rate cuts being priced in and the US curve remaining inverted despite the rally in front end rates in March. This continues to be at odds with the Fed's view that rates need to be higher for longer, reflecting that there is more work to do on the inflation front.

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%	5.50%	5.75%	6.00%	6.50%	7.25%	6.50%	150
Above Trend	4.00%	3.50%	4.75%	4.50%	4.25%	4.25%	4.50%	4.50%	110
Trend	3.00%	2.50%	3.50%	3.50%	3.50%	3.75%	4.00%	3.75%	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%	4.00%	4.25%	4.75%	5.25%	5.75%	5.50%	150
Stagflation -ve growth/high inflation	-1.50%	3.50%	2.75%	3.25%	4.00%	4.75%	5.75%	4.75%	250
Antares Latest Fair Value (FV)	1.51%	2.96%	3.35%	3.49%	3.75%	4.11%	4.57%	3.94%	142
Market Yield Latest			3.47%	3.16%	3.25%	3.52%	4.02%	3.59%	85.15
FV - Market (+ exp - cheap)			-0.11%	0.33%	0.50%	0.58%	0.56%	0.35%	57

Antares continues to have a greater than 50% probability weighting to structurally higher inflation outcomes; 45% probability being assigned to the stagflation scenario of higher inflation with weak/negative growth (Scen 6); and less than 6% probability of higher inflation with strong growth (Scen 1 & 2). Although yields have sold off in April (after the rally seen in March post SVB collapse), current market yields are still looking expensive versus Antares' Fair Values (FVs). See table above for levels relative to FVs. 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 March quarter saw the RBA's stance shift from a more cautious approach to a seemingly more hawkish posture at its February meeting. Flagging multiple rate hikes, the central bank delivered back to back rate increases in February and March only to pause at 3.60% in April.

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Markets rightly anticipated the April pause, attributing it to renewed global financial sector risks, weakening domestic spending, softer business and consumer confidence, as well as moderating inflation. These concerns have resulted in rate expectations being dialed back, with the market now expecting rate cuts by year-end and into 2024.

The risks to domestic rates, however, remain significant in both directions. A key reason to be cautious about the market's pricing is the continued strength of the labour market. Whilst the unemployment rate can be a lagging indicator, labour conditions are resilient, with annual employment growth of 3.3% and a participation rate that is one of the highest globally. Even after 300bps of tightening the unemployment rate remains near historical lows, and hours worked continues to rise faster than trend GDP.

While the RBA may prefer to assess the lagged effect of its policy decisions, it must also weigh-up the risks of remaining on hold in the coming months. These risks include a resurgence in inflation and growth, underpinned by high accumulated savings, improving wage growth, and China's reopening, with the latter supporting Australia's key commodities and tourism revenues.

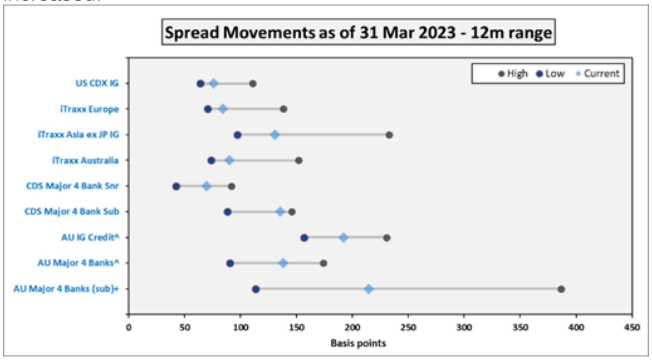
BEIs continue to oscillate within confined ranges with little sign of a breakout in either direction. 10yr inflation expectations remain firmly anchored at 2.40-2.50%. Nearer term inflation projections are moderating faster than that implied by the RBA's statement of monetary policy, which has headline inflation falling to 4.75% by year end.

Credit Outlook

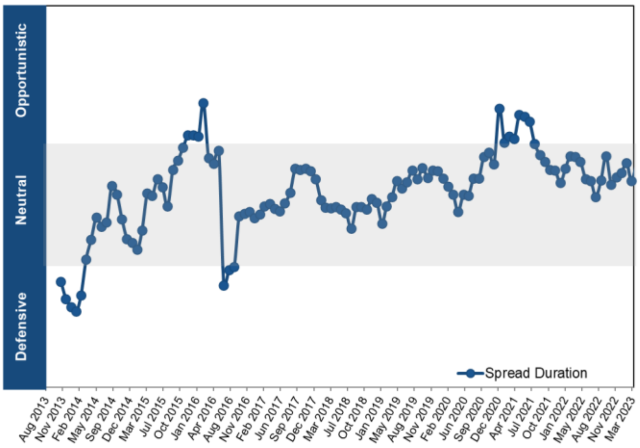
March was a very volatile month, with risk aversion seen throughout the financial markets across all asset classes due to the Silicon Valley Bank and Credit Suisse fallouts. As a result, we saw the largest spike in credit spreads since March 2022, when the market was initially spooked by the Fed's aggressive rate hike. From peak to trough, US IG spreads widened 50 bps, Australian IG spreads widened 20 bps, and European IG spreads widened 45 bps. Synthetic credit also moved 20-30 bps wider across major CDS.

However, as news spread that governments, banking regulators, and central banks had stepped in to provide various supports such as deposit guarantees, back-stop liquidity facilities, and swap facilities to ensure the financial market did not experience a liquidity run, the market eventually calmed down and credit spreads tightened in the last week of March. US IG ended the month 15 bps wider, Australia IG ended 17 bps wider, European IG ended 20 bps wider, and Synthetics ended 5 bps wider.

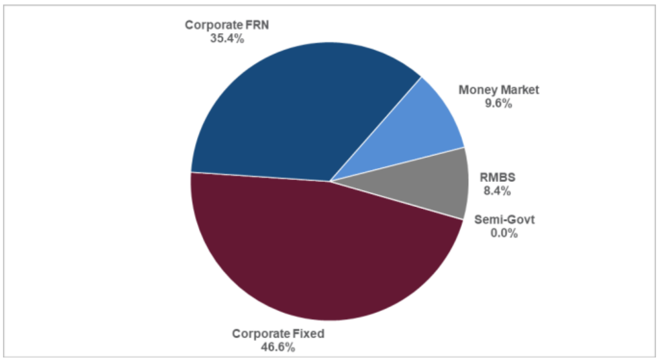
Despite the contagion risk being contained within financial markets, we believe the fallout from US regional banks is likely to accelerate the tightening of the financial condition in the real economy as these banks are likely to tighten their lending standards going forward. Furthermore, we have begun to see clear signs of credit quality deterioration as the number of corporate defaults, auto-finance delinquency, and credit card delinquency has increased meaningfully in recent weeks in the US. As such, we remain cautious on credit spreads and selective on quality as the odds of recession risk have increased.



Defensive to Opportunistic



Sector Breakdown (Market Value %)



ESG

The fallout from Sillicon Valley Bank and Credit Suisse highlights the importance of corporate governance risks when investing in credit, particularly for banks whose business model is highly susceptible to a loss of confidence. The Antares Fixed Income team has excluded Credit Suisse from our investable universe since 2022 due to concerns about the bank's corporate governance. In recent years, the bank has been plagued with large losses such as Greensil and Archegos, as well as many negative headlines about its CEO's behaviour and a string of senior management departures. Antares Fixed Income thus assigned a 'Significant' risk score to Credit Suisse's corporate governance risk profile. Antares Fixed Income did not participate in Credit Suisse's AUD bond issue last year due to our concerns over potential further losses or problems that could surface. The development of Credit Suisse's story reinforces our belief that risk culture assessment should form a core part of credit analysis for any company we invest in.

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Market Movements

Australian Rates	Mar 2023	Quarterly Change	1 Yr Change
RBA Cash Rate	3.60	0.50	3.50
90 Day Bank Bill	3.72	0.45	3.48
3 Yr Futures	97.09	0.68	-0.35
10 Yr Futures	96.71	0.78	-0.39
3/10 Spread (bps)	38.50	-10.00	4.00
iTraxx Australia 5Y	90.00	-3.06	8.77
10Yr BEI	2.35	-0.11	-0.16

Global Sovereign Rates	Mar 2023	Quarterly Change	1 Yr Change
Fed Fund Rates	4.83	0.50	4.50
ECB Main Refi Rate	3.50	1.00	3.50
US Sovereign 2 Yr	4.03	-0.40	1.69
US Sovereign 10 Yr	3.47	-0.41	1.13
Japan Sovereign 10 Yr	0.35	-0.07	0.13
German Sovereign 10 Yr	2.29	-0.28	1.74

Currencies	Mar 2023	Quarterly Change	1 Yr Change
AUD/USD	0.67	-0.01	-0.08
EUR/USD	1.08	0.01	-0.02
USD/JPY	132.86	1.74	11.16

Equities	Mar 2023	Quarterly Change	1 Yr Change
ASX200	7178	2.0%	-4.3%
S&P500	4109	7.0%	-9.3%

Commodities	Mar 2023	Quarterly Change	1 Yr Change
WTI Crude	75.7	-4.8	-9.6
Gold	1969.3	145.3	31.8

Australian Economic Data	Latest Print	Previous Quarter Print	Mar 2022 Print
Employment Change (k)	53	64	-50
Unemployment Rate (%)	3.5%	3.4%	5.2%
Retail Sales (MoM%)	0.2%	1.4%	4.6%
Trade Balance Value (m)	13870	13201	10495
Building Approvals (MoM%)	4.0%	-9.0%	-13.7%
Consumer Confidence (Westpac)	78.5	80.3	104.6
Business Confidence (NAB)	-1.0	-4.4	20.6
Business Conditions (NAB)	15.8	20.3	10.4

Australian Economic Data	Latest Print	Previous Quarter Print	Mar 2022 Print
Private Capital Expenditure (QoQ%)	2.2%	-0.6%	-1.1%
GDP (YoY%)	2.7%	5.9%	4.0%
Inflation (YoY%)	7.8%	7.3%	3.0%

Global Economic Data	Latest Print	Previous Quarter Print	Mar 2022 Print
US Non-Farm Payrolls (k)	236	223	677
US Unemployment Rate (%)	3.5%	3.5%	4.6%
US Manufacturing ISM	46.3	48.4	60.8
US Non-manufacturing ISM	51.2	49.6	66.7
China Manufacturing PMI	51.9	47.0	49.2
China Non-Manufacturing PMI	58.2	41.6	52.4
German Factory Orders (MoM%)	4.8%	-5.3%	-5.8%
German Industrial Production (MoM%)	2.0%	0.2%	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$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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