The Alexander Perspective

Quarterly Update | September 2025

Welcome to our quarterly update for September 2025.

During the first quarter of the new financial year, Australia's economy showed continued momentum off the back of rising inflation and renewed confidence in financial markets. The Reserve Bank reduced the cash rate to 3.60% in August, with market commentary suggesting they are potentially nearing the end of their easing cycle. Meanwhile, credit markets remained robust in September, with spreads nearing record lows and Australian credit continuing to appear attractive when compared to global peers.

Against this backdrop our Funds did what they are built to do. The Credit Income Fund and Credit Opportunities Fund continued to perform consistently, again outperforming their respective benchmarks over the quarter, with annualised returns of 7.25% and 7.78% net of fees. Importantly, both Funds maintained their focus on diversification of underlying holdings and steady income — qualities that continue to resonate with investors seeking reliability rather than short-term speculation.

While product performance remains in line with expectations, we are increasingly seeing investors value the distinctive qualities that underpin our approach: a measured investment philosophy, a focus on underlying credit fundamentals and active management grounded in experience. These hallmarks have long defined how we invest, but as the market evolves, they are proving more relevant than ever. With Australian credit funds in strong demand, it's worth a quick reminder of where we sit on the spectrum. Alexander Funds invests in a diversified pool of corporate bonds, bank paper and both publicly and privately originated securitised credit assets. Our products are not dedicated private credit funds, and our investment strategy allows us to quickly adjust our portfolios to where the best opportunities are at any given time. At a time where there is an increased interest in these assets, we believe it is this distinction that matters for our investors as it provides them with access to a diverse range of assets within credit markets with daily and weekly liquidity options.

As always, I encourage you to read the following pages for detailed insights from our portfolio managers on current market dynamics and fund positioning.

Thank you for your ongoing trust and support. If there is anything you would like to discuss regarding Alexander Funds or our portfolios, please don't hesitate to contact me or a member of our team.

Warm Regards

Rachel Shirley
CEO

Market Commentary

Back in beige

Investors experienced rather benign and mundane ("beige") conditions during the third quarter. Indeed, the excitement and doom around April's Liberation Day now appears to have become a distant memory. The 33% increase in the S&P500 off its low in April is proof in point. There is now mounting economic evidence and constructive narratives - AI and fiscal loosening to name two - that suggest that the global economy may muddle through in somewhat of a Goldilocks' scenario. Supporting this thesis was the United States (US) Federal Reserve (The Fed) and the Reserve Bank of Australia (RBA) cutting their official cash rates by 25 basis point cuts during September. However, Alexander Funds (Alexander) remains circumspect regarding the risks that continue to lurk in the shadows. One such concern is the continued tightening in credit spreads, an issue addressed in detail later in the newsletter.

During the third quarter investors saw the value of their investments move higher in a smooth and steady state manner. Table 1 summarises the changes in key investment metrics across the quarter and the calendar year. In terms of equities, both the US and Australian markets hit all-time highs during the month. This outcome is the resulted from the combination of valuation expansion and, positively, earnings growth.

Table 1: Market Movements

	December 31 2024	June 30 2025	September 30 2025		
	Level	Level	Level	YTD Change	Quarterly Change
S&P 500	5,881	6,204.9	6,688.5	13.7%	7.8%
NASDAQ	19,310.8	20,369.7	22,660	17.3%	11.2%
S&P ASX 200	8,159.1	8,542.3	8,848.8	8.5%	3.6%
VIX (bps)	17.3	16.7	16.3	-1.0	-0.4
Australian iTraxx (bps)	68.3	73.7	64.9	-3.4	-8.8
US 10 Year (bps)	4.56	4.23	4.15	-0.41	-0.08
Australian 10 year (bps)	4.36	4.16	4.30	-0.06	0.14
Bloomberg AusBond Credit 0+YR Index (OAS)	84.2	85.3	73.8	-10.4	-11.5

Source: Bloomberg

For local credit investors a significant metric is the Bloomberg Ausbond Credit 0+YR Index. Table 1 provides the Option Adjusted Spread (OAS) for the index, thereby providing a proxy for the reward investors receive for taking on credit risk. With the general risk-on sentiment this spread has continued tightening across the year. The key ramification of this move is that credit investors have picked up handy mark-to-market gains while their compensation (yield) for carrying risk diminishes. Another notable point from the quarter was that a weaker US dollar has spurred a sharp rally in gold, as investors looked for protection and diversification.

Macro backdrop

Macro-economic data released during the quarter for Australia and the US suggested that economic growth was more resilient than first anticipated and inflation is proving equally as resilient. On the upside, the fears of a stagflationary bind have receded. For Australia, the most telling data was the higher than anticipated consumer spending in the second quarter, with household spending growth lifting to 5.1% on a year-on-year basis. The catalysts for the strength were the recent tax and rate cuts, plus the lower inflation pulse. US second quarter GDP was revised up to a very strong 3.8%[1]. Strong private consumption spending was behind the surprising figure. GDP growth in the US is also benefiting from extensive Artificial Intelligence (AI) related capital expenditure. Apollo Asset management estimated that AI capex expenditure added 1% to US GDP growth in the first quarter of 2025.

The one cautionary factor on the macro-economic front is the ongoing presence of inflation, at or above, the upper bounds of central banks limits. Late in the quarter Australia reported a monthly inflation rate of 3.0%. With the concurrently tight labour market and robust GDP figure, this result meant that the market quickly lowered their expectation for a November cash rate cut. The US's quarterly Personal Consumption Expenditures (PCE)[2] price index was reported at 2.9% pa, a figure that unless it moderates, will likely inhibit the Fed's desire to move along the rate loosening path.

Local reporting season

Local investors received an insight into Australia's corporate health during August's reporting season. Equity investors experienced a volatile ride as companies that disappointed were severely punished, while the opposite held for those firms that surprised on the upside. For debt investors, the general theme was that corporate balance sheets remain solid. More specifically, Real Estate Investment Trusts (REIT) either reported a stabilisation or decline in their capitalisation (cap) rates. This outcome is a positive for their gearing ratios and eased the ratings pressure on some issuers. Elsewhere, firms that had taken the opportunity to undertake material capital expenditure programs since COVID tended to show material market share and margin gains over their competitors. Finally, as confirmed by the Australian GDP figures, those companies exposed to the local consumer reported solid trading.

[1] GDP Annualised Quarter-on-Quarter (QonQ)

[2] The US Fed preferred measure of inflation

Sector Performance

Debt Capital Markets (DCM)

For the quarter, investor demand for any new investment grade issuance in the Australian market remained very strong. With the RBA cash rates remaining elevated, investors continue to be attracted to the all-in yield on offer in the local market. Another driver of this demand is the continued rotation of Asian investors towards Australian debt. Issuers did not waste the opportunity with plentiful new investment grade credit issues on offer during the quarter. Positively, the supply was easily absorbed, with credit spreads moving tighter across the board.

A prime example of this situation was the Commonwealth Bank (CBA) coming to the market with a 5-year senior deal. CBA printed $5bn with a 77-basis point spread over the benchmark after receiving $13bn in bids. The strong demand saw the spread tightening 5bps immediately in the secondary market. The tightened senior bank spread, saw the key Tier 2/Senior ratio drift out to 1.94 times from 1.81 times. This outcome is suggestive that coupled with limited new supply during the remainder of 2025, Tier 2 bank debt spreads have the potential to move tighter. This outcome would be beneficial for investors in the short-term. However, like other debt, every move tighter in spreads removes the potential for further upside gains while increasing the risk of a detrimental mean reversion in spreads.

In the past 18 months, overseas issuers have dramatically increased their presence in the Australian market (known as Kangaroo issues). Alexander views this outcome as a major positive, as it is suggestive that the Australian market's credibility has reached a point where it can regularly attract large overseas names, and have domestic companies that may have previously issued in USD/EUR issue locally with certainty of execution. The most telling example of this situation was UBS issuing an Additional Tier 1 (AT1) deal in the Australian market. With the strong demand for AUD credit, UBS was able to price the deal at a spread of 279bps, 30bps inside an equivalent USD issue.

Securitisation

Prior to September it appeared that the local securitisation market would not be able to reach the issuance heights of 2024. However, this scenario changed rapidly during September. For the quarter there was $20.4bn in issuance across 24 transactions, with an impressive 14 transactions valued at $13.5bn hitting the market in September. These issuance levels were the second highest quarterly numbers since 2007. To match the issuance levels of 2024, there will need to be another $30bn in issuance across the final three months of 2025. This outcome may be a stretch, but at the time of writing there are already 10 new mandates in the market.

Despite the step up in issuance, spreads across the primary and secondary markets moved tighter. The following section provides a detailed insight into Alexander's views on the current risk reward environment within the Australian public credit market.

The relevance of spreads & credit enhancement

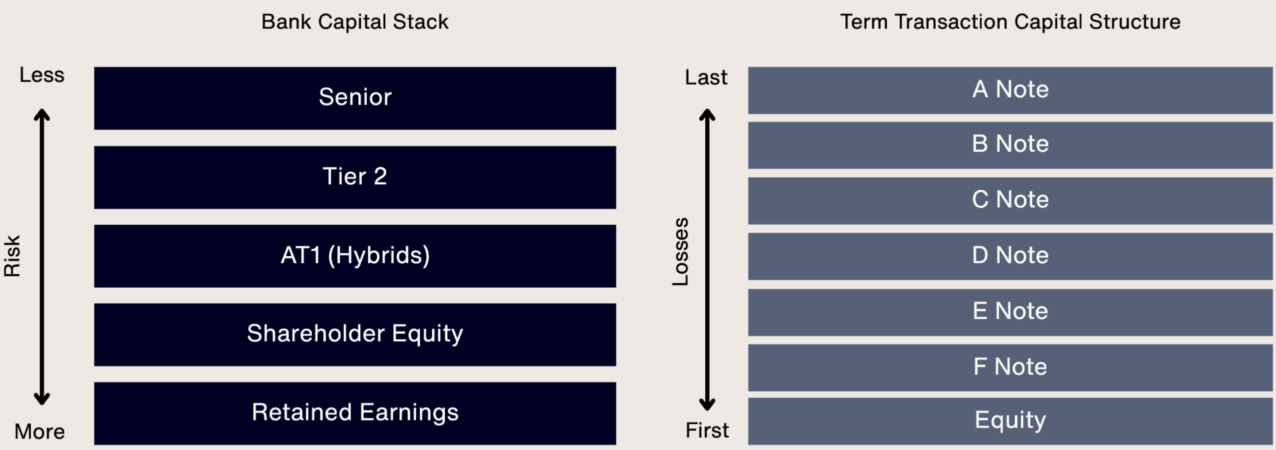
In the previous sections Alexander noted continued contraction in credit spreads across various segments within the Australian capital markets[3]. The contraction has been a global phenomenon and has been driven by the investor demand for credit instruments outstripping supply and a general repricing of risk across markets. A key driver of the demand is the attractive all in yields on offer in fixed income markets, as yields have been supported by the prolonged elevation of central bank cash rates as inflation lingers across the globe. During the third quarter, Alexander formed a view the contraction in spreads crossed a tipping point whereby we felt it necessary to shift where new capital is to be allocated within our portfolios.

A positive effect of the spread contraction has been the mark-to-market price gains associated with existing holdings. These gains have provided a material tail wind to investor returns, and in turn driven demand for credit products. Our view is that these tail winds are now likely to subside. Countering these capital gains has been the decline in the yields on offer from new debt securities.

The rationale for Alexander's caution is two-fold. Firstly, history would suggest there is now limited room for spreads to move tighter and secondly, the risk that spreads reverse and move wider remains ever present due to macroeconomic related issues. As a reminder, any widening will lead to mark-to-market losses.

Before examining the recent moves in spreads, it is prudent to take a step back and determine what an acceptable spread might be. Assessing the amount of credit risk inherent in a security is a key element to answering this question. This risk centers around credit structure of the security and the probability of issuer defaulting. Figure 1 provides stylised versions of the capital structure of a bank and a term transaction (the term used to cover a securitised issuance). The most telling aspect is that losses are first absorbed at the bottom of the structure before progressing up the capital stack, a process known as subordination. Therefore, the lower aspects have greater risk of experiencing a loss and investors should be rewarded with a wider spread.

Figure 1: Capital Structure



[3] GA credit spread is the additional yield a floating rate security offers above a reference benchmark rate (such as BBSW, SOFR, or LIBOR) to compensate investors for the credit risk of the issuer.

The risk associated with a security is encapsulated by its credit rating. The rating will be allocated by one, or more of the global third-party ratings agencies, S&P, Moody's or Fitch. Crucially, these ratings are not a comment on price or valuation, but rather an opinion of the probability of default (PD) and expected loss (EL) given the characteristics of the security. It remains the market's role to determine an appropriate price for a given rating.
Regardless of the agency there are three elements that combine to produce a credit rating:

1. Probability of Default (PD): This factor assesses how likely it is that an issuer or a note (tranche) will fail to meet obligations over a defined time horizon, often one year and through the credit cycle. This estimate incorporates both issuer fundamentals (e.g., cash flow, leverage, sectoral risks), transaction structure in securitised products, and a credit cycle overlay.

2. Recovery Rate (RR): In the case of default, there will be assumptions made around the value recovered after default. For corporates this reflects collateral, seniority of claims, and jurisdictional bankruptcy regimes. For securitisation, recovery rates hinge on the pool of underlying assets, servicing practices, and historical loss data.

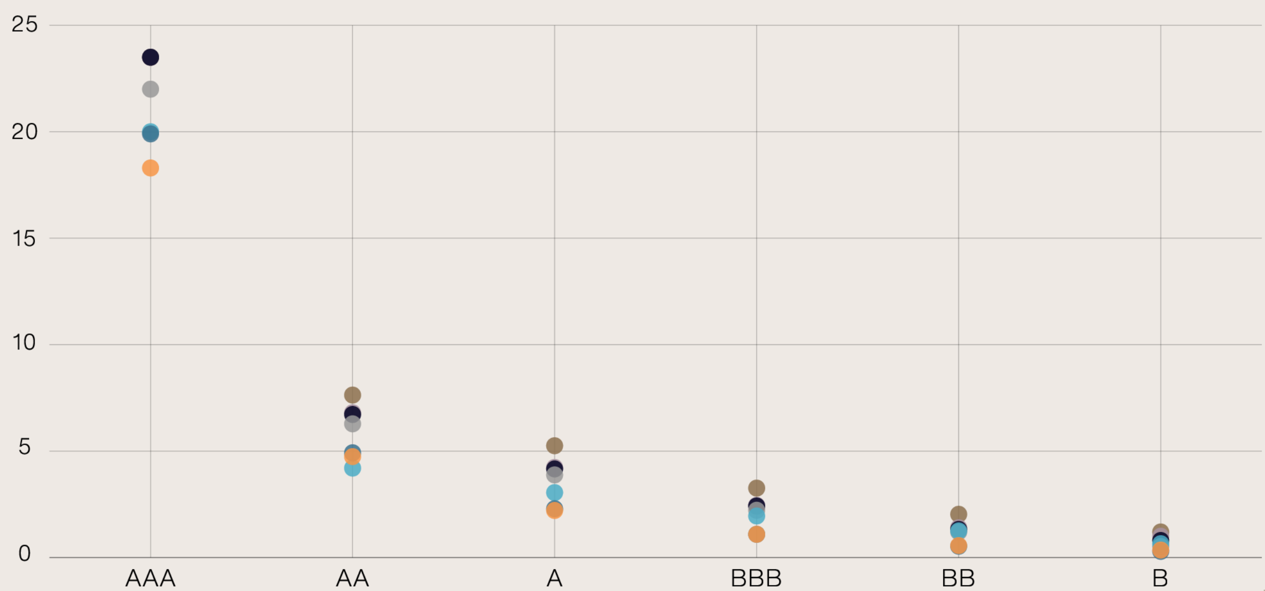
3. Stress Scenarios and Credit Enhancement: Finally, the agency will test how the structure would perform under stress. Agencies apply stressed default and recovery assumptions—far more severe than base-case projections—to test whether the security can withstand losses. Credit enhancement (subordination, excess spread, reserve accounts) is then measured against these stresses.

While there are subtle differences between each agency ratings process, the role of the rating remains the same, to express the level of protection against loss. For example, a AAA tranche is expected to survive extremely severe stresses with negligible losses, while BBB or BB tranches can withstand only more moderate stresses and are thus more exposed to loss if defaults rise.

The following figures provide a representative sample of the recent moves in credit enhancement (CE) and spreads across the Australian market. Figures 2 and 3 present the details for an RMBS issuer -- La Trobe, and an ABS issuer -- Angle Auto Finance. By providing two issuers, the reader gains an appreciation of the changes without needing to consider other issuer specific details, such as underwriting standards. The first chart highlights a sizable reduction in CE across the La Trobe's lower notes. This move suggests that the ratings agencies have assessed that the risk of the securities experiencing a default is declining. This change could be the result of several factors, including:

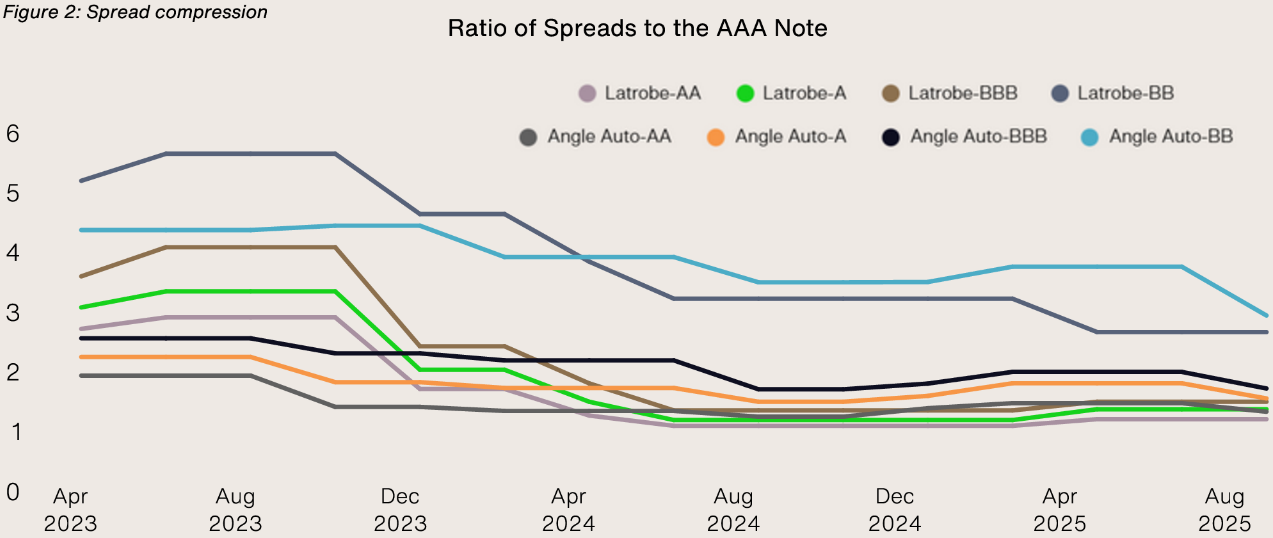
- Improved loan book performance from the issuer, or
- Longer data set to assess loan pool performance.

Table 2: CE on recent structures



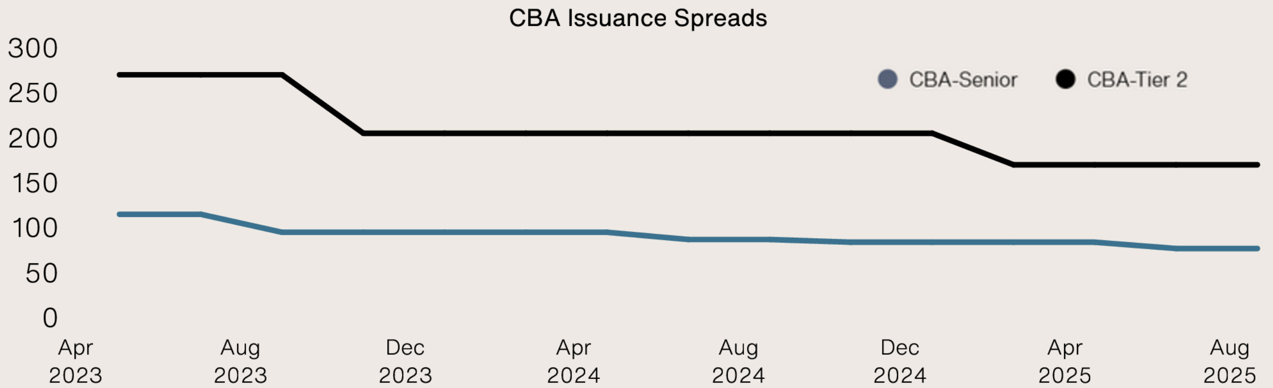
In terms of pricing, it is the market's role to adjust spreads such that they reflect both the expected risk of loss and the level of protection offered by subordination. Alexander's view is that spreads have now contracted to the point where the holders of the lower-rated tranches are no longer adequately compensated for the additional risks versus higher rated tranches. Figure 3 demonstrates the relative contraction in credit spreads for the two providers. The most striking aspect is the dramatic contraction in the spreads at the lower end of the capital stack. As explained above, this reduction in spreads has occurred concurrently with a reduction in credit enhancement. It is these two factors that support our conclusion that there is generally better relative value in the higher rated segments of the market.

Figure 2: Spread compression



Finally, the domestic banks have also enjoyed a reduction in the cost of their debt. Figure 4 illustrates the extent of the tightening in Commonwealth Bank's (CBA) issuance spreads in recent years. The driver of this tightening has been the elevated demand for debt rather than any fundamental improvement in the capital structure of the bank. Crucially, all domestic bank or corporate issues have experienced similar tightening. The recent renaissance of the Australian credit market has delivered many benefits for issuers and investors alike. However, for investors the scales have tipped to the point where it is becoming harder to find value and the rewards for accepting additional risk (both credit and market risk) have been greatly diminished. This outcome is driven by structural and cyclical factors. As such, until the cyclical factors return in favor of investors, Alexander will retain its defensive posture.

Figure 3



Fund positioning

Investors benefited from benign conditions during the quarter and may yet benefit further from an acceleration in the current bullish sentiment. Indeed, the most recent economic data is suggestive that the global economy is in a reasonable state. However, given Alexander's investment goals of producing steady outcomes combined with broadly expensive markets and US economic uncertainty, we remain cautious and have maintained shortened duration across our portfolios. Crucially, this positioning has not come at the expense of a solid yield, as Alexander has been able to use its platform to access appropriate investments for the current environment.

In closing, valuations look stretched, spreads are at or near all-time lows, and optimism feels overextended. What looks beige today could easily shift to bust — or bubble. Hence, a defensive tilt remains prudent.

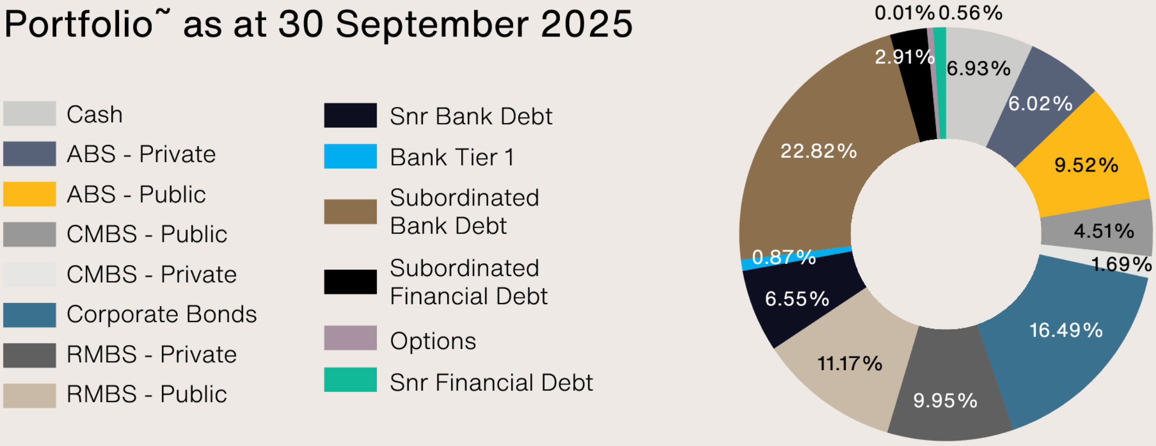
Credit Income Fund
Performance

The Alexander Credit Income Fund (the Fund) has a benchmark of the Bloomberg® AusBond Bank Bill Index + 1% pa. The Fund achieved a net return of 2% for the quarter ending 30 September 2025 for an annualised net return over the previous 12 months of 7.25% and paid a distribution for the month of 1.56 cents per unit.

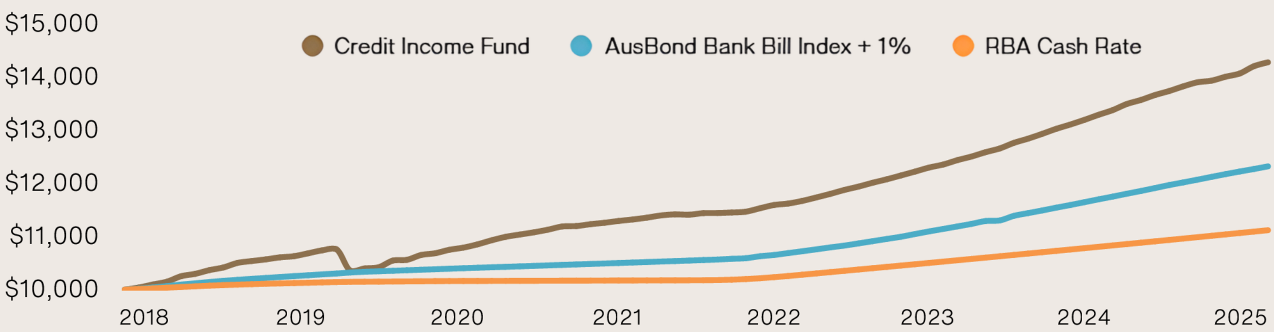
as at 30 Sep 2025	Fund	Benchmark	Outperformance
1 Month*	0.55%	0.38%	+0.17%
3 Months	2.00%	1.17%	+0.83%
12 Months	7.25%	5.23%	+2.02%
3 Years (pa)	7.39%	5.10%	+2.29%
5 Years (pa)	6.07%	3.55%	+2.52%
Since Inception (pa)	5.42%	3.16%	+2.26%

*Past performance is not a reliable indicator of future performance. Returns greater than one year are annualised.
Source: Bloomberg Index Services Limited

Portfolio˜ as at 30 September 2025



Performance of $10k Invested Since Inceptionˆ



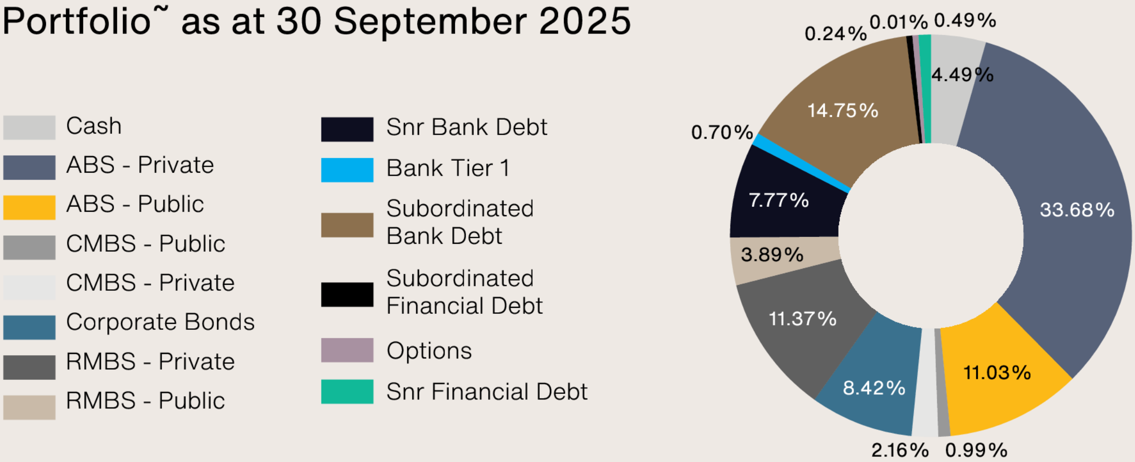
Credit Opportunities Fund
Performance

The Alexander Credit Opportunities Fund (the Fund) has a benchmark of the Bloomberg® AusBond Bank Bill Index +2% pa. The Fund achieved a net return of 2% for the quarter ended 30 September 2025 for an annualised net return over the previous 12 months of 7.78% and paid a distribution for the quarter of 2 cents per unit.

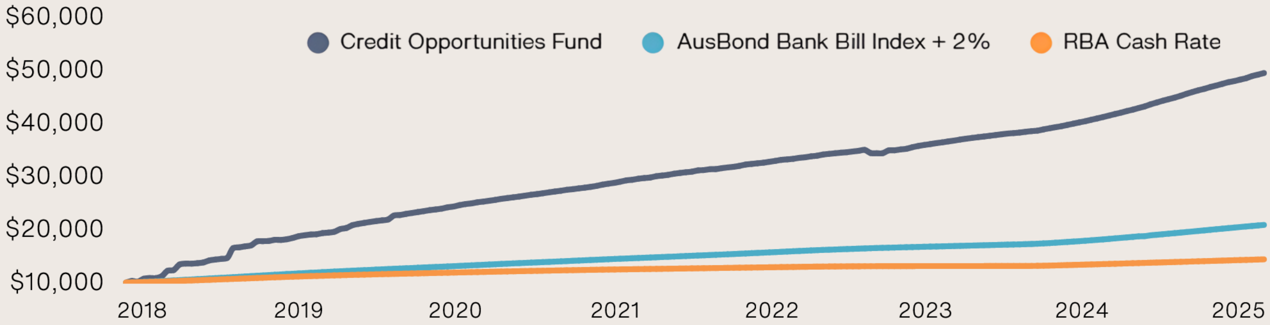
as at 30 Sep 2025	Fund	Benchmark	Outperformance
1 Month*	0.61%	0.46%	+0.15%
3 Months	2.00%	1.43%	+0.57%
12 Months	7.78%	6.28%	+1.50%
3 Years (pa)	8.18%	6.15%	+2.03%
5 Years (pa)	7.04%	4.59%	+2.45%
Since Inception (pa)	10.56%	7.73%	+5.83%

*Past performance is not a reliable indicator of future performance. Returns greater than one year are annualised.
Source: Bloomberg Index Services Limited

Portfolio˜ as at 30 September 2025



Performance of $10k Invested Since Inceptionˆ



Disclaimer

* The monthly return is an actual return net of all fees, costs and taxes generated by dividing the redemption unit price by the previous month's redemption unit price. Past performance is not a reliable indicator of future performance. All return figures for periods greater than 12 months are annualised.
~ Portfolio Composition is net of hedges
^ Assumes reinvestment of all distributions

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ACIF's PDS and TMD can also be found at
https://www.alexanderfunds.com.au/alexander-credit-income-fund#acif-docs-forms
ACOF's PDS and TMD can also be found at
https://www.alexanderfunds.com.au/documents-forms#acof-docs-forms

A Target Market Determination is a document which is required to be made available from 5 October 2021. We recommend that you read this document as it describes who this financial product is likely to be appropriate for (i.e. the target market), and any conditions around how the product can be distributed to investors. It also describes the events or circumstances where the Target Market Determination for this financial product may need to be reviewed.

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