

COVID 19 and the outlook for Australian Shares – Using MAs to enable Advice in a Volatile Market

John Guadagnuolo Antares Equities

Anne Hamieh Xplore Wealth

Angus Mason Cashel Family Office



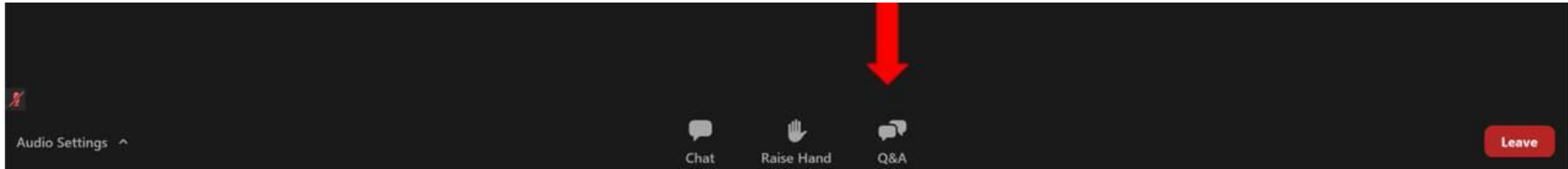
IMAP and COVID-19

- 2020 Events
 - Awards - August
 - InvestTech - September
 - Portfolio Management Conferences - November
- Webinars monthly

—
**IMAP MANAGED
ACCOUNT AWARDS 2020**
—

NOW ACCEPTING SUBMISSIONS

Ask a Question



Australian Mid Caps – a good place right now?

John Guadagnuolo

Portfolio Manager
Antares Ex-20 Australian Equities

15 June 2020 

THIS PRESENTATION HAS BEEN PREPARED FOR USE BY LICENSED FINANCIAL ADVISERS. IT MUST NOT BE MADE AVAILABLE TO ANY RETAIL CLIENT AND ANY INFORMATION IN IT MUST NOT BE COMMUNICATED TO ANY RETAIL CLIENTS.

Time of preparation: 15 June 2020

This presentation is provided by Antares Capital Partners Ltd ABN 85 066 081 114, AFSL 234483 ("Antares") as the responsible entity and investment manager of the Antares Ex-20 Australian Equities Fund (ARSN: 635 799 530) (the 'Fund'). Antares is a member of the group of companies comprised National Australia Bank Limited, its related companies, associated entities and any officer, employee, agent, adviser or contractor ('NAB Group'). An investment in any product offered by a member company of the NAB Group does not represent a deposit with or a liability of the NAB or any NAB Group member. NAB does not guarantee or otherwise accept any liability in respect of any financial product referred to in this presentation.

This presentation has been prepared for licensed financial advisers only. This document must not be distributed in any way to "retail clients" (as defined in the Corporations Act 2001 (Cth)) or any other persons. This presentation has been prepared for information purposes only. This information may constitute general advice. It has been prepared without taking account of individual objectives, financial situation or needs and because of that investors should, before acting on the advice, consider the appropriateness of the advice having regard to your personal objectives, financial situation and needs.

Investors should consider the Product Disclosure Statement for the Fund (PDS) before making any decision about whether to acquire or continue to hold an interest in the Fund. A copy of the PDS is available on antarescapital.com.au

Any reference in this presentation to a specific company is for illustrative purposes only and should not be taken as a recommendation to buy, sell or hold securities or any other investment in that company. Securities mentioned in this presentation may no longer be held by the Fund after the time of preparation.

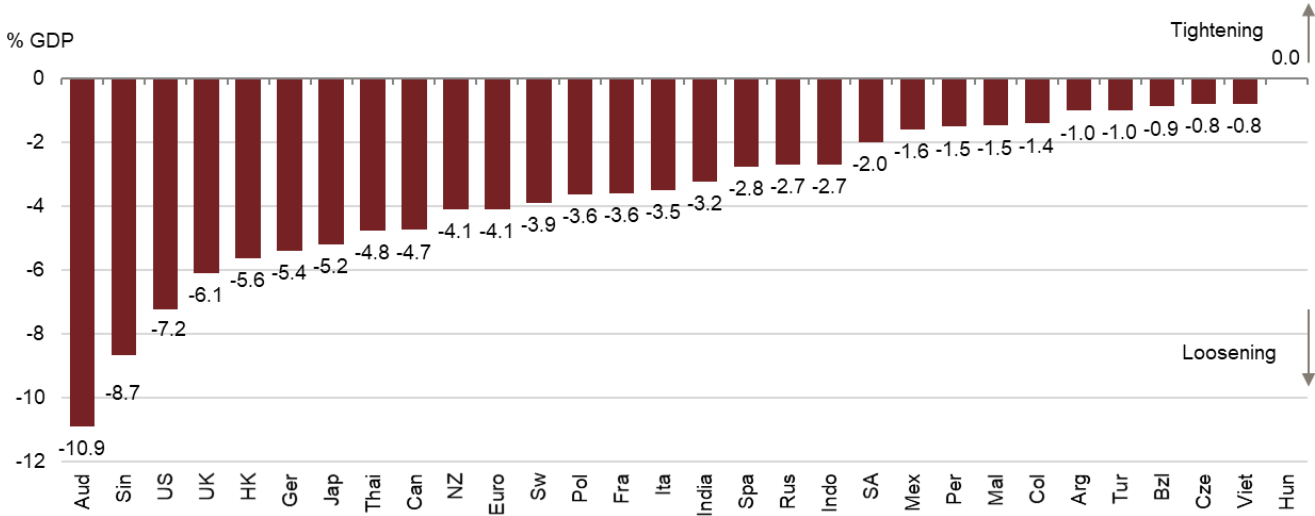
Past performance is not a reliable indicator of future performance. Returns are not guaranteed and actual returns may vary from any target returns described in this communication. Any projection or forward looking statement in this presentation is provided for information purposes only and whilst reasonably formed, no representation is made as to the accuracy of such projection or that it will be met. Any opinions expressed in this presentation constitutes Antares' judgement at a point in time and is subject to change. Antares believe that the information contained in this presentation is correct, and where applicable, using information believed to be accurate and reliable as at the time of preparation; and that any estimates, opinions, conclusions or recommendations are reasonably held or made as at the time of preparation. However, no warranty is made as to their accuracy or reliability (which may change without notice) or other information contained in this communication.

This information is directed to and prepared for Australian residents only.

Bloomberg Finance L.P. and its affiliates (collectively, 'Bloomberg') do not approve or endorse any information included in this publication and disclaim all liability for any loss or damage of any kind arising out of the use of all or any part of any such information.

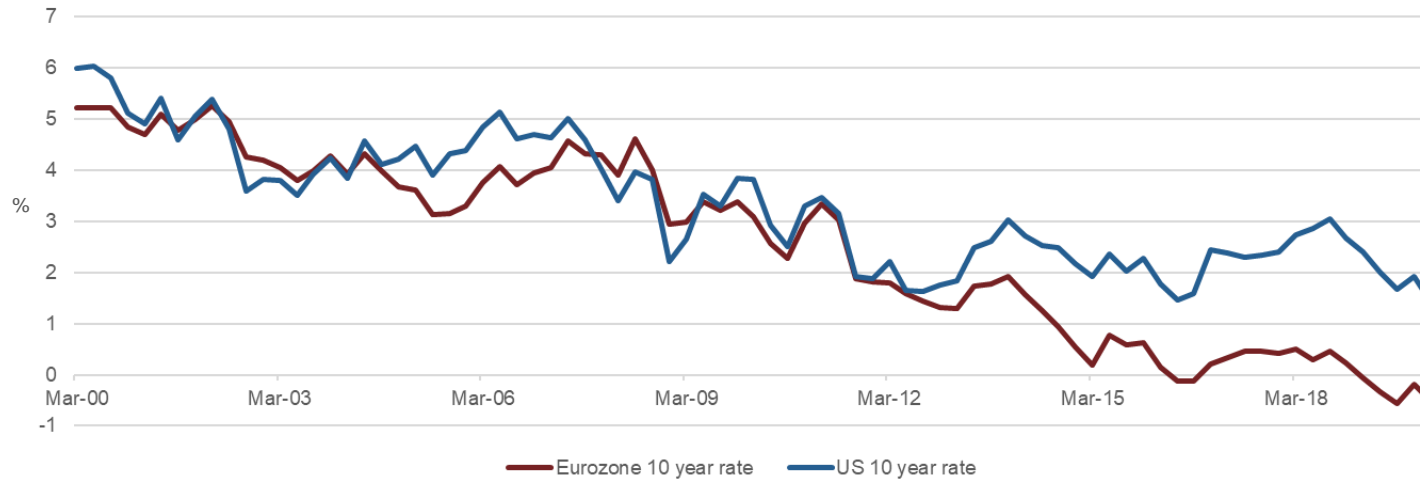
- **COVID-19 could lead to substantial structural changes to economies, businesses and models**
- **Understanding those structural changes and varying reasons may uncover exciting investment opportunities**
- **We believe mid cap stocks could be key beneficiaries due to:**
 - **Higher growth**
 - **Disruptive models**
 - **Lower discount rates**
- **Mid cap stocks provide diversification**

Change in cyclically adjusted primary balance 2020



Source: UBS, May 2020

Major market 10 year bond rates (%)

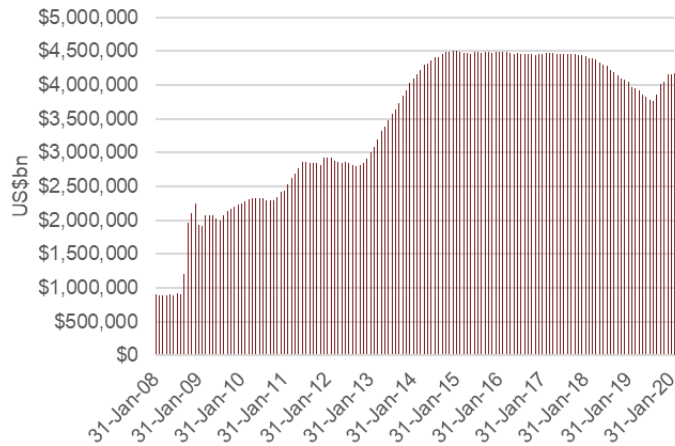


Source: Antares, Bloomberg, May 2020

The debt will be “disappeared” by central banks

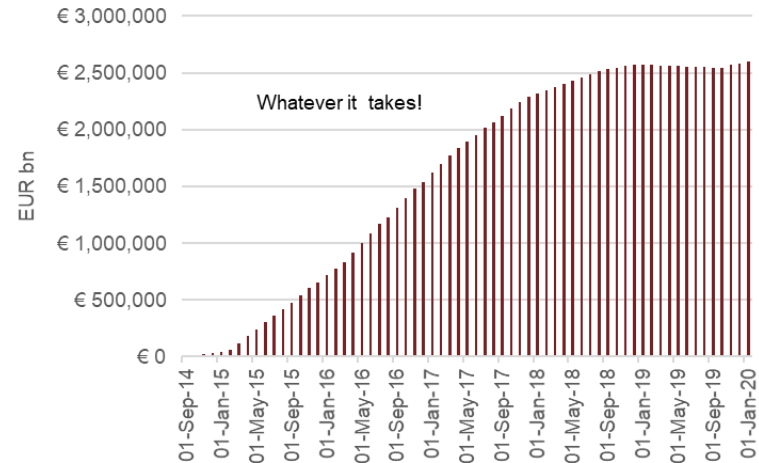


US Federal Reserve balance sheet



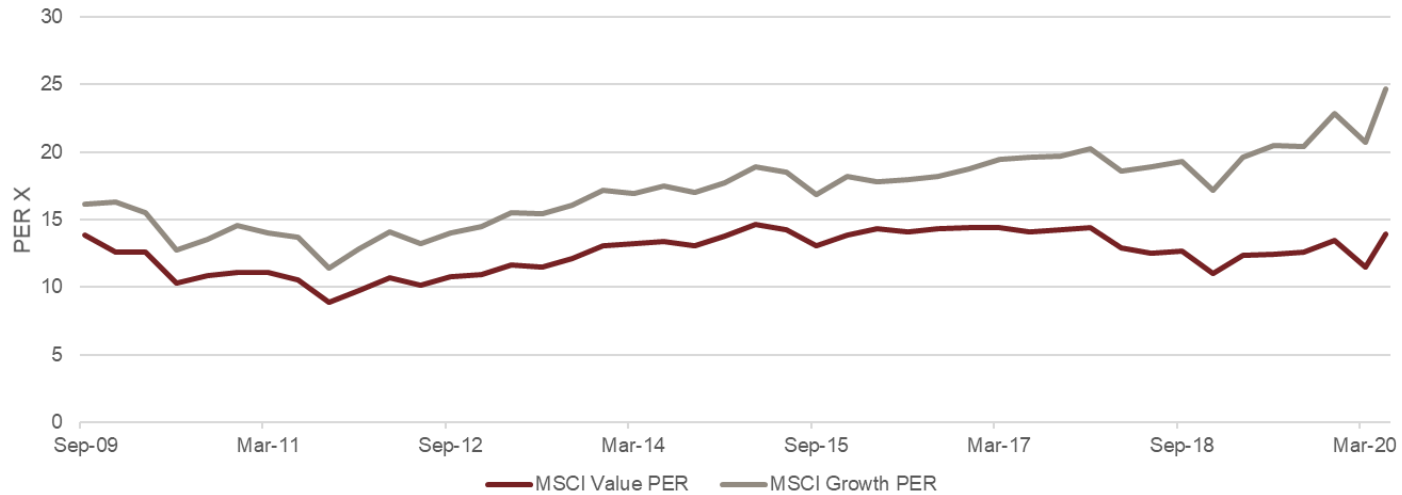
Sources: Antares, Bloomberg, February 2020

ECB balance sheet



Sources: Antares, Bloomberg, February 2020

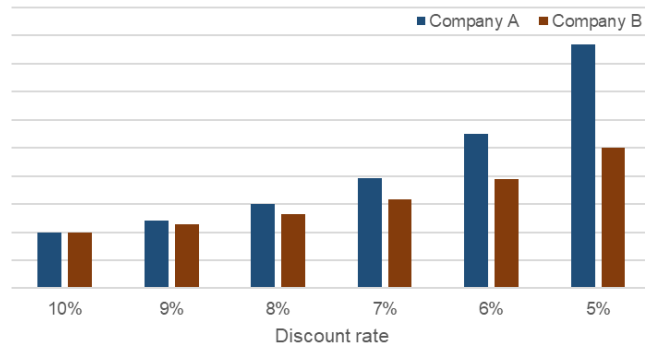
Low rates have supported growth assets: duration MSCI Growth vs Value valuation



Source: Antares, Bloomberg, May 2020

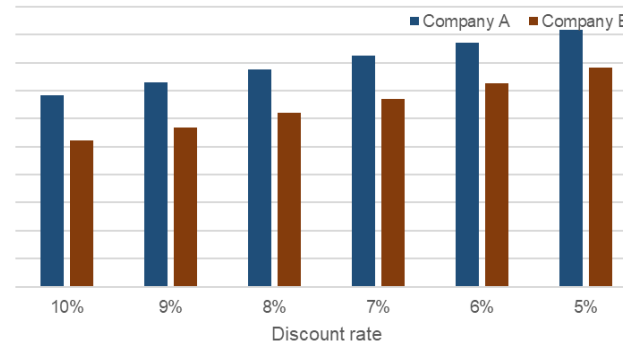
- Two companies with identical valuations at 10% weighted average cost of capital (WACC)
- One is fast growing (Company A), one slow (Company B)
- Yet the valuations change materially with a lower WACC

DCF valuation scenarios using a lower discount rate



Source: Antares, February 2020

Terminal value as a % of total value



Source: Antares, February 2020

Mid caps have the highest EPS growth

ASX 20 vs ASX Mid Cap 50 vs Small Ord's EPS



Source: S&P, Antares, Bloomberg, May 2020

Which drives superior returns over time

ASX 20 vs ASX Mid Cap 50 vs Small Ords Index



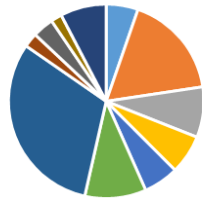
Source: S&P, Antares, Bloomberg, May 2020

Mid caps are far more diversified at the index level



ASX 20 dominated by financials...

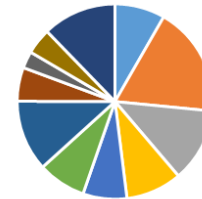
S&P ASX 200



- Energy
- Materials
- Industrials
- Consumer Discretionary
- Staples
- Health Care
- Financials
- Information Technology
- Communication Services
- Utilities
- Real Estate

Source: Antares, Iress, February 2020

S&P ASX 200 ex 20



- Energy
- Materials
- Industrials
- Consumer Discretionary
- Staples
- Health Care
- Financials
- Information Technology
- Communication Services
- Utilities
- Real Estate

Source: Antares, Iress, February 2020

.... in a low interest rate environment, this leads to decreasing profit over time

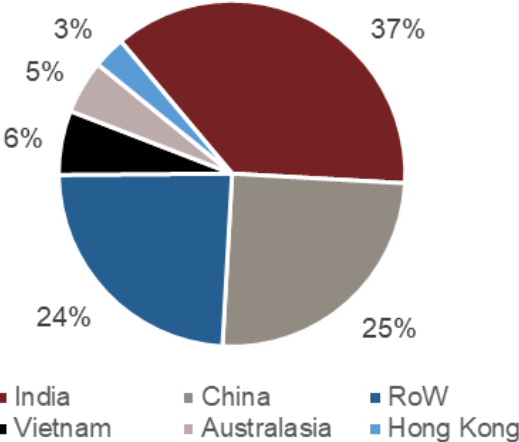
We are thinking about our investable universe in four ways:

- 1. Structural beneficiaries = duration will be rewarded**
- 2. Tactical beneficiaries**
- 3. Leveraged business models with competitive advantage that we are prepared to support in the event of balance sheet repair**
- 4. Others (or the remainder) which lack these attributes**

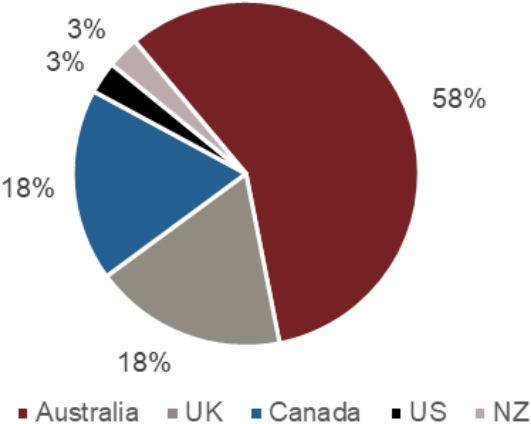
Example: IDP Education (IEL)

Clear structural beneficiary but significant COVID-19 impact expected over FY20-21

FY19 source countries

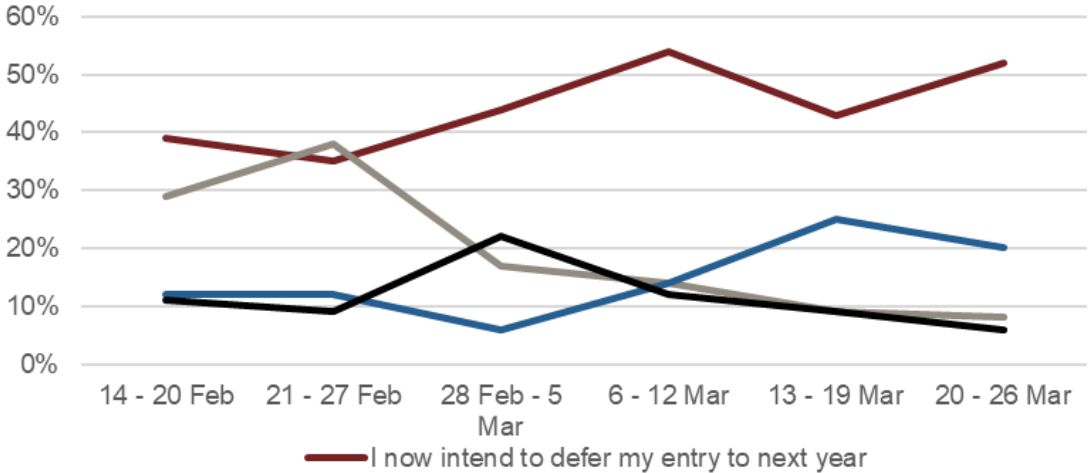


FY19 destination countries



Source: IDP Education, August 2019

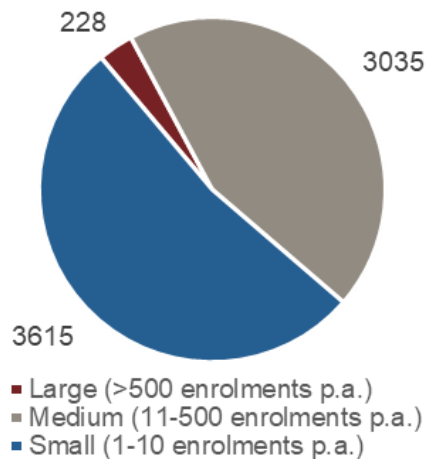
How COVID-19 is impacting study intentions



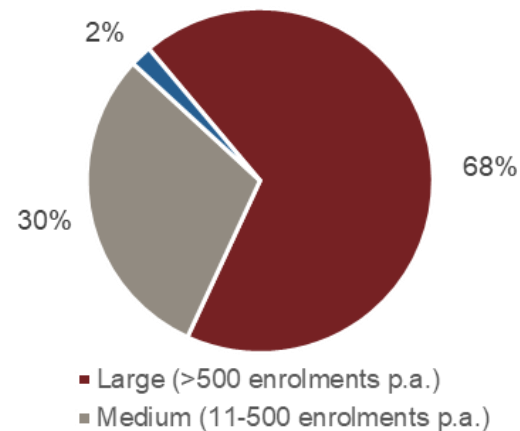
As the virus has progressed, fewer intend to cancel plans to study abroad

Source: QS, 'The impact of the coronavirus on global higher education', April 2020, n = 11,000

Number of agencies by size placing international students into Australia (2018)

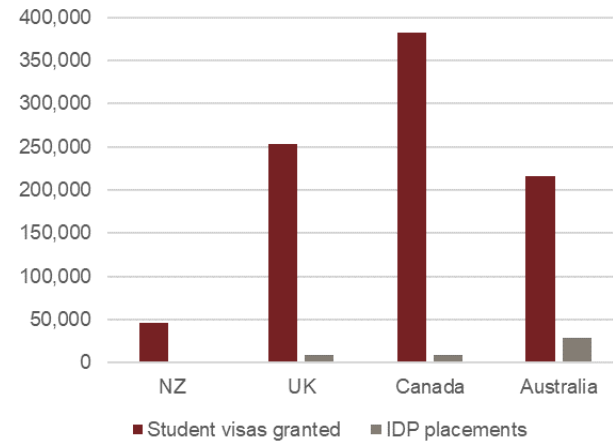
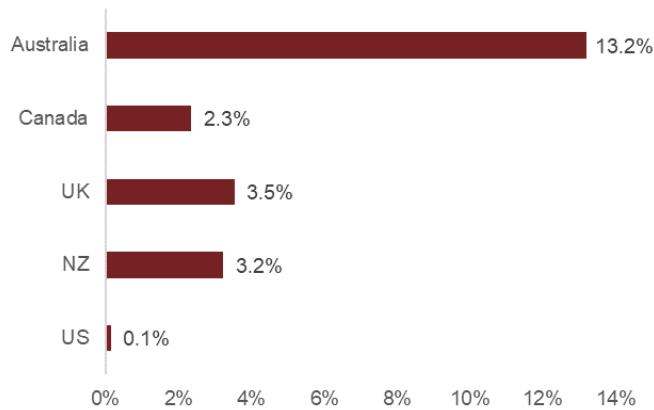


Share of Australian international student placements by agency size (2018)



Source: Department of Education, 'International Education Agents Overview Report', October 2019.

IDP market share by student placement destination (FY19)



Source: IDP Education (August 2019), Department of Home Affairs Australia (December 2019), Government of Canada (February 2020), UK Government (September 2019), Immigration NZ (May 2020), US Institute of International Education (December 2019).

- **A new business meaning issues to be resolved in the business model**
- **Its growth has been explosive and at times controversial**
- **But our research provided some investable insights about the APT business model:**

Merchants dislike lay-buy

- Expensive – space, systems and staff
- Drag on working capital with an uncertain outcome

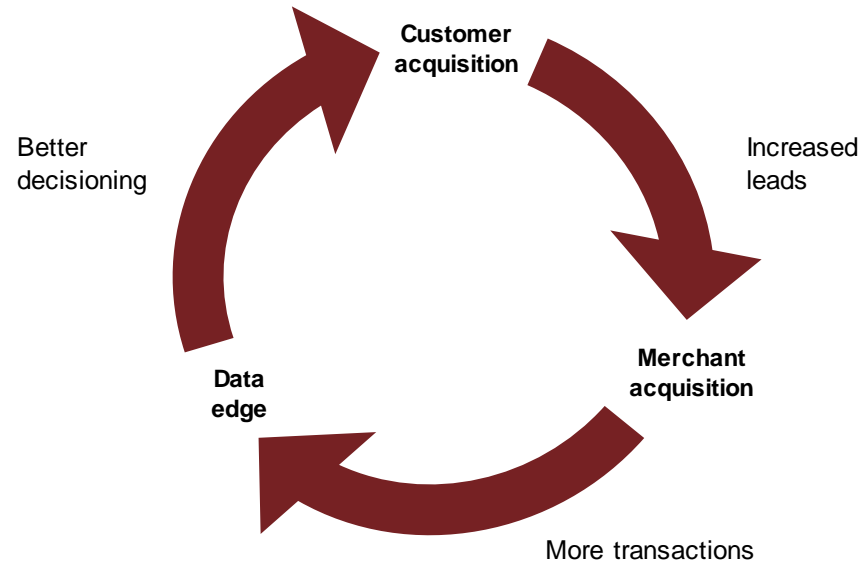
Customers like lay-buy

- Allows them to budget
- Millennial generation does not like credit cards
- Lay-buy is hard to find on moderately priced items

Our insight was that APT solves both problems

- Merchants can offer electronic lay-buy without the fixed costs and working capital drag
- Customers can gain access to ranges previously excluded by merchant choice or budget

The fly-wheel demonstrates APT's revenue model and how it minimises losses via its data analytics



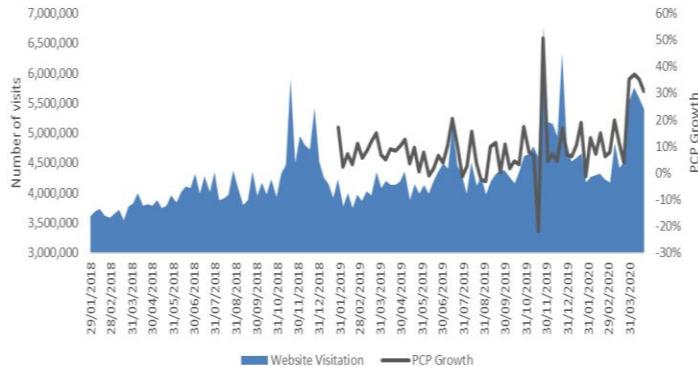
Source: Antares, Iress, February 2020

APT is predominantly an online retail business



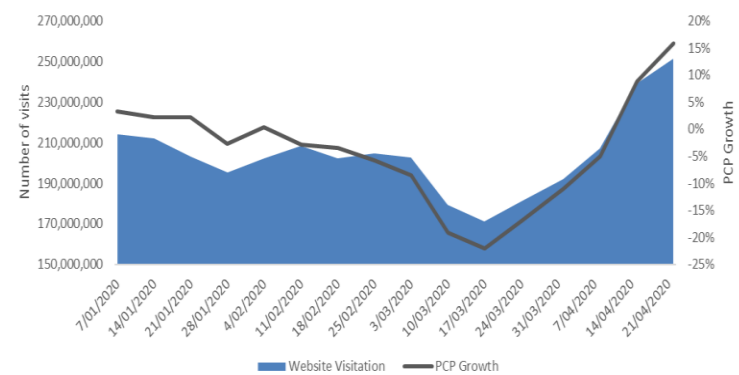
- Operates in lifestyle verticals like fashion and cosmetics
- Shift to online has accelerated during COVID-19
- In all APT's markets

Beauty & cosmetics website traffic (AU)



Source: JP Morgan, SimliarWeb, May 2020

Fashion & apparel website traffic (US)



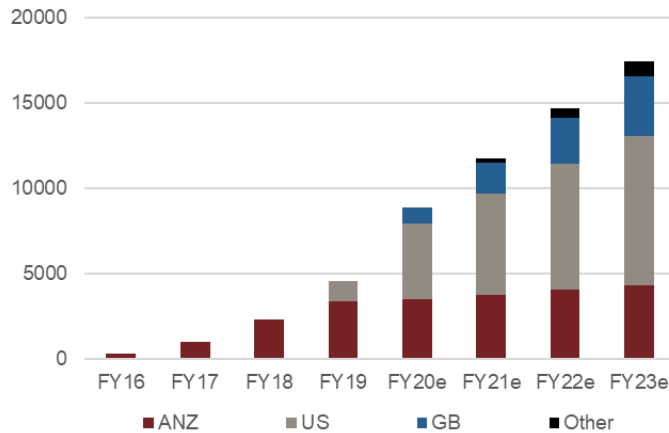
Source: JP Morgan, SimliarWeb, May 2020

APT's growth is driven by new customers and frequency



APT is almost doubling customer numbers annually

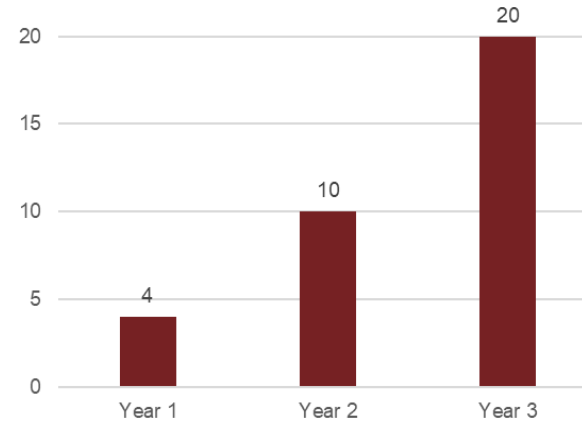
APT customers



Source: APT, February 2020, Antares, May 2020

Customers transact more the longer they stay

Frequency of use



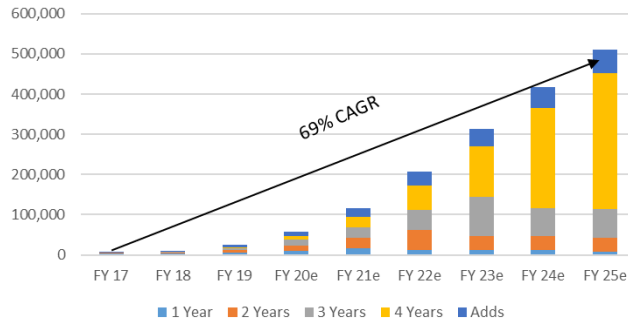
Source: APT, February 2020

APT's topline growth is explosive = valuation is long dated



More customers + frequency = strong transaction growth

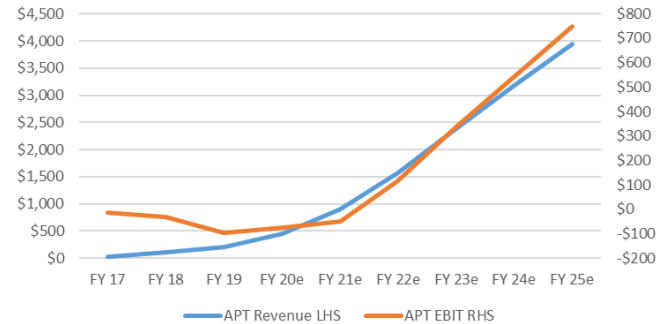
Transaction volumes (m) by cohort



Source: APT, February 2020, Antares, May 2020

This drives explosive growth

APT revenue and earnings growth



Source: APT, February 2020, Antares, May 2020

**Given the rate of growth, APT's valuation is a beneficiary of low rates
The COVID-19 driven migration to on-line strengthens the model**

Ex-20 Australian Equities Strategy (Product Agnostic)	Gross return¹ (%)	Benchmark return² (%)	Gross excess return (%)
3 months	-1.4	-6.5	5.1
1 year	3.2	-3.8	7.1
2 years pa	6.0	1.4	4.6
3 years pa	9.1	5.2	3.9
5 years pa	10.5	7.2	3.3
Since Inception pa³	10.8	7.3	3.4

[#] The performance information shown is based on Antares' construction of the notional model portfolio which is not available for direct investment. The performance of the Antares Ex-20 Australian Equities Fund since its inception date (1 October 2019) and of individual client portfolios will differ to the performance of the notional model portfolio due to cash flows, portfolio reweighting, timing issues and fees.

1>Returns shown are based on the income and market value of the notional model portfolio, gross of administration (platform) and investment management fees, net of estimated transaction costs, and assume all dividends remain in the model portfolio. Fund and individual client portfolio returns will differ from the returns shown, and will be net of fees. Fund data is available on antarescapital.com.au.

2.Benchmark is S&P/ASX 200 Total Return Index excluding the companies listed on the S&P/ASX 20 Leaders Total Return Index.

3.Date of Inception 27 May 2015

Past performance is not a reliable indicator of future performance. Returns are not guaranteed and actual returns may vary from past returns.

Antares Ex-20 Australian Equities Strategy[#]

12 month attribution to 31 May 2020



> Positive contributors

Stock	Position	Value Added
Afterpay	Overweight	3.12%
Xero	Overweight	1.15%
James Hardie Industries	Overweight	1.08%
Metcash Limited	Overweight	1.05%
JB Hi-Fi Limited	Overweight	0.92%
Mineral Resources	Overweight	0.84%
IDP Education	Overweight	0.69%
Northern Star Resources	Overweight	0.60%
Iluka Resources	Overweight	0.57%
Oil Search Limited	Not Owned	0.54%

Source: Antares, 30 April 2020

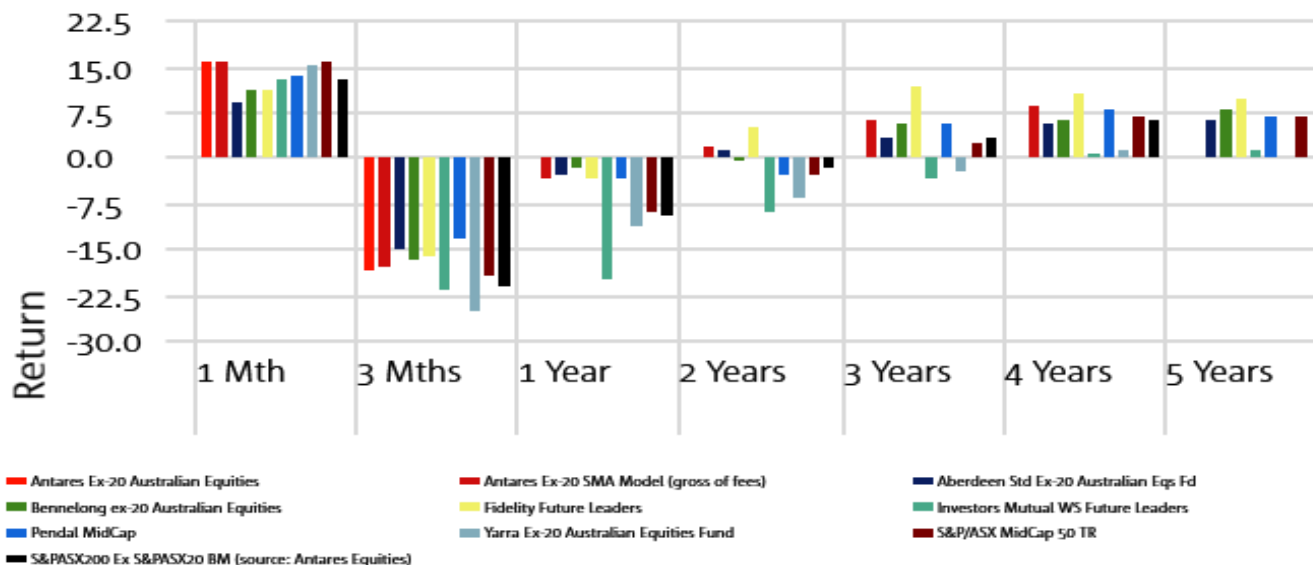
[#] Securities shown are in Antares' construction of the notional model portfolio which is not available for direct investment. Securities shown may no longer be in Antares' notional model portfolio, in the Antares Ex-20 Australian Equities Fund or in the Antares Ex-20 Australian Equities Model Portfolio available on platforms.

> Negative contributors

Stock	Position	Value Added
Worley	Overweight	-0.80%
Star Entertainment Group	Overweight	-0.78%
Evolution Mining	Not Owned	-0.61%
Nine Entertainment Ltd	Overweight	-0.61%
Treasury Wine Estates	Overweight	-0.59%
Coles Group Ltd	Not Owned	-0.52%
ASX	Not Owned	-0.52%
Freedom Foods Ltd	Overweight	-0.49%
Incitec Pivot Limited	Overweight	-0.46%
Resmed	Not Owned	-0.46%

Returns

As of Date: 30/04/2020



Source: Morningstar, 30 April 2020.

© 2020 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.

Portfolio fit:

- **Generally sits within the growth assets component of a balanced portfolio**
- **Used as a diversifier within a portfolio of Australian equity managers**
- **Can be used on a stand alone basis**
- **Or blended with other growth and value managers**

Suitability:

- **May be appropriate for those seeking greater diversification within their Australian Equities exposure**

- ✓ **Genuinely active and unconstrained**
- ✓ **Simple process**
- ✓ **Established investment methodology with strong track record in all market conditions**
- ✓ **Offered at competitive fee structure**
- ✓ **No current capacity constraints**
- ✓ **Availability of Fund: Netwealth and Hub24**
- ✓ **Availability of SMA: Navigator, Macquarie, BT Panorama, Netwealth, Praemium**

Questions

Using MAs to enable Advice in a Volatile Market

Anne Hamieh Xplore Wealth

Angus Mason Cashel Family Office

Questions