

Antares Income Fund

Monthly Investment Report

April 2023



Fund Performance

Period Ended 30/04/2023	1 Mth %	3 Mths %	1 Yr %	3 Yrs %	5 Yrs %	7 Yrs %	Since Inception %pa ¹
Antares Income Fund	0.54	1.20	2.85	1.72	1.61	1.92	2.17
Bloomberg AusBond Bank Bill Index	0.30	0.83	2.37	0.81	1.11	1.31	1.62
Difference	0.23	0.37	0.48	0.91	0.49	0.61	0.55

Valuation at month end was \$227M

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 30/04/2023

	Fund	Benchmark
Interest Rate Duration (yrs)	0.00	0.12
Yield to Maturity*	4.81	3.64
Credit Spread Duration (yrs)	2.18	-
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	12.96%
AA+	1.02%
AA	6.95%
AA-	25.76%
A+	5.34%
A	1.27%
A-	11.12%
BBB+	17.94%
BBB	17.64%
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.</p> <p>The resilience of the consumer, labour markets and wages price pressure mean the 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"> After a strong risk off rally in March, bond yields rose in April, reflecting the continued hawkish message from central banks about the need to do more to achieve their price stability objective. However, markets continue to maintain the view that central banks will overshoot their policy tightening path to bring inflation back to target, leading to a recession, and rate cuts in 2023. Current market pricing has 75bps of rate cuts priced by the end of the year in the US and 25bps in Australia. We continue to see risks around this outcome with stagflation risks increasing, driven by the resilience of the economy, labour markets, and wage price pressure building in Australia. Over the medium to long term, we see structural drivers of inflation that 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 narrowed in April after widening in March in response to the financial stability issues in the US regional banking sector and the collapse of Credit Suisse. Credit fundamentals continue to be supported by 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 around 90 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 the 10 -15yr part of the curve 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-Mar-23
Distribution Amount	0.69 Cents Per Unit
Next Distribution Date	30-Jun-23

Portfolio Review

Key Drivers of Portfolio Performance:

- Short duration positioning contributed to excess returns as yields rose.
- Financials tightened 4-12bps contributing to returns.
- Yield enhancement and rolldown of quality investment grade bond holdings added to returns.

Portfolio Activity and Positioning

- Bought Worley 2028, WBC 2025.
- Sold Woolworths 2030, NAB 2026/2031 sub debt, WBC 2024/2029 sub debt and CBA senior 2027.
- We have maintained the liquid structure of the Fund.

Antares Income Fund

Monthly Investment Report

April 2023



Market Review

After multiple bank collapses in March, market volatility fell in April. However, markets remain nervous about broader global contagion risks from the US regional banking system. Macro data over the month showed increased risks to a stagflation scenario with elevated inflation and signs of weaker growth.

The US continued to see mixed economic data with mixed manufacturing data, lower factory and durable goods orders, lower than expected GDP, mixed services data, higher one year inflation expectations, and stronger retail sales. The labour market remains resilient despite some weaker data during the month. This was against a backdrop of Fed rhetoric questioning if they have achieved an adequately restrictive cash rate to bring inflation back down to their 2% target and markets trying to pick the peak of the rate hiking cycle. US core inflation levels remain at elevated levels.

There was also mixed economic data globally, with lower than expected inflation in Germany and Spain and higher than expected inflation in the UK and France.

Domestically, the RBA paused in April, waiting for the quarterly CPI data which showed sticky core services inflation and goods inflation coming off recent peaks. A key takeout from the RBA review was a change in the inflation target to the midpoint of the 2-3% target band and a new monetary policy board to be created.

Macro Outlook

With markets and central banks shifting their focus back on price stability after financial stability issues in March, there remain divergent views on recession risks. Markets are pricing in multiple rate cuts by year's end in the US and one in Australia in anticipation of higher recession risks. The rhetoric from the Fed and, more recently, the RBA is that a restrictive policy stance may be required for longer to address persistent and sticky inflation, which has been driven by strong services inflation and a resilient labour market.

The RBA's dovish approach to inflation is reflected in their objective to bring inflation back to 3% by mid 2025, which lags the timeframe set by other major central banks. Post the RBA review, the target is now at 2.5%. The RBA faces a number of headwinds to achieving this even by mid 2025. The emphasis that has been placed on preserving the benefits of record low unemployment has increased the risk that inflation becomes structurally embedded in the economy after being at high levels for a long period. In addition, with broad based wage price pressure yet to flow through the economy and a population increase of around 2% over the next two years through immigration, the tradeoff between price stability and full employment will need to be reassessed.

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
Stagflation low growth/high inflation aggressive RBA	1.50%	3.00%	4.25%	4.00%	3.85%	3.75%	4.25%	5.50%	150
Antares Latest Fair Value (FV)	1.45%	2.92%	3.30%	3.44%	3.71%	4.07%	4.54%	3.89%	142
Market Yield Latest			3.41%	3.02%	3.10%	3.36%	3.88%	3.46%	88.23
FV - Market (+exp - cheap)			-0.11%	0.42%	0.62%	0.71%	0.66%	0.44%	54

High inflation and falling growth forecasts have seen Antares' scenario analysis continue to shift from the better growth Scenarios 2 & 3 to the slower or negative growth "stagflation" Scenario 6. "Stagflation" is the highest probability (45%) with "Trend" (25%) and "Below Trend" (13%) still significant. The Recession scenario has risen to 20%. The strong rally in bonds since January has left market yields 40-70bps below Antares fair values (FV) with shorter bonds appearing the least "expensive". The wide FV differential on shorter bonds supports Antares' yield curve steepening strategy.

Interest Rate & Inflation Outlook

The RBA continues to maintain a clear tightening bias. In its decision to hike in May, the central bank cited amongst other things global growth and inflation (upticking) along with a very strong domestic labour market. Confounding many economists was the fact that the RBA rarely hikes when lowering its near-term inflation forecast. It last did this in 2010 with it equally surprising the market with its decision.

The May statement indicated a relatively hawkish outlook for rates and concern over the persistence of services inflation, the dissipating effects of earlier rate rises and very tight domestic labour market conditions. These factors help raise some doubt over the efficacy of the RBA's 2025 timeline for returning inflation back to target.

The May rate decision was also influenced by the rebound in housing activity. House prices have stabilised sooner and at higher levels than expected with the impact likely to be positive on personal consumption. Further upward pressure from spending on inflation and rates is also likely to come from higher immigration with a revised higher student intake leading to renewed concerns over rental inflation.

The May release of the Statement of Monetary Policy shows a 0.25% decline in headline CPI to 4.5% by December 2023 with no change to their June 2025 target of 3%, based on a cash rate assumption of 3.75%. This assumption is taken from implied market pricing at the time of the RBA's modelled forecasts.

Credit Outlook

Following numerous government interventions to contain the fallout of US regional bank collapses, credit spreads in April reversed some of the losses experienced in March as the market continued to digest the potential implications for the real economy and central bank interest rate paths going forward. Australian IG spreads tightened 7 bps, US IG spreads tightened 3 bps, and European IG spreads tightened 9 bps. In general, IG spreads ended April 15 to 20 bps wider than the levels they were before the US regional banking issues began. Synthetic credit spreads moved side ways as they had already reversed the majority of the losses by the end of March.

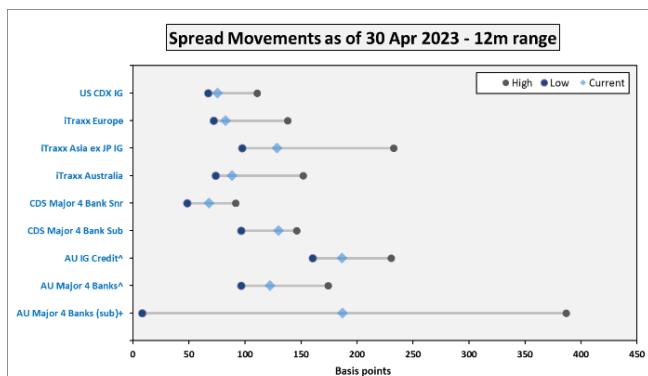
The deposit outflow from US commercial banks into money markets slowed during April, alleviating some of the funding pressure faced by US banks. IG credit funds also saw meaningful inflows in April as money continued to rotate out of the more risky segments, such as private loans. This has seen improving credit valuations, which look less attractive considering tightening financial conditions and a deteriorating credit environment.

US corporates reported 1st quarter 2023 results during April, which showed corporate earnings deteriorated further with negative earnings growth across most segments, albeit beating equity market expectations. Following a notable jump in corporate defaults in March, the number of corporate bond defaults continues to grow, with total defaults reaching 38 this year, tied with 2016 for the highest year-to-date default tally since 2009. Mortgage delinquencies in Australia also started to pick up from historically low levels, and the forward guidance from the Australian banks suggests a more cautious outlook going forward.

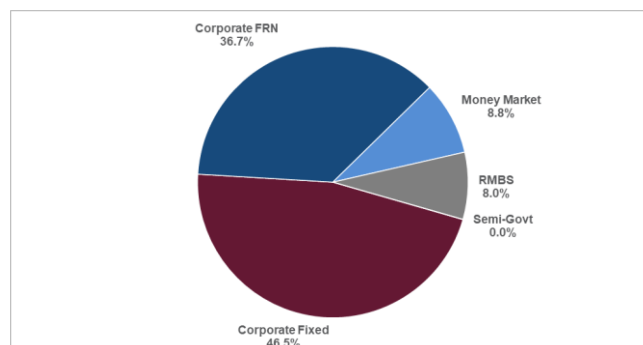
Antares Income Fund

Monthly Investment Report

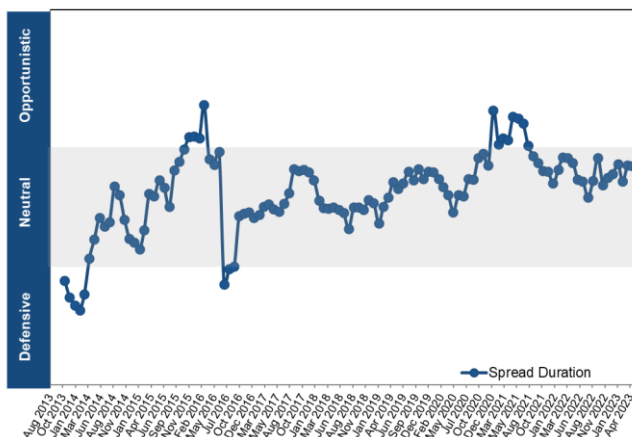
April 2023



Sector Breakdown (Market Value %)



Defensive to Opportunistic



ESG

ESG analysis is reviewed regularly for material changes to the issuer's credit profile, as well as the effectiveness of the risk mitigants in place to manage such risk. For the month of April, our fundamental credit assessment process did not uncover any concerns around an individual issuer's ESG risk. Therefore, no action was required.

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

Contacts

Investor Relations

Address: 347 Kent Street, Sydney NSW 2000

Email: client.services@mlcam.com.au

Phone: 1300 738 355

Important information

Antares Capital Partners Ltd ABN 85 066 081 114, AFSL 234483 ('ACP'), is the Responsible Entity of, and the issuer of units in, the Antares Income Fund ('the Fund'). MLC Asset Management Pty Ltd (ABN 44 106 427 472, AFSL 308953) is the investment manager of the Fund. An investor should consider the current Product Disclosure Statement and Product Guide for the Fund ('PDS') in deciding whether to acquire, or continue to hold, units in the Fund and consider whether units in the Fund is an appropriate investment for the investor and the risks of any investment. This report has been prepared in good faith, where applicable, using information from sources believed to be reliable and accurate as at the time of preparation. However, no representation or warranty (express or implied) is given as to its accuracy, reliability or completeness (which may change without notice). This report does not take account of an investor's particular objectives, financial situation or needs. Investors should therefore, before acting on information in this report, consider its appropriateness, having regard to the investor's own particular objectives, financial situation or needs. We recommend investors obtain financial advice specific to their situation. 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. Any projection or other forward-looking statement ('Projection') in this report is provided for information purposes only. No representation is made as to the accuracy or reasonableness of any such Projection or that it will be met. Actual events may vary materially. Any opinions expressed by ACP constitute ACP's judgement at the time of writing and may change without notice. The capital value, payment of income and performance of the Fund are not guaranteed. An investment in the Fund is subject to investment risk, including possible delays in repayment of capital and loss of income and principal invested. Neither ACP nor any other member of the IOOF group of companies (comprising IOOF Holdings Ltd ABN 49 100 103 722 and its related bodies corporate) ('IOOF Group') guarantees the repayment of your capital, payment of income or the performance of your investment. The IOOF Group does not provide a guarantee or assurance in respect of the obligations of ACP or MLC Asset Management Pty Ltd. Bloomberg Finance L.P. and its affiliates (collectively, "Bloomberg") do not approve or endorse, any information included herein and disclaim all liability for any loss or damage of any kind arising out of the use of all or any part of this material.