



Alexander  
Funds

# The Alexander Perspective

Quarterly Update  
December 2024

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# CEO's Update

## Welcome to our quarterly update for December 2024.

It's hard to believe we are making our way into 2025 already. Looking back on 2024, Australia's credit markets have remained resilient despite global economic uncertainty. The U.S. Federal Reserve's prolonged period of elevated interest rates continued to influence global borrowing costs and risk sentiment.

As it stands in late January, Australia's economy is demonstrating cautious optimism, with easing inflation and strong job growth prompting the Reserve Bank to consider rate cuts as early as February. Although the housing market has softened, strong migration continues to support demand. Globally, China's better-than-expected growth provides some relief, but risks from potential trade tensions and global uncertainties could impact key export sectors, keeping the global outlook mixed.

Despite these pressures, the performance of the Credit Income Fund and the Credit Opportunities Fund has remained consistent, both beating their respective benchmarks throughout the quarter with annualised returns of 8.54% and 9.18% net of fees respectively.

Alexander Funds reached a new milestone late in 2024, surpassing \$1 billion in funds under management. This marks a significant achievement for the firm and a far cry from the firm's beginning 16 years ago. Over the years, we have evolved and developed but have stayed committed to our focus of delivering consistent and reliable investment performance for our unit holders. This dedication will continue to guide our efforts and investment philosophy as we build on this success and drive future growth.

We thank our investors and their advisers for placing their trust in us, our service providers we partner with and the Alexander Team for their dedication and contribution to our journey and success so far.

I take this opportunity to mention changes to the Alexander Credit Income Fund that came into effect on January 6, 2025. Responding to investor demand, the distribution frequency has changed from quarterly to monthly and we have extended the cutoff time for application and redemption requests from 2pm AEST to 3pm AEST. If you would like to adjust your distribution election as a consequence, you can easily do so by using the form linked on our website or calling our client services team on 03 9039 5050 for assistance.

Please note that we have updated the bank account details for application payments for both the Credit Income Fund and the Credit Opportunities Fund. You can find the updated details in the application forms on our website. The old account will continue to receive payments but will be closing soon.

Thank you for your continued support of Alexander Funds. If there's anything you need, please don't hesitate to reach out to me or a member of our team.

Warm Regards

**Rachel Shirley**

CEO





# Market Commentary

## What happened over the quarter?

As 2024 draws to a close, a review of major asset market performance reveals some interesting dynamics at play over the past 12 months, including;

- Strong equity performance

	Quarterly Change	Annual Change
S&P 500	2.1%	23.3%
NASDAQ	6.2%	28.6%
ASX 200	-1.3%	7.5%

Markets were generally constructive on risk over the year. This was most acutely reflected in US equity prices with the S&P (+23.3%) and NASDAQ (+28.6%) both performing strongly. In Australia, the ASX was rose a more modest 7.5% and produced a negative return over the December quarter.

- Higher government bond rates

	31-Dec-24	30-Sep-24	31-Dec-23
US 10 Years (bps)	4.57	3.78	3.88
Aust 10 Year (bps)	4.36	3.97	3.96

After relative stability through the first 9 months of the calendar year, US and Australian government bond yields repriced higher over the December quarter as the market reassessed the future path of growth and inflation.

Particularly in the US, an ongoing commitment to policies that are likely to be inflationary has left the market expecting higher rates for longer. As a result, the annual return for US (0.6%) and Australian (2.4%) government bond indices was dragged down as the negative impact to the capital value of (fixed rate) government bonds from rising yields largely offset the benefits of higher income.

At the end of 2024, the 5-year returns for both the US Treasury Total Return Index (-3.4%) and the Bloomberg AusBond Govt Index (-2.6%) are negative, which has only happened once in the US (2022, -0.5%) and never in Australia throughout their history (1973 and 1998 respectively).

- Expectation of less interest rate cuts

Implied Dec 2025 Cash Rate		
	31-Dec-24	30-Sep-24
31-Dec-23	3.90	2.95
30-Jun-24	3.53	3.19

Not surprisingly, the market also reassessed its expectations for monetary policy over 2025, with pricing for the December 2025 cash rate rising in both the US and Australia. This increase occurred despite the US Fed cutting policy rates by 100bps between September and December.

- Rallying credit markets

Specifically on credit, spreads rallied broadly across 2024, with many markets finishing the year at levels near 30-year lows. The impact of higher base rates on all-in yields (i.e. base rate plus credit spread) and reasonable economic stability has created demand for credit and the steady income it produces.



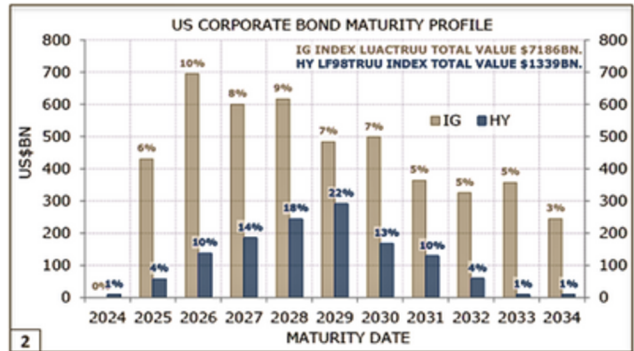
# Market Commentary

## Where to from here?

The combination of expectations for tighter monetary conditions and aggressive valuations across equity and credit markets creates an intriguing backdrop for 2025, some key questions we're considering for the year ahead include;

- When will the RBA be able to provide interest rate relief to the Australian consumer? Policy is clearly restrictive but is taking time to have the desired impact on economic activity due to some unique factors in this cycle versus history, including a greater percentage of the population being older Australians who are living off their savings and in turn supporting consumer spending. We discussed this dynamic in some detail in the September edition of the Alexander Perspective.
- With the US election now complete, what impact will the policy platform of the incoming president mean for growth and inflation in the US? The US market is generally a long rate economy, meaning that most mortgages and corporate borrowings are fixed rate and are therefore tied to longer end interest rates (as opposed to Australia which is largely floating rate, so changes in monetary policy impact the economy almost immediately) and thus, higher rates in the US can take a while to filter through the economy. This is demonstrated by the chart below which shows that, to date, very little of the US corporate bond market has been required to refinance at higher rates. However, the expectation for rates being higher for longer and the Fed likely having less room to keep cutting means as existing debt issued at much lower rates matures, it needs to be refinanced at current (higher) rate. All else being equal, this higher interest burden will apply sustained pressure to the US economy. How much of this is offset by stronger growth remains to be seen.

Chart 1



Source: Minack Advisers

- The additional demand in credit markets driven by investors attracted to high nominal yields has pushed spreads in a large cross section of credit asset classes to near all-time lows, is there another leg tighter for spreads this year, or have we reached a floor?

As per our comments in previous notes, our chief watchpoint remains the RBA's ability to ease policy, as the current monetary setting is clearly restrictive.



# Sector Performance & Fund Positioning

## Debt Capital Markets

A feature of the Debt Capital Markets during the September quarter was the record level of issuance from non-financial corporate borrowers who issued ~\$10bn in new bonds. This left total issuance for 2024 at \$28bn which is a record year, eclipsing the previous high by ~40% (\$20.8bn in 2017).

In addition to higher volumes, the average tenor of transactions increased, with 38% of new deals having a scheduled maturity of 10 years or greater.

Despite elevated issuance volumes and longer average tenors, credit spreads (the premium the market charges above cash rates to invest) steadily declined over the course of the year as investor appetite remained robust.

Chart 2



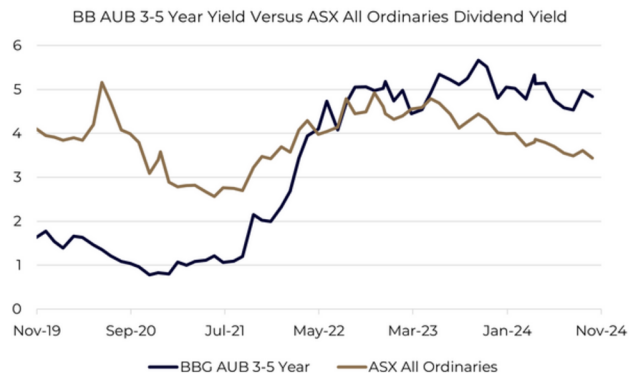
Source: Bloomberg

With the refinancing requirement for 2025 relatively modest before stepping up again in 2026, it creates a supportive backdrop for spreads in this market in the near term.

As mentioned previously, one of the key drivers behind the market strength is heightened demand for income producing credit assets given higher base rates have created attractive relative yields. This relative value is demonstrated in the chart below which shows the yield on the Australian corporate bond market versus the dividend yield on the ASX, with credit providing a significant premium based on current pricing.

In general, our Funds haven't been large participants in this part of the market as we've struggled to find value relative to other sectors in the credit markets.

Chart 3



Source: Bloomberg

Within the bank market, issuance levels were robust albeit down versus 2023's record figure which was driven by the need to refinance Term Funding Facility repayments. Of note in the December quarter was the continued prevalence of Kangaroo (AUD bonds issued by non-Australian issuers) deals, including several that our Funds participated in as they represented an attractive spread pick up versus pricing in similar transactions from the domestic banks.



# Sector Performance & Fund Positioning

## Structured Credit

The domestic public securitisation markets enjoyed a banner year for new issuance with close to \$80bn of new securities issued during 2024. This represents the largest volume of deals in a year ever, and by some margin, with the previous high coming in 2006 (\$64bn). It also represents a 54% increase over issuance in 2023.

In a similar vein to the Debt Capital Markets, spreads in securitisation also rallied strongly during the year, particularly in mezzanine notes - with the BBB portion of the market a standout.

Of note, was the continued growth in new deals from the auto and equipment finance sectors as the impact from banks retreating from consumer auto lending markets, translating into higher funding needs for the non-banks that have stepped in to fill the void.

Our portfolios remained active in the space with a growing preference for higher rated notes as the premium on offer for bearing more credit risk reduced with the rally in spreads.

## Private Assets

With "Private Credit" continuing to remain a topic of interest to financial market participants and the number of options in this space growing every day, it is worth reiterating that our focus within private markets is exclusively on the private securitisation (warehouse) funding market which is a key component of any non-banks funding infrastructure. 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.

The performance of our assets in this space is in line with expectation, with loan pool performance (i.e. arrears, losses) steady and at levels we would expect to see through the cycle, despite the current restrictive setting of monetary policy.

We continue to have solid inbound inquiry for new opportunities in the warehouse market and our pipeline for early 2025 is robust.



# Fund Performance

## Fund Positioning & Activity

Over the past 12 months, our high-level risk setting has transitioned from negative to neutral as;

- Evidence has continued to build suggesting that the Australian consumer has been able to adequately manage the current restrictive setting of monetary policy. Whilst we're not completely sanguine on this point yet, and still have concerns should the timing for rate cuts continue to be delayed, we also respect the ongoing data at both a macro level and across our individual investments that suggest the domestic economy is proving resilient (albeit not thriving).
- It has become clear that higher overall rates available within credit markets due to higher cash rates has driven strong demand for assets across the credit spectrum. We think some of this change in demand will be secular, and even with a reduction in cash rates, will persist given the change in the demographic profile of Australia (and most developed world countries) to a higher proportion of older people who are living off their retirement savings and looking for income to meet their investment objectives.

What does a transition from negative to neutral mean in practice? It effectively means an increased appetite for risk. As a reminder, we think about risk in 3 core categories;

- Credit Risk - the risk of individual securities being able to meet their interest and principal payment obligations. The common method to measure and understand credit risk is through a securities credit rating. We use both external rating agency (i.e. S&P, Moodys) assessment as well as our own internal assessments to understand credit risk.

- Market Risk - is the impact that a change in market appetite for risk broadly moves credit spreads on all securities higher (which in turn creates a negative mark to market price adjustment to the bonds we hold). A core measure of the market risk in our Funds is Credit Duration, which effectively represents the weighted average maturity of all investments within the portfolio. The lower the Credit Duration number, the less exposed a portfolio is to changes in credit spreads.
- Liquidity Risk - the risk of securities in our portfolio not being able to be liquidated in timely manner in order to meet investor needs.

In terms of how we've selectively added more risk over the course of 2024, it has primarily been via increasing Market Risk and to a lesser extent Credit Risk. We tend to maintain a cautious stance on Liquidity Risk in all market conditions as we're acutely aware that liquidity in credit markets can vary over time and change suddenly and unpredictably at moments of acute market stress.

However, at a high level the increase in market risk (as represented by credit duration) isn't immediately obvious as the credit duration for both funds has remained in a range around 1 year. This is because we've also used hedging instruments to offset the increased duration of the physical bonds held within the portfolio. Originally this hedging offset was designed to help manage the transition from negative to neutral whilst still maintaining some protection should the economic conditions that allow for rate cuts disappear (or even dictate further tightening). However, as we enter 2025, even if the RBA begins to provide rate relief, we're likely to maintain our hedging positions as the relative cost of holding them is immaterial in the context of the overall yield of the Funds.



# 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 2.04% for the quarter ended 31 December 2024 for an annualised net return over the previous 12 months of 9.18%, and paid a distribution for the quarter of 2.50 cents per unit.

Source: Bloomberg Index Services Limited

	Fund	Benchmark
1 Month*	0.72%	0.55%
3 Month	2.04%	1.62%
6 Month	4.44%	3.27%
12 Month	9.18%	6.55%
3 Year (pa)	7.41%	5.27%
Since Inception (pa)	10.71%	4.66%

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

## Credit Income Fund

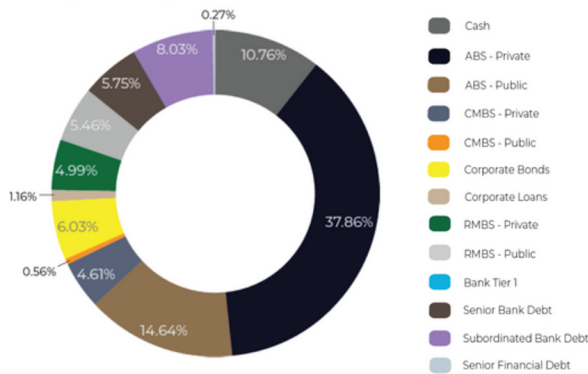
The Alexander Credit Income Fund has a benchmark of the Bloomberg® AusBond Bank Bill Index + 1% pa. The Fund achieved a net return of 2.12% for the quarter ended 31 December 2024 for an annualised net return over the previous 12 months of 8.54%, and paid a distribution for the quarter of 1.50 cents per unit.

Source: Bloomberg Index Services Limited

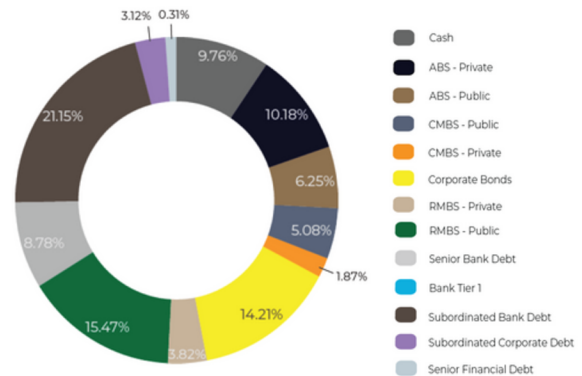
	Fund	Benchmark
1 Month*	0.69%	0.46%
3 Month	2.12%	1.37%
6 Month	4.24%	2.76%
12 Month	8.54%	5.49%
3 Year (pa)	6.36%	4.23%
Since Inception (pa)	5.26%	2.92%

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

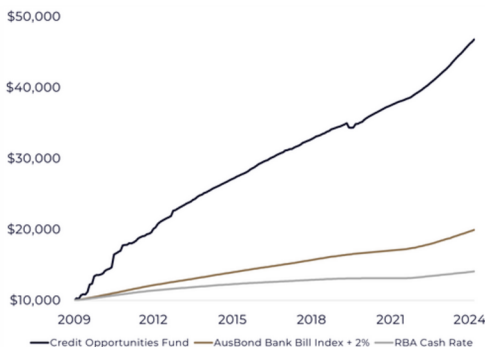
## Portfolio~ as at 31 December 2024



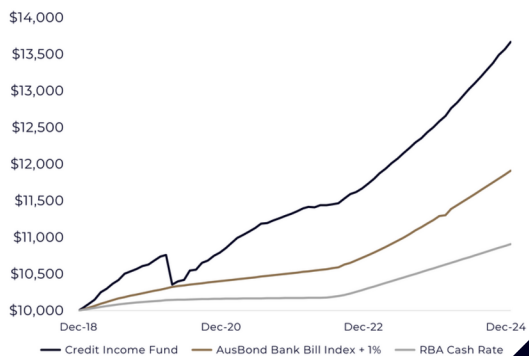
## Portfolio~ as at 31 December 2024



## 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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