



Product Review

Antares Income Fund

ISSUE DATE 30-09-2022

About this Review

ASSET CLASS REVIEWED	FIXED INTEREST
SECTOR REVIEWED	ALTERNATIVE INCOME
TOTAL FUNDS RATED	21

About this Fund

ASIC RG240 CLASSIFIED	NO
FUND REVIEWED	ANTARES INCOME FUND
APIR CODE	PPL0028AU
PDS OBJECTIVE	THE FUND AIMS TO PROVIDE REGULAR INCOME AND A RETURN (AFTER FEES) THAT EXCEEDS THE BENCHMARK OVER ROLLING THREE-YEAR PERIODS.
INTERNAL OBJECTIVE	OUTPERFORM THE BLOOMBERG AUSBOND BANK BILL INDEX (AFTER FEES) BY 0.8% - 1% P.A. OVER ROLLING THREE-YEARS.
STATED RISK OBJECTIVE	PRESERVE CAPITAL OVER ROLLING ONE-YEAR PERIODS. TARGET TRACKING ERROR OF 1.2% P.A. OVER ROLLING THREE-YEARS.
DISTRIBUTION FREQUENCY	QUARTERLY
FUND SIZE	\$201M (SEPTEMBER 2022)
FUND INCEPTION	04-11-2013
MANAGEMENT COSTS	0.29% P.A.
RESPONSIBLE ENTITY	ANTARES CAPITAL PARTNERS LTD

About the Fund Manager

FUND MANAGER	MLC ASSET MANAGEMENT
OWNERSHIP	INSIGNIA FINANCIAL GROUP
ASSETS MANAGED IN THIS SECTOR	\$27.9BN (JUNE 2022)
YEARS MANAGING THIS ASSET CLASS	28

Investment Team

PORTFOLIO MANAGER	MARK KIELY
INVESTMENT TEAM SIZE	9
INVESTMENT TEAM TURNOVER	LOW TO MODERATE
STRUCTURE / LOCATION	FUNCTIONAL/SYDNEY

Investment process

BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX
DURATION RISK LIMIT	0.5 YEARS (ABSOLUTE)
MAXIMUM SUB-INVESTMENT GRADE	20%
MINIMUM CREDIT QUALITY AT PURCHASE	BBB- FOR SECURITIES. CAN USE HIGH YIELD DERIVATIVES FOR OVERLAY STRATEGIES
TYPICAL NO. OF SECURITIES	150
REGIONAL FOCUS	AUSTRALIA
CURRENCY EXPOSURE	HEDGED
GEARING	NOT PERMITTED

Fund rating history

SEPTEMBER 2022	INVESTMENT GRADE
SEPTEMBER 2021	INVESTMENT GRADE
DECEMBER 2020	INVESTMENT GRADE

What this Rating means

The 'Investment Grade' rating indicates that Lonsec has conviction the financial product can generate risk adjusted returns in line with relevant objectives. However, if applicable, Lonsec believes the financial product has fewer competitive advantages than its peers.

Strengths

- The Fund's Head of Fixed Income and Lead Portfolio Manager, Mark Kiely is highly experienced and a capable investment professional.
- The Fund has a strong focus on capital preservation.
- The investment process is repeatable and has been refined over several years.
- Low management fee, relative to peers.

Weaknesses

- The Fund's investment performance is not consistently meeting the outperformance objective, though returns are aligned with the Alternative Income peer median returns at a lower risk profile than peers.
- Bottom-up credit research effort is not as well resourced as peers.
- Key person risk in Kiely is heightened as Portfolio Manager Ken Hyman transitions to retirement.
- While the team has expanded, more time is required to assess the integration of Portfolio Manager Gillian Wilson, Assistant Portfolio Manager Carol Yuan, and Credit Analyst Filip Gudov into the team.

Fund Risk Characteristics

	LOW	MODERATE	HIGH
BUSINESS SUSTAINABILITY RISK		●	
CAPITAL VOLATILITY		●	
CREDIT RISK			●
FOREIGN CURRENCY EXPOSURE		●	
INTEREST RATE (DURATION) RISK	●		
LEVERAGE RISK	●		
REDEMPTION RISK	●		
SECURITY CONCENTRATION RISK		●	
SECURITY LIQUIDITY RISK		●	

Risk categories are based on Lonsec's qualitative opinion of the risks inherent in the financial product's asset class and the risks relative to other financial products in the relevant Lonsec sector universe.

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BIometrics

Aggregated risks

	1	2	3	4	5	6	7
STD RISK MEASURE				●			

A Standard Risk Measure score of 4 equates to a Risk Label of 'Medium' and an estimated number of negative annual returns over any 20 year period of 2 to less than 3. This is a measure of expected frequency (not magnitude) of capital losses, calculated in accordance with ASFA/FSC guidelines.

	LOW	MODERATE	HIGH
RISK TO INCOME	●		

Features and benefits

	LOW	MODERATE	HIGH
COMPLEXITY		●	
ESG		●	

Fee profile

	LOW	MODERATE	HIGH
FEES VS. UNIVERSE		●	
FEES VS. ASSET CLASS	●		
FEES VS. SUB-SECTOR	●		

Fee BIometrics are a function of expected total fee as a percentage of expected total return.

What is this Fund?

- The Antares Income Fund (the 'Fund') seeks to provide regular income and outperform the Bloomberg AusBond Bank Bill Index by 0.8% – 1% p.a. after fees over rolling three-year periods. Capital preservation and maintaining strong liquidity are also key objectives of the Fund.
- The Fund may invest in a broad range of securities and derivatives, either directly or through funds managed by Antares, including government and government-related bonds, corporate bonds, mortgage-backed and asset-backed securities, hybrid and convertible securities, cash and short-term securities.
- Antares Capital Partners Ltd ('ACP') is the Responsible Entity of the Fund. The Responsible Entity has appointed MLC Asset Management Pty Ltd, a fully owned subsidiary within the Insignia Financial Group, trading as Antares Fixed Income ('Antares' or the 'Manager'), a specialist fixed income and cash manager, as investment manager of the Fund. The Manager is of the belief debt markets are not completely efficient and as such, opportunities can be identified and systematically exploited.
- The Fund uses a holistic approach to portfolio construction, using both direct securities and investment in internally managed funds, to provide investors with a diversified exposure to cash, cash equivalent, fixed income and debt securities. The internally managed funds are the Antares Short Duration Credit Fund and the Antares Enhanced Cash Fund. Overlay strategies are applied to the Fund as market opportunities arise. These include credit derivatives in investment grade and global high yield.
- The exposure to either the Antares Short Duration Credit Fund and the Antares Enhanced Cash Fund can be between 0% – 100%.

- The Fund is constructed to provide a diversified credit exposure with a stable running yield and a high level of liquidity. The Fund primarily consists of investment grade floating rate and hedged fixed rate securities issued by banks and industrial corporations.
- Credit derivatives can be used for gaining specific credit exposure, hedging specific issuers or sectors, or to enter relative value opportunities. Derivatives such as interest rate futures and over the counter swaps may be used to hedge or reduce risk, and to provide incremental value when appropriate. They may not be used for speculative or gearing purposes.
- The Fund is permitted to hold non-Australian dollar denominated securities. There is a 50% limit on this exposure, provided the associated currency risks are hedged into Australian dollars.
- As per the PDS dated 1 October 2021, the ongoing annual fees and cost to investors in the Fund includes (a) management fees and costs of 0.29% p.a. which comprise 0.29% p.a. (management fee), 0.00% p.a. (indirect costs), (b) net transaction costs for the Fund were 0.06% p.a. for the 12-month period ended 30 June 2021. Transaction costs include explicit (e.g., brokerage, stamp duty, clearing) and implicit costs (buy/sell spreads in fixed income) of buying and selling underlying assets (like shares or fixed income) and the cost of hedging/protection strategies incurred in managing the Fund. These costs are not paid to the Manager. Some transaction costs may be incurred due to investor activity (e.g., buying securities when application money flows into the Fund and selling securities to meet Fund redemptions) and these may be recouped via the Fund's buy/sell spread (an investor activity fee). As at the time of this review the Fund's buy/sell spreads were 0.05%/0.05% but as these can change depending on market conditions, please refer to the Manager for the latest information.

Using this Fund

This is General Advice only and should be read in conjunction with the Disclaimer, Disclosure and Warning on the final page.

- Lonsec notes the Manager has produced a Target Market Determination ('TMD') which forms part of the Responsible Entity's Design and Distribution Obligations for the Fund. Lonsec has collected the TMD provided by the Manager and notes this should be referred to for further details on the Target Market Summary, Description of Target Market and Review Triggers.
- The Fund has been designed to generate excess returns to the Bloomberg AusBond Bank Bill Index over rolling three-year periods through exposure to a diversified portfolio of credit securities. In contrast to traditional fixed interest funds, funds in Alternative Income may have minimal exposure to interest rate fluctuations, or duration risk, given the underlying investments are typically skewed towards floating rate instruments, short duration, and credit risk. Expectations of product risk, as measured by standard deviation, expectations are generally positioned as low, barring periods of exceptional market circumstances.

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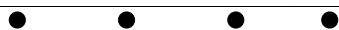
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- Lonsec suggests the Fund should only be considered for those clients who are seeking yields greater than those from available in cash or cash-like instruments, such as bank bills and, more importantly, are prepared to accept low to moderate volatility in the unit price.

Suggested Lonsec risk profile suitability

SECURE DEFENSIVE CONSERVATIVE BALANCED GROWTH HIGH GROWTH



For guidance on appropriate asset allocations and risk profiles, refer to the latest Lonsec Strategic Asset Allocation Review and Risk Profile Definitions on our website.

Changes Since Previous Lonsec Review

- Terry Yuan, Credit Research Analyst, departed from the manager in September 2021.
- Gillian Wilson, Portfolio Manager, joined Antares in September 2021 and is the lead for ESG at Antares.
- Carol Yuan joined as an Assistant Portfolio Manager in March 2022. Yuan is responsible for bottom-up analysis of credits and has previously worked as a Credit Analyst with Perpetual Fixed Income.
- Filip Gudov joined as a Credit Analyst in May 2022. Gudov previously worked as an Investment Data Analyst at Lazard.

Lonsec Opinion of this Fund

People and resources

- Lonsec acknowledges Antares' long track record in managing fixed income strategies, having been an active participant in the sector for over 27 years. Antares managed circa \$28bn as at 30 June 2022.
- The investment team of nine is led by Mark Kiely. Kiely took over lead responsibility of the Fund in 2020 from Ken Hyman. Lonsec has high regard for Kiely's fixed income experience, having spent 29 years with the Manager. Kiely is considered by Lonsec to be well credentialed for the role.
- Lonsec considers the team size to be commensurate with the requirements of the strategy and the collegiate working relationship to be sound. While there is a broad team-based approach to the management of the Fund, Kiely is mainly supported by Portfolio Managers Gillian Wilson and Steven Lee, and Assistant Portfolio Managers Jonathan Goh and Carol Yuan. Hyman continues to offer his support and mentoring two days a week as he transitions to retirement. The level of credit experience across the team is also a positive, with the team of nine having an average industry experience of 23 years and tenure at Antares of 13 years.
- Lonsec highlights dedicated credit research resources are small relative to peers, with the Manager limited to credit research resources in Goh, Yuan, and Gudov who focus exclusively on bottom-up analysis of credits on behalf of all of the Manager's funds and mandates. Lonsec views Yuan to have reasonable credit experience of 13 years and is driving enhancements to the research process. However, Lonsec will continue to monitor the integration of recent additions Yuan and Gudov into the team in future reviews.

- Lonsec believes the key person risk to be high and currently resting with Kiely given his contribution in the development of the Fund and his long tenure at Antares. Lonsec is reassured by Hyman's commitment to offering ongoing support and guidance to the team though this does not completely mitigate key person risk.
- Lonsec considers the team's alignment with investor interests to be reasonable. Like many peers, the team is rewarded with a mix of base salary and incentive payments, deferred for one and two years, with bonuses linked to the Fund's performance. Lonsec notes none of the investment team hold equity in the Manager, although all team members participate in profit share arrangement via shadow equity based on net revenue from external mandates.

Research and portfolio construction

- Lonsec believes Antares' investment process is repeatable and robust. Antares is predominantly a 'top-down' investment manager seeking to exploit market opportunities through a regimented investment process. This process involves determining market pricing ranges for a variety of economic scenarios and producing probability weighted fair values for each security considered. This process is designed to highlight where the best value lies. This approach has benefits, including helping to establish portfolio positions that are aligned with the team's views and ensuring the team considers 'tail-risks' arising from various scenarios.
- Lonsec views the bottom-up component of the investment process positively and strongly linked to the Fund's desired design to provide investors exposure to assets with defensive qualities. Capital preservation and liquidity are key, so the focus is on selecting defensive credits underpinned by a stable business model through market cycles. Exposure to highly cyclical credits and/or lower rated credits are minimised, meaning the Fund may likely underperform relative to peers in periods of credit beta momentum.
- Lonsec considers the scope to use derivatives as a risk management tool or to implement tactical views on global high yield as a positive. It also provides the Manager with an efficient and liquid tool to enter relative value opportunities, which is invaluable in times of relative illiquidity in physical bonds.
- Lonsec believes the Manager's fundamental credit research to be less resourced and rigorous than peers though takes comfort the Fund's investment universe is primarily comprised of investment grade assets. These issuers are typically well-covered by third party research agencies whose research is used to supplement the Manager's internal credit research.
- Lonsec considers the range of investment tools used by the Manager to be reasonable, with a balance of industry standard Bloomberg tools and proprietary models. Of particular note are the Manager's internally developed direction, volatility, and relative value models, which are used to identify and quantify risk and return opportunities, such as relative value on a yield curve.
- Relative to peers, Lonsec considers the Fund to be at the more liquid end of the spectrum given the

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Manager's investment philosophy, discipline, and the quality of securities in the portfolio.

ESG Integration

- Lonsec's ESG integration assessment considers how rigorous, robust and structured the ESG process for the Fund is as well as how well it integrates into the overall investment process and the Manager's overall policy and reporting framework. The assessment is not intended to assess the underlying holdings of the Fund's portfolio or the Manager's adherence to any form of impact, green / sustainable or ethical standards.
- At the overall corporate level Lonsec views the Manager's overall ESG framework as lagging peers. The Manager has an articulated commitment to the integration of ESG within their investment process with evidence of public positioning and policy framework. The Responsible investing policy together with proxy voting and engagement policy are freely available on the firm's website. The level of disclosure with respect to proxy voting policy and engagement policy frameworks is considered behind peers with both policies lacking depth compared to peers. While reporting on voting outcomes is broadly in line with peers, no reporting on engagement outcomes is publicly available.
- The Manager has developed an internal ESG scoring approach and applies a proprietary risk rating to each of the E, S and G factors for each investment. While ESG research is clearly considered in the credit assessment process, there is limited structure around how this score reflects on security selection. Portfolio level monitoring and reporting of climate risks is apparent, however, this has not been extended across the broader ESG space. While the fixed interest team does draw on some sources of external data for their ESG analysis, there was limited structured framework for the selection, validation or consistent use of this data.
- Note that the Managers 'value/risk' ESG approach may mean that poor ESG companies may be included if the return potential is sufficient and this may conflict with some clients perception of what a strong ESG process would deliver.
- The manager has indicated that their Responsible Investment style is 'ESG Integration' and as such that they take Environmental, Social and Governance factors into consideration when assessing investment opportunities. Note that such an approach does not automatically ensure that the resulting portfolio will adhere to any particular structure or provide any particular level of ethicalness, greenness or sustainability.

Risk management

- Overall, Lonsec believes Antares has reasonable risk management systems in place. The Manager uses third-party software Bloomberg PORT to monitor and manage the Fund's investment risks, which is highly regarded in the industry.
- Lonsec considers the pre- and post-trade compliance process to be adequate, with a formal process complementing the functionality of Bloomberg AIM.
- The Manager also makes use of tail-risk hedging strategies, typically using CDS. While the cost of this

'insurance' may at times be a drag on performance, Lonsec is pleased with the intention to protect the Fund against extreme market moves, consistent with its capital preservation focus. These tail-risk hedging strategies allow the Manager to remain invested in income-producing cash bonds. Lonsec notes, however, tail-risk strategies are highly exposed to basis risk, which may, at times, significantly reduce the effectiveness of the hedge. Lonsec will continue to monitor the success of the Fund's tail-risk hedging strategies to ensure they do not materially detract from overall performance.

- As at 31 July 2022, Antares managed approximately \$194m in the Fund. This level is well below the Manager's stated capacity limit of \$4bn. Lonsec does not believe current FUM levels present a material inhibitor to future performance of the Fund.

Performance

- The Fund's internal objective is to outperform the Bloomberg AusBond Bank Bill Index by 0.8% p.a. – 1.0% p.a. net of fees over rolling three-year periods. The following performance figures are all net of fees and to 31 August 2022.
- Over one year, the Fund returned -0.9%, underperforming the Benchmark by -1.3% though outperforming Lonsec's Alternative Income sector peer median by 0.8%. In volatility terms, measured by standard deviation, the Fund's 0.8% was better than the peer median of 1.6%.
- Over three years, the Fund returned 0.7% p.a., delivering an excess return of 0.3% p.a., falling short of its performance objective. The Fund's return was slightly lower than the peer median. On a volatility basis, the Fund's 1.1% p.a. was lower than the peer median's 3.4% p.a.
- Over five years, the Fund returned 1.3% p.a., delivering an excess return of 0.4% p.a. The peer median excess return was 0.5% p.a. Volatility outcomes were lower for the Fund with 0.9% p.a. compared to the peer median of 2.7% p.a. The Fund's worst drawdown over the period of -1.4% was materially lower than the peer median's -4.9%.
- The Fund's tracking error to the Benchmark was 1.1% p.a. over the last three years which is aligned with its internal risk objective of 1.2% p.a. The peer median tracking error was 2.6% p.a. over the same period.

Overall

- Lonsec has maintained the Fund's 'Investment Grade' rating at its latest review. The rating is supported by Lonsec's regard for Head of Fixed Income Mark Kiely as an experienced investment professional with the ability to succeed Ken Hyman as the Lead Portfolio Manager of this Fund.
- Lonsec would like to see greater consistency of excess returns against its Benchmark, although it is pleasing to witness tracking error to the Benchmark is as expected, and returns have been broadly aligned with Alternative Income peer median returns. Lonsec will continue to monitor the integration of recent additions Wilson, Yuan and Gudov into the team.

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People and Resources

Corporate overview

MLC Asset Management Pty Ltd, trading as Antares Fixed Income (the 'Manager' or 'Antares'), is a specialist fixed income and cash manager. The Manager had \$27.9bn in fixed income assets under management as at 30 June 2022.

Antares is a division of MLC Asset Management, and is a wholly owned subsidiary of the Insignia Financial Group ('Insignia') of companies. Insignia is the new name of IOOF Holdings Limited, changed in December 2021. IOOF acquired the MLC Wealth Business from National Australia Bank in June 2021.

Antares Capital Partners Ltd (ACP) is the Responsible Entity of the Fund. ACP is part of Insignia.

Size and experience

NAME	POSITION	EXPERIENCE INDUSTRY / FIRM
MARK KIELY *	HEAD OF FIXED INCOME, LEAD PORTFOLIO MANAGER	29 / 29
KEN HYMAN *	PORTFOLIO MANAGER	51 / 32
JONATHAN GOH *	ASSISTANT PORTFOLIO MANAGER	20 / 11
STEVEN LEE	PORTFOLIO MANAGER	25 / 15
GILLIAN WILSON	PORTFOLIO MANAGER	21 / 1
CAROL YUAN	ASSISTANT PORTFOLIO MANAGER	13 / <1
TANO PELOSI	PORTFOLIO MANAGER	29 / 18
JAMES LEE	QUANTITATIVE ANALYST	17 / 14
FILIP GUDOV	CREDIT ANALYST	3 / <1
AVERAGE	-	23 / 13

* Antares Income Fund Portfolio Management Team

Mark Kiely is the Head of Antares Fixed Income and Lead Portfolio Manager for the Fund. Kiely joined MLC in 1993. During this time, Kiely worked through the ranks as Portfolio Analyst into Portfolio Manager. Kiely has overall responsibility for the management of all of Antares' portfolios and reports to the General Manager Direct Capabilities and Specialist Investment Services who reports directly through to the head of MLC Asset Management.

Ken Hyman stepped down from Lead Portfolio Manager in 2020, handing over the reigns to Kiely. Hyman remains as a Portfolio Manager though only works two days a week supporting Kiely. Hyman joined the Manager in 1989 and has 51 years of experience. Prior to joining, Hyman worked as Partner in Gilt Money Investments and Portfolio Manager at Nefic Acceptances.

Jonathan Goh is Assistant Portfolio Manager, responsible for undertaking credit analysis, due diligence, providing recommendations, and implementing credit strategies for the Fund. Goh joined Antares in 2011 from NAB institutional banking and has 20 years' credit experience.

Steven Lee is the Portfolio Manager of Antares' cash and liquidity portfolios and provides portfolio management and dealing support for the Fund. Lee joined the Manager in 2007 and has 25 years of industry experience. Prior to joining, Lee worked as Senior

Associate at Morgan Stanley and Investment Analyst at Deutsche Bank.

Gillian Wilson is a Portfolio Manager with responsibility across a broad range of Antares portfolios including portfolio construction for the Antares Income Fund. Wilson joined MLC in 2021 from Dimensional Fund Advisors and has 21 years industry experience.

Carol Yuan is Assistant Portfolio Manager primarily focused on credit analysis and implementing credit strategies for the Fund. Yuan also supports Antares' ESG processes. Yuan has over 13 years of credit experience, including roles at Perpetual Asset Management Australia, Aberdeen Asset Management (Sydney and Singapore), and Alliance Bernstein.

Remuneration / Alignment of interests

In addition to a base salary, each member of the investment team's individual remuneration is incentive based, either cash and/or deferred equity. Incentive compensation is targeted in a range of 0%-100% of base salary. At least 50% of individual incentives are awarded on investment performance, with the balance attributed to 'Key Performance Objectives', including process, projects, self-improvement and behavior. Financial performance of the Fund is calculated on a rolling 12-month basis to each quarter end and is assessed at the end of June. Bonus payments received as equity are deferred for one and two years.

Research Approach

Overview

Antares' investment process entails both top-down and bottom-up research. Top-down research includes macro analysis of the economic cycle, technical analysis, assessment of credit drivers, and scenario analysis. Bottom-up research includes fundamental credit analysis and relative value analysis, which lead to issuer and security recommendations and selections.

Macroeconomic research

The Manager operates a top-down driven 'Five Step Strategy Formulation Process' covering macro research and portfolio construction. This process seeks to identify the team's macro/credit risk views as well as sector and industry thematics. It is undertaken at the monthly strategy meeting.

- 1. Macro analysis:** The team develops a view of the global and domestic economy. The economic variables of each region are examined in two related time frames, present and future, to help form a view on how the global economy is likely to impact on the Australian economic outlook.
- 2. Developing economic scenarios:** The team determines a range of medium-term (six months) global economic scenarios. These scenarios, Strong Growth, Above Trend, Trend, Below Trend, Recessionary, and Stagflation, are based on the team's interpretation of current economic conditions and possible future economic outcomes.
- 3. Asset class pricing:** A 'fair value' range, or expected market pricing, is given to each of the major asset classes of bonds, credit, curve, CPI and spreads, under each economic scenario.
- 4. Probability weighting each scenario:** Each member of the team individually assigns a probability weight to each economic scenario and the average is taken to

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derive a team-wide probability weight. This is used to determine the 'fair value' range for each of the major asset classes, which is then compared with the actual market price to highlight exploitable opportunities.

5. **Strategy implementation:** Active portfolio positions are then implemented depending on where the best value lies, and are discussed weekly, or daily for tactical opportunities. Further, investment strategies may also be implemented to protect the portfolio from 'tail-risks' that have been considered under the various economic scenarios.

The Manager may undertake technical analysis using a range of proprietary and third-party models to aid its assessment of market factors, such as volatility and momentum, and the identification of yield curve opportunities.

Issuer / security research

The Manager's top-down process identifies industries and themes which drive the bottom-up credit analysis.

The overriding priority of the credit analysis is to avoid defaults, with a preference for defensive credits operating in stable business models. Credit investments are held with the expectation of being exposed to credit risk through an entire business cycle.

Each credit analysed is accompanied by a report capturing the Manager's bottom-up credit view based on financial metrics analysis, industry commentary, and third-party research. An internal credit rating is assigned to each, although any relative value assessments are the responsibility of the Co-Portfolio Managers.

While there is a Credit Committee, individual credits are typically discussed by the entire team and not necessarily at the monthly Credit Committee meeting. This meeting is more for reviewing the credit-related decisions made over the month.

Portfolio Construction

Overview

BENCHMARK	BLOOMBERG AUSBOND BANK BILL INDEX
MAXIMUM SUB-INVESTMENT GRADE	20% (VIA HIGH YIELD DERIVATIVES ONLY)
TYPICAL NO. OF SECURITIES	200 (LOOK-THROUGH BASIS)
NON-AUD SECURITIES	PERMITTED (HEDGED)

The Fund's macro positioning is determined using a team-based approach. However, day-to-day portfolio management responsibilities rest with the Co-Portfolio Managers.

The Fund is constructed to provide a diversified exposure to quality credit securities as a core building block of the portfolio construction process. The Fund is designed to provide regular quarterly income to investors, be liquid, preserve capital by investing primarily in investment grade securities, and limit the potentially negative effect of rising interest rates on capital by targeting a short duration profile and focusing on investing in floating rate securities.

The principal sources of excess return are derived from yield enhancement, term and credit premia, yield curve positioning, duration, and sector allocation. Directional views on interest rates are normally expressed through yield curve positioning rather than outright duration positions. Outright duration positions are small and

may be implemented through options in order to limit downside risk. Individual credit securities introduce a meaningful level of risk versus the Benchmark. For this reason, individual securities need to offer a significant excess return to justify inclusion in the portfolio. To mitigate security specific risk, credit exposures are broadly diversified at the security level and concentrate on high quality, liquid issues.

The Fund may invest in a broad range of securities and derivatives directly or through funds managed by Antares. To implement the Manager's allocation decision to its underlying strategies of duration, credit selection, yield enhancement, and yield curve, the Manager primarily allocates to two Antares funds, the Antares Short Duration Credit Fund and the Antares Enhanced Cash Trust. These underlying funds, and their permitted allocation ranges, are:

- **Antares Enhanced Cash Trust (0%-100%)** – This portfolio holds AUD denominated investment grade bonds, floating rate notes and money market securities issued by banks and corporates, as well as residential mortgage-backed securities. The portfolio is constructed to maintain a high level of liquidity during normal market conditions. Historically, 40%-70% of the assets can be readily converted into cash for same day settlement. This strategy forms one of the Fund's core liquidity building blocks when required given its highly liquid nature and running yield. The Fund's allocation to this portfolio is expected to increase during volatile market periods.
- **Antares Short Duration Credit Fund (0%-100%)** - This portfolio holds AUD denominated investment grade bonds, floating rates notes, and money market securities issued by banks and corporates, residential mortgage-backed securities and synthetic credit instruments, such as Credit Default Swaps ('CDS'). This strategy forms one of the Fund's core credit building blocks and is used to provide access to diversified credit to enhanced running yield and provides medium liquidity.
- **Direct Investments** – These investments are made to capture returns not available through the two above funds and are typically of varying liquidity. The Fund may invest in a broad range of securities and derivatives, including government and government-related bonds, corporate bonds, mortgage-backed and asset-backed securities, hybrid and convertible securities, cash and short-term securities, and interest rate and credit derivatives including swaps, options and futures.
- **Global High Yield Credit (0%-20%) via credit derivatives** – The Fund's allocation here is opportunistic in nature. It is typically used for adjusting global high yield exposure of the Fund quickly with limited transaction costs. This strategy transacts in global CDS high yield credit indices, which are highly liquid. Protection on these indices may also be sold to earn carry and roll-down.

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Risk Management

Risk limits

TRACKING ERROR LIMIT	1.2% P.A.
DURATION RISK LIMIT	0.50 YEARS (ABSOLUTE)
MIN. CREDIT QUALITY AT PURCHASE	BBB-
MAX. SINGLE ISSUER WEIGHT	VARIES - RATING DEPENDENT
MAX. SUB-INVESTMENT GRADE	20%
MAX. CREDIT SPREAD DURATION	3.5 YEARS
MAXIMUM EXPOSURE TO SECURITIES ISSUED IN FOREIGN CURRENCIES	50%, BUT HEDGED BACK TO AUD

The Fund is managed to a set of soft and hard limits. Large foreign currency exposures are hedged into Australian dollars.

Risk monitoring

The Manager uses third-party software Bloomberg PORT to monitor and manage the Fund's investment risks.

Antares implements investment risk management controls through various strategies which include breaking portfolios down into a risk matrix and comparing them to the Benchmark, and allocating risk units to each element of risk in the portfolio, being duration, yield curve, and sector. Stress testing is also conducted on the Fund's portfolio across various risk/return scenarios.

In addition to being used as an alpha tool, CDS are a part of the risk management process to remove specific credit risk, access liquidity, or enter asymmetric tail-risk hedges.

Pre- and post-trade compliance checks are handled by Bloomberg AIM. The Fund's investment guidelines are loaded into this system to detect breaches.

A Risk and Compliance team, which is part of the wider MLC Wealth Risk team, assists Antares across compliance matters.

Risks

An investment in the Fund carries a number of standard investment risks associated with investment markets. These include economic, political, legal, tax and regulatory risks. These and other risks are outlined in the PDS and should be read in full and understood by investors. Lonsec considers the major risks to be:

Company-specific (or credit) risk

The issuer of a security owned by the Fund may not meet its obligations to make a payment of interest, a repayment of capital or some other financial obligation. Credit investments are typically split between investment grade (AAA to BBB-) and sub-investment grade (BB+ to D). The Fund is able to hold up to 20% in sub-investment grade credit.

Interest rate risk

The risk that the capital value falls as interest rates rise, or conversely that capital value rises as interest rates fall. Generally, of greatest consequence to these types of funds is the rise and fall of longer-term interest rates, though shorter-term interest rates (RBA cash rate) are interrelated.

Derivative risk

Derivatives may be used within the Fund to manage the Fund's exposure to domestic and global interest rate and credit markets, to implement a currency hedge (into Australian Dollars), to reduce volatility and risk and to reduce transaction costs. Risks particular to derivatives include the risks that the value of a derivative may not move in line with the underlying asset (also called basis risk), the counterparties to the derivative may not be able to meet payment obligations and the risk that a particular derivative may be difficult and costly to trade. The use of derivatives can incur significant losses. Derivatives will not be used within the Fund for gearing purposes.

Counterparty risk

Where a Fund is exposed to the credit risk of counterparty for the completion of a trade or investment (i.e. over-the-counter derivatives such as interest rate swaps). Antares mitigates this risk by requiring all counterparties to have a minimum long term credit rating of 'A' by S&P or otherwise approved by the MLC board.

Currency risk

Foreign investments, measured in Australian dollars may decrease in value because of unfavourable movements in currency exchange rates. Investments are in Australian dollars, so New Zealand investors need to be aware that the changes in currency values may have an impact (positive or negative) on the value of investments. Investors should also note that income distributions may be impacted by movements in currency. The Fund seeks to fully hedge all currency exposures.

ANALYST: IAN CANNON | APPROVED BY: RAFIQ KHAN

Antares Income Fund

ISSUE DATE 30-09-2022

Quantitative Performance Analysis - annualised after-fee % returns (at 31-8-2022)

Performance metrics

	1 YR		3 YR		5 YR		7 YR	
	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN	FUND	PEER MEDIAN
PERFORMANCE (% PA)	-0.90	-1.71	0.69	0.78	1.33	1.63	1.76	2.21
STANDARD DEVIATION (% PA)	0.81	1.57	1.11	3.38	0.92	2.70	0.82	2.39
EXCESS RETURN (% PA)	-1.27	-1.80	0.33	0.42	0.39	0.63	0.51	0.62
OUTPERFORMANCE RATIO (% PA)	33.33	33.33	63.89	66.67	68.33	68.33	67.86	67.26
WORST DRAWDOWN (%)	-1.40	-2.77	-1.40	-4.87	-1.40	-4.87	-1.40	-4.87
TIME TO RECOVERY (MTHS)	NR	NR	NR	6	NR	6	NR	6
SHARPE RATIO	-1.56	-1.11	0.30	0.21	0.42	0.42	0.62	0.62
INFORMATION RATIO	-1.67	-1.28	0.29	0.16	0.43	0.31	0.65	0.50
TRACKING ERROR (% PA)	0.76	1.30	1.14	2.60	0.90	2.02	0.79	1.74

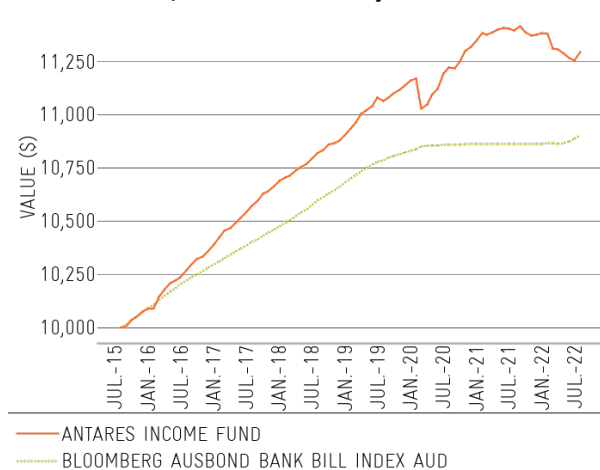
PRODUCT: ANTARES INCOME FUND

LONSEC PEER GROUP: FIXED INTEREST - ALTERNATIVE INCOME

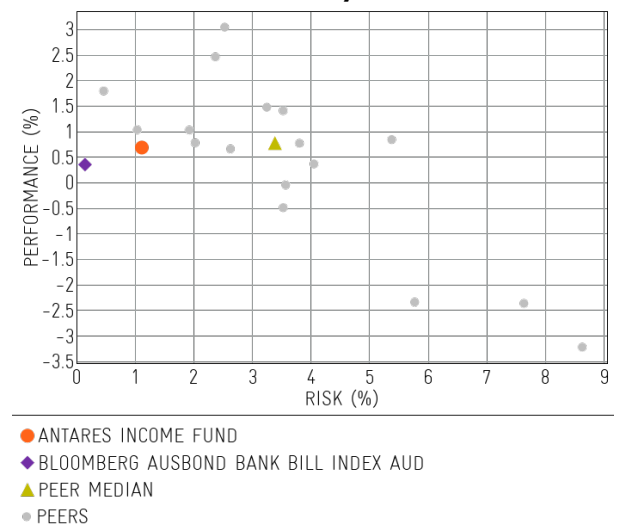
PRODUCT BENCHMARK: BLOOMBERG AUSBOND BANK BILL INDEX AUD

TIME TO RECOVERY: NR - NOT RECOVERED, DASH - NO DRAWDOWN DURING PERIOD

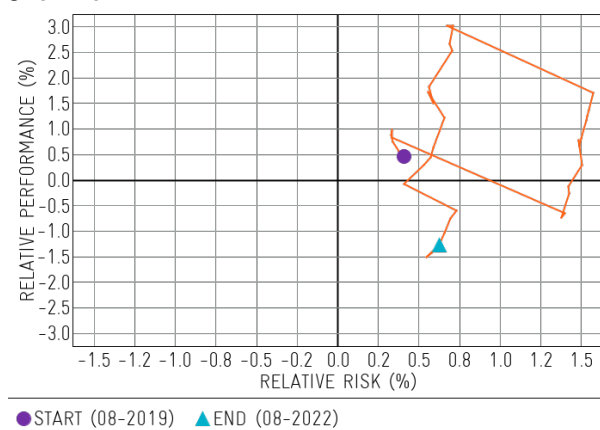
Growth of \$10,000 over seven years



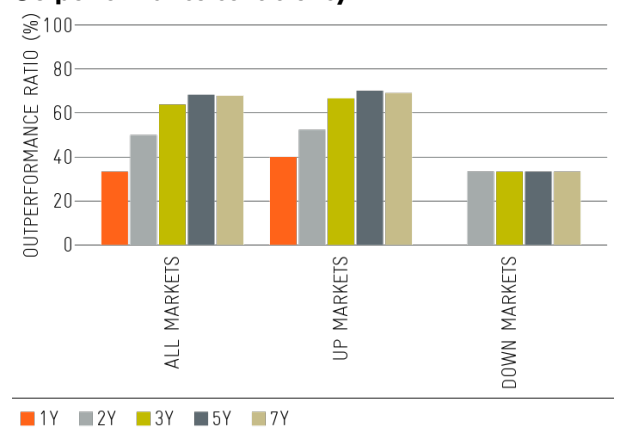
Risk-return chart over three years



Snail trail



Outperformance consistency



ANALYST: IAN CANNON | APPROVED BY: RAFIQ KHAN

Antares Income Fund

Glossary

Total return ‘Top line’ actual return, after fees
Excess return Return in excess of the benchmark return
Standard deviation Volatility of monthly Absolute Returns
Tracking error Volatility of monthly Excess Returns against the benchmark (the Standard Deviation of monthly Excess Returns)
Sharpe ratio Absolute reward for absolute risk taken (outperformance of the risk free return (Bank Bills) / Standard Deviation)
Information ratio Relative reward for relative risk taken (Excess Returns / Tracking Error)
Worst drawdown The worst cumulative loss (‘peak to trough’) experienced over the period assessed
Time to recovery The number of months taken to recover the Worst Drawdown
Snail Trail A trailing 12-month relative performance and relative risk measurement over the benchmark. The trail is generated using a 12-month rolling window over the specified period

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