

Antares Income Fund

Monthly Investment Report

September 2022



Fund Performance

Period Ended 30/09/2022	1 Mth %	3 Mths %	1 Yr %	3 Yrs %	5 Yrs %	7 Yrs %	Since Inception %pa ¹
Antares Income Fund	0.31	0.58	-0.70	0.75	1.36	1.80	2.02
Bloomberg AusBond Bank Bill Index	0.15	0.42	0.52	0.38	0.95	1.24	1.52
Difference	0.16	0.15	-1.22	0.38	0.41	0.56	0.50

Valuation at month end was \$201,787,633.08

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 30/09/2022

	Fund	Benchmark
Interest Rate Duration (yrs)	0.11	0.13
Running Yield + Rolldown (%)	4.20	2.76
Credit Spread Duration (yrs)	2.21	-
Average Credit Rating	A	-
Liquidity*	73%	100%

*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	16.06%
AA+	1.07%
AA	10.07%
AA-	-1.00%
A+	5.62%
A	1.24%
A-	21.29%
BBB+	22.98%
BBB	22.67%
BBB-	0.00%

Portfolio Strategy

Strategy	Implementation
<p>Duration and Yield Curve: Our Scenario analysis points to increasing probabilities of more sustained global inflation with a potential bear steepening of yield curves if central banks lose their creditability to contain inflation. However aggressive tightening by central banks to contain inflation may curb economic growth quickly, creating a "stagflation" environment.</p>	<ul style="list-style-type: none"> Both the Fed and RBA have been taking an aggressive path to get on top of inflation; but the RBA "blinked first" at its October meeting, tightening by a reduced 25bps. Possibly the very high exposure of Australian households to floating rate mortgages was the key driver of the decision. As a result, the market is pricing RBA December 2022 cash rates of 2.95% versus the Fed at 4.2%, a 1.25% difference. With central banks having tightened aggressively and committed to continue into 2023, the market has faith in inflation retracing (for now) and is focussing on the rising recession risk plus the terminal cash rate required to contain inflation. What surprises us is the market's strong assumption that inflation will return to target levels as experienced pre-COVID. Many of the structural drivers keeping inflation low during the post GFC (pre-COVID) period have potentially moved into reverse, supporting the case that the longer-term structural level of inflation is higher. Accordingly, we think shorter bonds are still more sensibly priced than longer bonds and continue to favour a curve steepening strategy. With the 3-10yr curve having steepened above 40bps in September/October we are reducing curve positioning for some funds that were more aggressively positioned.
<p>Optimising yield through carry and rolldown, focusing on the inflection points on steep curves. With steep curves from 2-15yrs still steep (rolls down 8-25bp pa), there are improving roll down opportunities.</p>	<ul style="list-style-type: none"> We are using our proprietary analytics to find attractive rolldown maximisation opportunities per units of risk; currently Semi and Commonwealth government bonds from 2024 out to 2037 are as steep as we've seen for the past 5 years. Major banks in the 2024-2025 maturities are the most attractive non-government issues. The recent steepening of the 3-10yr curve has improved the rolldown of some longer maturities. We still like the steepness of semis in 10-15yrs versus Commonwealth government bonds.
<p>Control credit risk</p>	<ul style="list-style-type: none"> Credit spreads have widened sharply this year driven by concerns for growth slowdowns or recessions, refinancing risk from rising bond yields and the partial unwind of the carry trade. We are still cautious on credit at these higher yields, targeting credits in the 2-4yr area. iTraxx is back trading at its recent wides of 140-150. We may reduce some credit protection at iTraxx levels close to 170. 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.
<p>A strong level of liquidity that could be realised in stressed conditions</p>	<ul style="list-style-type: none"> Selective semis and government bonds provide both liquidity and attractive carry and rolldown.

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	30-Sep-22
Distribution Amount	0.40 Cents Per Unit
Next Distribution Date	31-Dec-22

Portfolio Review

Key Drivers of Portfolio Performance:

- With a short duration, the 25-40bps rise in bond yields added 1.5bps
- Corporate spreads widened 5-10bps detracting 8bps
- Senior banks widened 4-15bps detracting 5bps
- CDS protection added 20.5bps as iTraxx widened 34bps
- Yield enhancement and rolldown of quality investment grade bond holdings added 12bps.

Portfolio Activity and Positioning

- Reduced the short duration by 0.05 during market weakness
- We have maintained the liquid structure of the Fund.

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Market Review

September

Bond markets experienced their largest sell off this year as persistent inflation, aggressive rate hikes, recession fears and policy missteps by the UK Government rattled global markets.

Both equity and bond markets bore the brunt of bearish risk-off sentiment as uncertainty, volatility and questions of financial stability marred upside macro data showing continued economic resilience despite aggressive rate hikes.

The main driver of volatility over the month was the UK Government's announcement of a fiscal stimulus package that amounted to the most significant tax cuts in fifty years. This package, alongside a large unfunded borrowing programme, was in stark contrast to the Bank of England's current policy tightening objectives designed to tackle decades high inflation. This resulted in a violent market sell-off in long end UK gilts which led to a liquidity crunch in the pension fund sector. The Bank of England was forced to announce a temporary bond buying program to halt the chaotic sell-off in the bond market that risked the financial stability of the UK pension sector and more broadly the UK financial and banking system.

In the US, economic data showed continued resilience in the economy with lower than expected unemployment and higher than expected core inflation. Hawkish Fed speak and a 75bp rate hike in September reiterated the Fed's aggressive rate hike trajectory, making it clear they are determined to bring inflation down despite the risks of a policy overshoot.

In contrast to the Fed, the RBA which raised rates by 50bps in September, communicated a less hawkish narrative, focused on achieving a more balanced "even keel" outcome, a desire to maintain economic growth and a solid labour market while bringing inflation back towards the 2-3% target over time. Given the current environment of uncertainty and volatility, there are significant risks around achieving this dual outcome.

The divergent approaches between the Fed and RBA are expressed in the terminal rate differences priced by the market between the two economies. At the end of September, there was around a 40bps difference in the terminal cash rates priced by the market, with the US at 4.50% and Australia at 4.10% for 2023. Given the Fed's steadfast commitment to price stability, markets are pricing in a more aggressive Fed rate hiking path, followed by expectations of rate cuts at the back end of 2023. In Australia, markets are pricing in a slower rate hike trajectory and for rates to stay higher for longer, reflecting Lowe's "even keel" approach.

The ECB hiked 75bps in September as German inflation came in above expectations at 10%. Business and consumer confidence fell as Lagarde reiterated the ECB's laser like focus on inflation, warning the economic outlook was darkening. Germany's main Nord stream pipeline from Russia was sabotaged and remains closed.

Other geopolitical risks from the Ukraine war continue to add to global uncertainty and volatility as Putin continues to use the threat of nuclear weapons to compensate for his failed Ukraine ground offensive.

China's economic woes continued with the Government's attempt to support the property market unlikely to result in a property led economic recovery. Global firms are assessing the risks of doing business in China after escalating tensions over Taiwan. The Yen depreciated against the USD to its lowest levels in 24 years as a result of the widening interest rate differential. The Ministry of Finance intervened in currency markets, the first time since 1998.

Global market volatility and uncertainty, combined with rising recession risks plagued credit markets, with credit spreads wider over the month. Aussie iTraxx widened from 109 to 143 over the month.

Q3 2022

The first month of the quarter saw a strong rally in global bonds as yield curves bear flattened and yields fell as markets pivoted from concerns over inflation to concerns of a recession. Front end yields remained elevated, reflecting central bank commitments to quickly move away from their accommodative monetary policy stances.

The rest of the quarter was characterised by a strong global sell off in bond yields as the Fed and other major central banks delivered outsized rate hikes. The Fed's Jackson Hole speech in August, and the ECB's increased hawkish rhetoric sent clear messages to markets that they would continue on the path of aggressive rate hikes even if that meant a recession and an increase in unemployment. Higher than expected inflation pushed up terminal rates.

Bond volatility surged throughout the quarter with the MOVE index reaching a high of 159 compared to a high of 164 during the pandemic in May 2020. The Ausbond Composite returned -0.64% and the Bloomberg Global Aggregate Index returns -6.94% (USD) over the quarter.

Macro Outlook

The macro outlook continues to be increasingly volatile and uncertain as markets become more concerned about a potential policy error by central banks from their aggressive tightening actions and hawkish narrative.

Over the quarter, outsized rate hikes and a willingness by the Fed and ECB to show a steadfast commitment to reign in inflation at the potential expense of the economy has reduced the global growth outlook and increased recession risks. The Fed's stance has been driven by the limited economic impact of rate hikes and a willingness to continue to hike into the uncertain environment until there is evidence of falling inflation.

The economic outlook for the US remains resilient for now, with economic data showing little sign of material demand destruction from rate rises. This resilience has been demonstrated in persistent upside surprises in core inflation which have been broad based, and strong services data suggesting there is still pent-up demand in the economy following the pandemic lockdown periods. In addition, the labour markets remain tight, increasing the risk of a wage price inflation spiral. With market participants looking for signs of a Fed pivot to reduce the pace and magnitude of rate hikes, it is a case of good news is bad news. Each rate hike increases the risk of a Fed policy overshoot and a more protracted economic recession.

Another area of uncertainty is the potential impact of central banks unwinding of the massive stimulus programmes that have provided a backstop in bond markets for well over a decade. The Fed increased its balance sheet by more than 4 trillion dollars during the pandemic to be in excess of 8 trillion. The current path of quantitative tightening projects this will fall to around 5.9 trillion by mid 2025, representing a significant change. Given that the Fed and other central banks have had a consistent and strong market presence over the past decade or more, there is uncertainty over who will step in and be the marginal buyer of bonds, particularly in a high inflation environment.

Domestically, there is uncertainty around the economic impacts of the RBA's rate hikes, given the higher levels of consumer leverage in the Australian mortgage market vs global peers. Markets will be looking at the impact on discretionary spending as many borrowers come off low fixed rates and onto much higher variable rates in 2023.

Globally, alongside central bank policy tightening, there are several other factors increasing the risk of a global slowdown in growth. Recently announced oil supply cuts by OPEC, lower US strategic oil reserves and a western price cap on Russian oil all point to structurally higher oil prices in the coming months. The weaponisation of commodities will continue to be a source of risk and uncertainty into 2023.

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Geopolitical factors are also contributing to an uncertain macro outlook. The war in Ukraine shows no sign of ending, and there are risks to global growth and inflation from increasing tensions between China and the west, with the US recently announcing restrictions on the sale of semiconductor technology to China.

In September, global markets started to show signs of financial market stress and instability, as tightening financial conditions and policy missteps by the UK government rattled global markets. With continued strength in the USD putting pressure on other regions, this has impacted volatility in currency markets, increasing the risks of financial shocks.

All of these factors raise the risk of stagflation scenarios across major global economies given the prospect of falling growth while inflation stays structurally higher for longer. We continue to hold the view that structural changes in the labour force, the deglobalisation of trade and the move to green energy will result in a more fragmented global trade environment. As the allocation of global trade and resources is made with a consideration of geopolitical factors and ideological divisions, rather than comparative advantage, we expect to see an increase in cost structures.

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	4.00%	4.50%	4.25%	4.50%	4.75%	5.25%	5.75%	5.00%	150
Above Trend	4.00%	3.50%	4.25%	4.50%	4.25%	4.00%	4.25%	3.75%	110
Trend	3.00%	2.50%	2.75%	3.00%	3.25%	3.50%	4.00%	3.00%	75
Below Trend	1.50%	1.50%	1.50%	1.75%	2.00%	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	1.50%	4.00%	3.00%	3.50%	3.75%	4.25%	5.00%	4.00%	150
Antares Latest Fair Value (FV)	1.68%	2.70%	2.95%	3.48%	3.62%	3.92%	4.47%	3.51%	130
Market Yield Latest			3.21%	3.56%	3.72%	4.02%	4.30%	3.19%	140
FV - Market (+ exp / - cheap)			-0.26%	-0.08%	-0.10%	-0.10%	0.17%	0.32%	- 10

Antares' continues to have a greater than 50% probability weighting to structurally higher inflation outcomes; 36% probability being assigned to the stagflation scenario of higher inflation with weak/negative growth (Scen 6); and 15% probability of higher inflation with strong growth (Scen 2). After the aggressive yield sell-off in August to October, Antares' fair values (FVs) are now very close to market yields. 30yr bonds are the exception, still trading 17bps below FV. The aforementioned are weighted average FVs and it should be noted that there is a wide dispersion of potential yield levels under the various potential scenarios.

Interest Rate & Inflation Outlook

Bond yields were exceptionally volatile in September, with the nominal 10yr bond moving from 3.60% to 3.89%, while the 10yr real yield was even more volatile and moved from 1.21% to 1.73%. At one stage prior to the tender of 2032 inflation linked bonds, the 10yr real yield reached a high of 2%, only to rally from that point into month end.

The 52bp sell-off in Aussie 10yr real yields saw BEIs driven lower, with the 10yr BEI falling 25bps over the month to 2.15%, a trend that has continued into October, after only a brief respite. Current BEIs point to moderating inflation risks with markets pricing a return to central bank inflation targets within the next 18 months.

Much of the lead for Australian bond yields came from offshore markets, with the UST 10yr selling off vigorously. The combination of a more tepid RBA and aggressive Fed funds pricing saw the Aussie 10yr bond yield differential compress from 40bps over the US 10yr to 5bps by month end. This trend is likely to continue in the near term, given the leadership role the Fed is playing with respect to policy rates and the rally in the USD, which is crimping global trade and growth.

The decision to hike by only 25bps at its October meeting, saw the RBA confound the market, again calling into question its forecasts and policy stance. The upshot of this was a prodigious bull steepening in the 3s10s curve and further devaluation in the AUD.

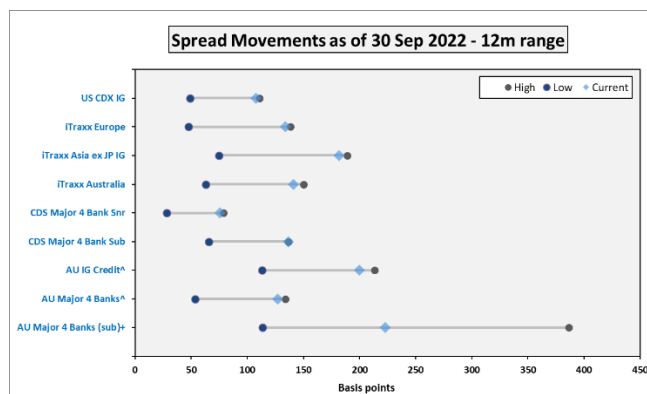
Labour markets remain robust to the tightening in financial conditions, although financial stability concerns are rearing again, with market turnover and liquidity being challenged globally. This may have contributed to dissuading the RBA from another 50bp rate hike in October, even as the market was almost 90% priced for 50bps, while the dislocation in the UK gilt market was ostensibly the reason for the BOE's return to QE, albeit temporary.

As pricing for Fed Funds continues to lift towards 5%, pressure on the RBA is likely to intensify given its divergence with other central banks, including the RBNZ, who most recently hiked by 50bps and even considered 75bps to take its cash rate to 3.5%. The first real test for the RBA will come later this month with the release of the Q3 CPI, with consensus building around 1.5% qoq for headline CPI. A strong CPI has the potential to raise the pressure on the RBA to return to 50bp incremental hikes, although unfortunately, a reversal of the RBA's recent pivot to smaller tightenings would see the RBA's creditability lowered in the eyes of many bond investors.

Credit Outlook

Credit sold off during September on the back of extreme market volatility but has seen a relative outperformance against rates and equities. Within the investment-grade space, US cash credit widened by about 18bps, European cash credit widened by about 20bps and Australian cash credit widened by about 10bps. The move in synthetic credits has been more pronounced with CDS moving wider by 30-40bps across major markets and the levels have exceeded July wides. Looking ahead, in the short term we see the potential for credit spreads to stabilise and even tighten as we've seen an improvement in risk sentiment thanks to BOE's market intervention, the UK government reversing its tax cut decisions, and softening economic data leading to potentially less hawkish central bank tightening. The RBA's decision to slow the pace of rate hikes at the September meeting should also be supportive for Australian credit although the path forward is less certain as inflationary pressures may persist.

Despite a fall in market volatility, we continue to view stagflation as a key risk to credit fundamentals for the next 12 months, particularly in the European region where recession risk is rising whilst inflation remains persistently high. Consequently, we decided to trim our European bank positions during the month for those portfolios which had exposures. This reduction in European financial exposure was also driven by the rising risk of potential contagion to the European banking sector with growing concerns regarding the viability of Credit Suisse. Antares Fixed Income does not currently have any direct exposure to Credit Suisse due to our previous negative assessment of the company's corporate governance. Please refer to the ESG section for a more detailed discussion on Credit Suisse.



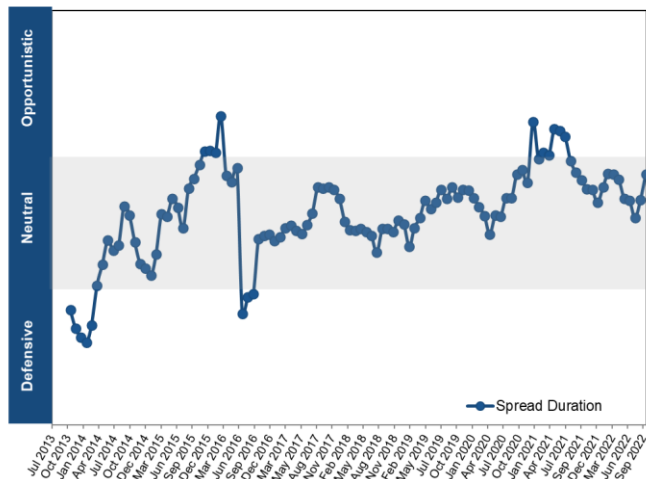
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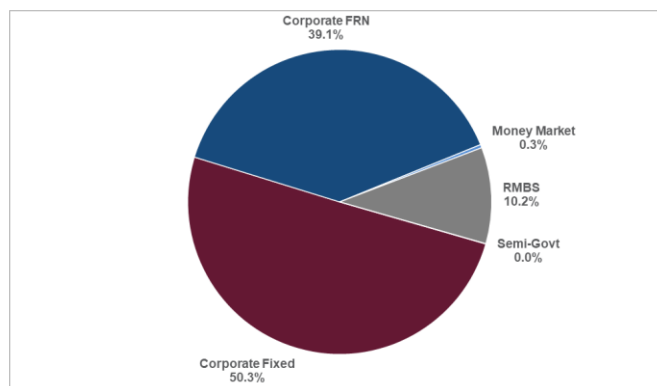
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Defensive to Opportunistic



Sector Breakdown (Market Value %)



ESG

We are revisiting Credit Suisse's ESG profile given the recent news flow around the bank. We have historically viewed Credit Suisse as a complex banking group, especially given its large investment bank and capital markets business. Notwithstanding this inherently associated opacity, our view of governance risks had been further elevated by a chequered risk management record, reputational harm, and numerous rounds of restructurings; with each of these challenges having a compounding effect on broader governance risks.

Accordingly, we view Credit Suisse as a bank with an overall significant ESG risk profile. We have no direct exposure to any entities within the Credit Suisse group and have also taken actions to proactively manage positions within the European banking sector. This is due to overall macroeconomic headwinds in the EU region, such as heightened recession and stagflation risks, as well as the potential that challenges in Credit Suisse may result in a weakening of confidence in the broader European banking sector.

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Market Movements

Australian Rates	Sept 2022	Quarterly Change	1 Yr Change
RBA Cash Rate	2.35	1.50	2.25
90 Day Bank Bill	3.06	1.25	3.04
3 Yr Futures	96.33	-0.31	-3.20
10 Yr Futures	96.09	-0.20	-2.40
3/10 Spread (bps)	24.50	-11.00	-79.50
iTraxx Australia 5Y	141.10	10.65	74.35
10Yr BEI	2.16	-0.12	0.19

Global Sovereign Rates	Sept 2022	Quarterly Change	1 Yr Change
Fed Fund Rates	3.08	1.50	3.02
ECB Main Refi Rate	1.25	1.25	1.25
US Sovereign 2 Yr	4.28	1.33	4.00
US Sovereign 10 Yr	3.83	0.82	2.34
Japan Sovereign 10 Yr	0.24	0.01	0.17
German Sovereign 10 Yr	2.11	0.77	2.31

Currencies	Sept 2022	Quarterly Change	1 Yr Change
AUD/USD	0.64	-0.05	-0.08
EUR/USD	0.98	-0.07	-0.18
USD/JPY	144.74	9.02	33.45

Equities	Sept 2022	Quarterly Change	1 Yr Change
ASX200	6474	-1.4%	-11.7%
S&P500	3586	-5.3%	-16.8%

Commodities	Sept 2022	Quarterly Change	1 Yr Change
WTI Crude	79.5	-18.3	11.3
Gold	1660.6	-146.7	-96.3

Australian Economic Data	Latest Print	Previous Quarter Print	Sept 2021 Print
Employment Change (k)	33.5	47.2	-138.2
Unemployment Rate (%)	3.5%	3.9%	4.7%
Retail Sales (MoM%)	0.6%	0.7%	1.7%
Trade Balance Value (m)	8324	14257	10464
Building Approvals (MoM%)	28.1%	9.0%	-1.2%
Consumer Confidence (Westpac)	84.5	86.4	106.2
Business Confidence (NAB)	10.2	6.4	11.7
Business Conditions (NAB)	19.9	19.5	8.8

Australian Economic Data	Latest Print	Previous Print	Sept 2021 Print
Private Capital Expenditure (QoQ%)	-0.3%	0.4%	0.2%
GDP (YoY%)	3.6%	3.3%	4.1%
Inflation (YoY%)	6.1%	5.1%	3.0%

Global Economic Data	Latest Print	Previous Print	Sept 2021 Print
US Non-Farm Payrolls (k)	263	293	424
US Unemployment Rate (%)	3.5%	3.6%	4.7%
US Manufacturing ISM	50.9	53.0	60.5
US Non-manufacturing ISM	56.7	55.3	62.6
China Manufacturing PMI	50.1	50.2	49.6
China Non-Manufacturing PMI	50.6	54.7	53.2
German Factory Orders (MoM%)	-2.4%	-0.2%	2.9%
German Industrial Production (MoM%)	-0.8%	0.3%	0.2%

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

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.

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