



Alexander
Funds

The Alexander Perspective

Quarterly Update
September 2024

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CEO's Update

Welcome to our quarterly update for September 2024.



Welcome to the first quarterly update for the new financial year.

In the last quarter, Australia's credit markets have shown signs of resilience. However, the upcoming U.S. election may influence Australian markets by altering trade relations and investment flows, depending on the elected administration's policies. Changes in U.S. economic strategy could also affect global market sentiment, leading to increased volatility in Australian assets and sectors that rely on the U.S. economy. Locally, interest rates continue to stay higher as inflation remains sticky. The expectation of rate cuts continues to be pushed out by economists and now seems unlikely this year.

Despite all this, the performance of the Credit Income Fund and the Credit Opportunities Fund has continued to be strong with both outperforming their respective benchmarks throughout the quarter with annualised returns of 8.28% and 9.24% net of fees respectively.

At a company level, Alexander Funds has recently moved into new offices. We are now located at Level 27, 140 William Street Melbourne. This larger space will accommodate our growing team and business. In recent months we have continued to expand both the operations and investment teams of the business to cater for the strong growth in funds under management. This expansion of space and people positions us well to better support our clients for future growth in the business.

I hope you enjoy reading the update from our portfolio managers in the following pages. As always, this will cover their overview of the economic landscape and how this influences the positioning of the Funds. Thank you for the continued support of Alexander Funds and if there is anything you need, please don't hesitate to contact myself or a member of the team.

Warm Regards

Rachel Shirley
CEO



Market Commentary

What happened over the quarter?

In broad terms, both the US and to a lesser extent Australia moved closer to a soft landing over the course of the September quarter. Economic data over the past 3 months revealed economies characterised by falling inflation but still maintaining steady growth and employment. Whilst historically central bank tightening cycles have typically resulted in recessions, in the rare event that higher rates tame inflation without squashing growth (soft landing), the impact on financial markets has been overwhelmingly positive. The price action across markets in September remained consistent with history, in that the increased likelihood of a soft landing resulted in rallying markets. Over the quarter equities (S&P 500 + 5.5%, ASX 200 + 6.5%) enjoyed strong gains, whilst bonds also rallied (US 10-Year 62 bps, Aust 10-year 34 bps) in anticipation of monetary conditions being eased.

In terms of actual outcomes for monetary policy, in the US, the Fed initiated its easing cycle with a well telegraphed 50 bps rate cut in September with the market anticipating another ~150 bps in rate cuts before the end of 2025. In Australia, the market has absorbed commentary from the RBA about the likelihood of a rate cut in 2024, with 25 bps of easing priced in by February next year and an expected total reduction of 75 bps by the end of calendar 2025. As discussed in previous quarterly newsletters, we're acutely focused on when the RBA will be in position to loosen the current restrictive setting of monetary policy.

When looking at the asset market returns for September, it would be easy to assume that their progression over the course of the quarter was broadly linear, however, this was not the case. Over July and peaking in early August, market volatility increased in response changes from the Bank of Japan ("BOJ") regarding monetary policy. In a great example of the interconnectedness of global finance, the BOJ strategy of using effectively zero percent

interest rates to battle endemic deflation within the Japanese economy had ripple effects throughout global markets. The BOJ policy stance meant that borrowing in Japan at minimal cost and then investing elsewhere both domestically and offshore became a popular strategy for investors looking to generate a levered return. This phenomena in common market vernacular, which may be familiar to some readers, is known as the "Yen Carry Trade". However, after several decades of the BOJ trying to reverse deflation, they finally began to achieve some success over the course of 2024, to the point that it now became appropriate to start increasing interest rates (albeit to a modest 1% target).

The ripple effect from this change in policy, combined with the potential of more interest rate hikes to come, was that the profitability of the Yen Carry Trade was diminished and left investors holding positions under this strategy scrambling to unwind trades. The impact of this unwinding peaked in the first week of August when the Nikkei 225, Japan's major stock index fell ~20% across 3 trading days. It also resulted in a large move in the Yen, with the Japanese currency appreciating 4% against the US dollar in the same 3 days as investors were forced to repatriate capital invested offshore to repay their Yen loans. Asset market moves of this scale and speed in developed world markets are rare and typically indicative of further pain to come as the cause of such a big increase in volatility usually takes some time to resolve. However, in this instance (on the face of market movements thus far...) it appears to have been resolved quickly and normal market activity had resumed by the second week of August, after which equity markets began to rally again.

In credit, the domestic market continues to be characterised by elevated levels of new supply meeting even more elevated levels of demand as investors increasingly turn towards the asset class to meet their portfolio income objectives.



Market Commentary

Where to from here?

Focusing on Australia and putting the market action aside, it is clear from the economic data that the potential need for the RBA to raise rates any further has diminished and that the most likely next change in monetary policy will be a reduction in rates. The key question now becomes about timing, there are clearly particular industries and demographic sectors (i.e. anyone under 40) that are struggling under the impact of rising costs of living and higher interest rates. How long can they manage without creating a broader impact to overall economic activity?

When we consider what the remainder of 2024 holds for the Australian economy, chief amongst the dynamics we try to understand when constructing a portfolio is, what is the timing of the path towards less restrictive monetary policy?

How are we constructing portfolios?

Our strategic direction in regard to portfolio construction has remained consistent for 2024, in that we're selectively adding both credit and market risk in securities where we feel we're being adequately rewarded for risk, whilst at the same time using our hedging program as an offset. At current market price levels, the cost of the hedging is minimal to overall portfolio returns but provides some protection against a scenario where the RBA is forced to keep monetary policy tighter for longer and as a result creates a meaningful economic slowdown.



Sector Performance & Fund Positioning

Debt Capital Markets

After rallying over the first six months of 2024, credit spreads within debt capital markets were generally steady during the September quarter. Notable events over the past 3 months include;

- APRA's decision to phase out Tier 1 capital (hybrids) within the Australian banking regulatory capital framework. The decision to effectively shut down the bank hybrid market in Australia was based on the unusually high component of retail money invested in Tier 1 (hybrid) bonds domestically. This is in contrast to offshore markets where Tier 1 capital is primarily a market for institutional investors where the risk around what happens to these instruments in the event of the bank becoming insolvent is better understood and portfolios are generally better diversified. Effectively, APRA recognised that the large retail base of investors in this product meant that practically using it as loss absorbing capital in the event of a bank insolvency was going to be difficult given the large impact it would have on individual investors. The APRA recommendation is for a gradual transition (2032 target for completion) of Tier 1 capital into additional Tier 2 capital (which tends to be an institutional market). Whilst this represents a big change in the domestic credit landscape, the long integration period meant that the immediate impact on pricing in the Tier 1 and Tier 2 markets has been minimal.
- ANZ Bank New Zealand issuing \$800m of a callable perpetual (hybrid structure) in AUD to effectively fund NZD Tier 1 capital, noting that New Zealand has no plans to phase out Tier 1 capital as per Australia above. This issue was notable firstly, given the structure of the bond was new to the Australian market but also because of its performance post issue with the bond trading ~65 bps inside the issue spread of +295 within 3 weeks of being printed (Alexander Funds was a buyer of the deal at issue).
- The ongoing strength of primary issuance in the non-bank corporate market. To the end of September, non-financial corporate issuance in the Australian market is up 181% versus the same period in 2023 and already at a record total for the Australian market with 3 months left in the year. In general, we haven't participated in the new supply as we still see this market pricing tightly versus other sectors of our investment universe.

Structured Credit

The record levels of issuance year to date identified in our June quarter newsletter has continued unabated through the 3 months ending 30 September. With ~\$60bn of primary issuance thus far in 2024, the domestic securitisation market is on track for its largest ever year. Growth has been strong in both RMBS and ABS, with repeat transactions from auto lenders within the ABS space leaving issuance up 40% on 2023 (which itself was a record year). Despite the elevated supply, spreads continue to compress, albeit not evenly across the different classes (by credit rating) of notes. In the September quarter, we saw meaningful compression between the highest rated (AAA) notes and the lower rated mezzanine notes (BBB and below) as the lower rated notes continued to be highly sought after by investors. The spread compression has now left the market at a point where the margin between BBB and AAA rated notes sits at its tightest level since the GFC.

Despite the spread compression, we still see relative value in different note classes and have been an active participant in primary and secondary markets in both RMBS and ABS.



Sector Performance & Fund Positioning

Private Assets

As per previous quarterly reports, our efforts within the Private Asset space remain exclusively focused on the Warehouse (private securitisation) market which helps fund the loan book of non-bank lenders. Our exposures in this market cover a wide range of lending types including residential mortgage, automobiles, personal lending, equipment finance and SME lending and are responsible for funding tens of thousands of individual loans.

We like the Warehouse market because the transactions come with strong risk control via monthly reporting, prescriptive documentation and great ongoing alignment between lender and borrower. In addition, the growth in the non-bank market has led to increased demand for Warehouse funding and thus provided opportunity for us to deploy funds that offer a very attractive return for risk.

Whilst the Warehouse market is less exposed to some of the technical tailwinds driving demand higher in the Debt Capital and Structured markets, it has not been totally immune from the overall environment of tighter spreads. However, we are still constructive on new opportunities in this space and our pipeline of potential transactions remains healthy.

Fund Positioning and Activity

As per the discussion above, we've been selectively adding risk over the course of the year but matching it with relatively inexpensive hedging. We expect this strategy to remain in place over the rest of 2024 as we keep a close watch on what the future path of Australian monetary policy is likely to be. Importantly, the ongoing cost of the hedging is less than 0.1% and in the context of the current yield of the portfolio is relatively immaterial.



Fund Performance

Credit Opportunities Fund

The Alexander Credit Opportunities Fund has a benchmark of the Bloomberg® AusBond Bank Bill Index +2% pa. The Fund achieved a net return of 2.36% for the quarter ended 30 September 2024 for an annualised net return over the previous 12 months of 9.24%, and paid a distribution for the quarter of 2 cents per unit.

Source: Bloomberg Index Services Limited

	Fund	Benchmark
1 Month*	0.75%	0.52%
3 Month	2.36%	1.62%
6 Month	4.51%	3.23%
12 Month	9.24%	6.52%
3 Year (pa)	7.07%	4.89%
Since Inception (pa)	10.75%	4.62%

*Past performance is not a reliable indicator of future performance. Returns greater than one year are annualised.

Credit Income Fund

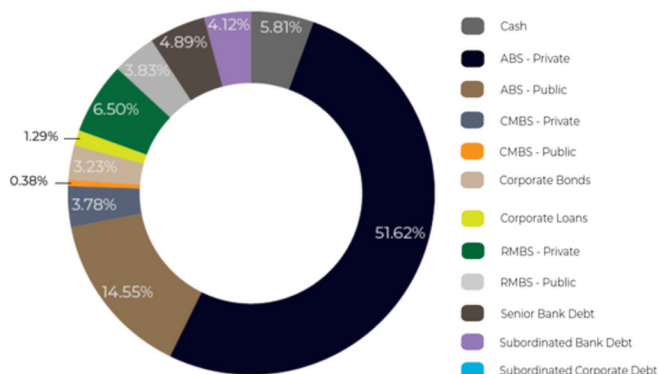
The Alexander Credit Income Fund has a benchmark of the Bloomberg® AusBond Bank Bill Index + 1% pa. The Fund achieved a net return of 2.07% for the quarter ended 30 September 2024 for an annualised net return over the previous 12 months of 8.28%, and paid a distribution for the quarter of 1.5 cents per unit.

Source: Bloomberg Index Services Limited

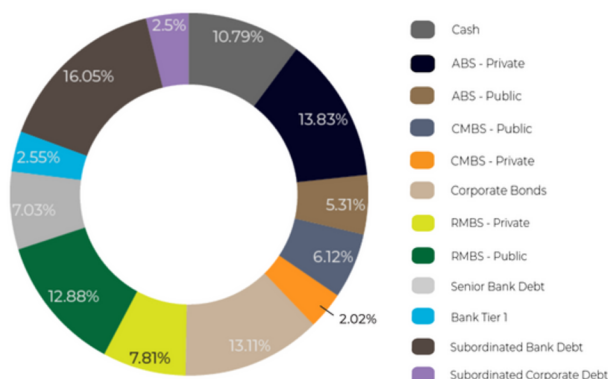
	Fund	Benchmark
1 Month*	0.66%	0.44%
3 Month	2.07%	1.37%
6 Month	4.18%	2.72%
12 Month	8.28%	5.46%
3 Year (pa)	5.92%	3.85%
Since Inception (pa)	5.07%	2.80%

*Past performance is not a reliable indicator of future performance. Returns greater than one year are annualised.

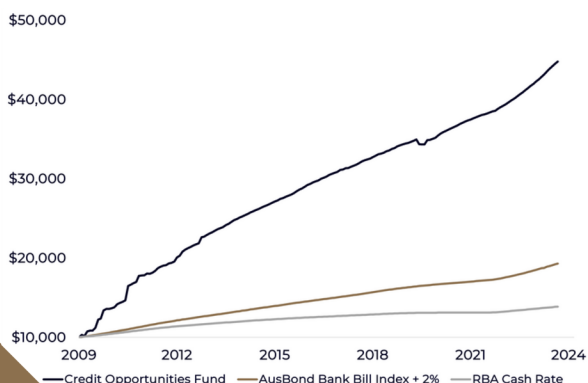
Portfolio~ as at 30 September 2024



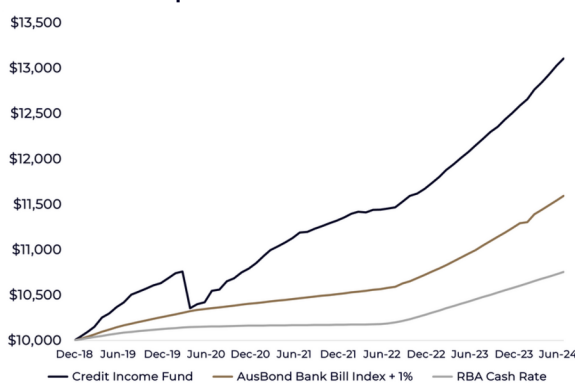
Portfolio~ as at 30 September 2024



Performance of \$10k Invested Since Inception^



Performance of \$10k Invested Since Inception^





Notices & Disclaimers

* 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

Alexander Funds Management Pty Ltd (ABN 77 136 871 924) (AFSL 476697) ("Alexander Funds") is the Investment Manager of the Alexander Credit Opportunities Fund (ARSN 156 026 514) ("ACOF" or "Fund") and the Alexander Credit Income Fund (ARSN 629 915 199) ("ACIF" or "Fund"). Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298) AFSL 240975 is the Responsible Entity for the Fund. Equity Trustees is a subsidiary of EQT Holdings Limited ABN 22 607 797 615, a publicly listed company on the Australian Securities Exchange (ASX: EQT).

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ACIF's PDS and TMD can also be found at

<https://www.alexanderfunds.com.au/alexander-credit-income-fund>

ACOF's PDS and TMD can also be found at

<https://www.alexanderfunds.com.au/alexander-credit-opportunities-fund>

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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