



Alexander
Funds

The Alexander Perspective

Quarterly Update
June 2024

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CEO's Update

Welcome to our quarterly update for June 2024.

Welcome to our quarterly update for June 2024. While markets were eventful throughout the financial year, some unexpected movements continued to present challenges and opportunities within the credit space.

During the last quarter of the financial year, interest rates domestically continue to be held by the RBA at 4.35% and global political turmoil continued to dominate the news. Interest rates have remained higher for longer than initially expected which has created some headwinds in the Australian economy. That said, investment markets including credit have largely performed well. This has resulted in valuations becoming stretched. However, as our investment team highlights throughout this quarter's report, our active approach to investing and focus on risk management are an integral part of what we do and have kept our portfolios conservatively positioned.

Despite being heavily focused on downside risk, the team has delivered very strong positive returns to investors over that year. The Credit Income Fund and Credit Opportunities Fund comfortably outperformed their respective benchmarks achieving annualised returns to 30 June 2024 of 7.95% and 8.88% net of fees respectively. The ongoing consistency across a wide array of market environments is testament to the depth and experience of the investment team.

In company news, Alexander Funds celebrated reaching a new milestone of \$900m of Funds Under Management in June. This is a tremendous achievement but wouldn't be possible without the support of our clients, investors, and those who've we've worked with for many years. For the financial year ahead, we have a number of initiatives and projects in place to further support the growth of both funds, as well as Alexander Funds as a whole.

I hope you enjoy reading the ensuing update from our portfolio managers on their view on the current economic landscape and how they intend to maintain stability in our portfolios moving into the new financial year.

Thank you for your continued support of Alexander Funds and I wish you every success for the new financial year.

Warm Regards

Rachel Shirley
CEO





Market Commentary

What happened over the quarter?

The June quarter saw a continuation of many of the trends that characterised the 2024 financial year overall, namely;

- Strongly performing US equity markets, with the gains narrowly dispersed. The S&P 500 was up 3.9% for the quarter, capping off a 12-month gain of 22.7% (in USD).
- The Australian share market lagging the US, in line with most global stock markets. The ASX 200 was down slightly in the June quarter (negative 1.8%) and whilst up for the year (7.8%), it lagged the US significantly.
- The expectation that monetary policy will remain higher for longer. Strong employment markets and elevated inflation has left the market re-assessing the future direction of monetary policy. The impact from this trend was particularly felt over the last 6 months and left the US 10-year bond rate up 56bps for the year (+20 bps in the June quarter), and the Aust 10-year government bond rate up 29bps for the year (+35 bps in the June quarter).

The last point was emphasised in the pricing of monetary policy in the futures market in both the US and Australia. As per the table below, over the last 6 months the market has gradually removed the prospect of rate relief in 2024, to the extent that in Australia the market is estimating a small chance of a rate hike.

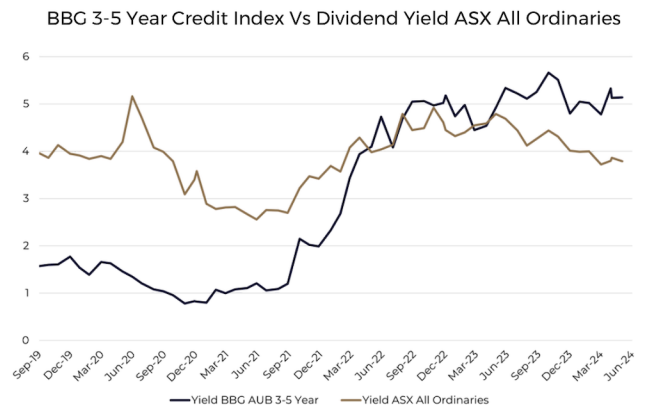
Number of 0.25% Rate Cuts by 31 Dec 2024		
	US	Aus
31-Dec-23	6	2.7
30-Jun-24	1.7	0

Despite a small retraction in credit spreads in response to European political uncertainty in June, within credit, the market continued to support an abundance of primary issuance across both corporate and securitised sectors. As an example, year to date issuance for non-financial corporate bonds and RMBS markets are on record pace but despite the elevated supply, new transactions are attracting book sizes that are a multiple of issue size.

In addition to a generally supportive mood in financial markets, we believe there are several technical forces within the domestic credit market that are providing a tailwind to spreads and thus allowing such a large increase in supply at the same time as spreads have been compressing.

The first factor is the increase in base rates due to cash rates being at their highest level in over a decade. The higher starting point of all-in yields (base rate plus credit spread) has in turn attracted new capital into credit markets. The chart below helps illustrate this change in relative value as the income yield on 3-5 year, investment grade Australian credit now exceeds the average dividend yield on the ASX All Ordinaries for the first time in recent history.

Chart 1



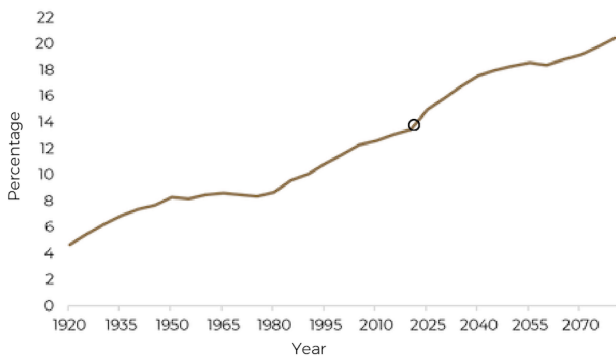
Source: Bloomberg



Market Commentary

Supporting the reallocation to credit is the ageing demographic in Australia that means there is a higher percentage of the population living off their retirement savings than ever before. As shown below, the percentage of Australians that are older than retirement age is at its historical peak and forecast to keep growing over the long term.

Chart 2



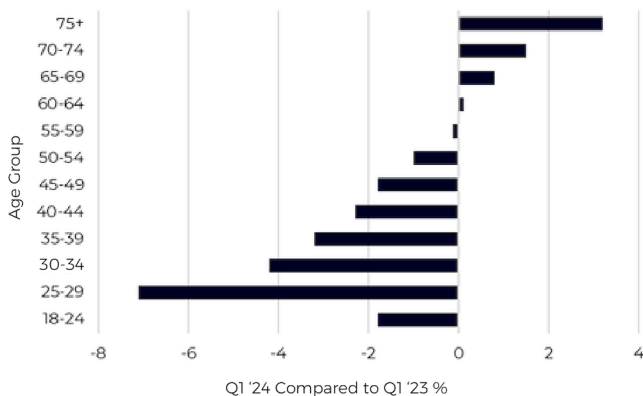
Source: Australian Institute of Health & Welfare

The second factor providing technical support to the domestic credit market is increased allocations to Australia from offshore investors, particularly Asia. A large portion of the credit allocations from Asian investors have all-in yield targets. Through most of the last decade, low cash rates forced this investor base to search for yield in markets with higher credit risk, with a particular focus on the Chinese high yield bond market. The Chinese high yield bond market was overwhelmingly weighted towards property developers, many of whom have subsequently defaulted as the Chinese property market endures an elongated period of stress. With the current nominal yields on investment grade, Australian issued, credit now matching the same all-in yield of sub-investment grade Chinese property developers from 4-5 years ago - Asian investors have made a significant reallocation into the Australian market and are thus providing technical support for credit spreads.

Interestingly, we believe this demographic shift has contributed to the resilience of the Australian economy to restrictive monetary policy. As shown in the table below, older Australians, who are net beneficiaries from higher rates as they live off savings income, have increased their spending over the past 12 months and acted as an offset to a material reduction in spending from younger cohorts.

Chart 3

Real Per Capita Spending, by Age Group



Source: Minack Advisors



Market Commentary

Where to from here?

As we contemplate the outlook for the remainder of 2024 and into 2025, the key question we are trying to understand is, how much runway does the domestic economy (and to a lesser extent the US) have before the current restrictive setting of monetary policy begins to more dramatically impact activity? The same question has been at the top of our mind since early 2022 when it became clear that policy rates needed to rise substantially to combat rising inflation.

Given persistent inflation and strong employment markets have clearly diminished the ability for the RBA, and to a lesser extent the Fed, to cut rates in 2024 - we think these economies will enter 2025 in a cautious mood. While there are sound reasons for the resilience of the economy to date, including excess saving buffers built up during COVID and the increased spending from older Australian discussed above, overall, the longer policy remains restrictive, the higher the probability of a materially negative impact to economic activity.

How are we constructing portfolios?

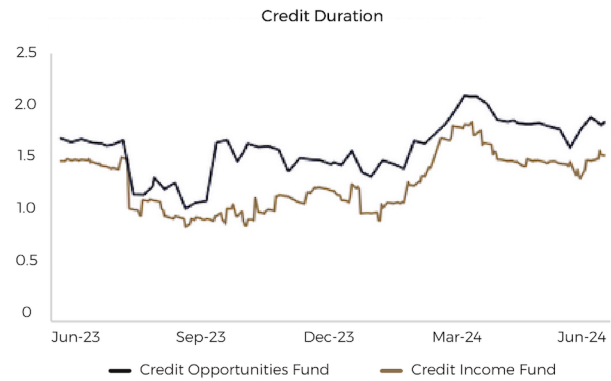
Whilst we hold concerns about the state of the economy heading into 2025 (assuming there is no reduction in policy rates), in the interim our overall stance as it pertains to risk can be classified as neutral.

We believe the technical forces supporting credit spreads and new issuance volumes will remain in place until there is data-based evidence that the economy is slowing towards recession.

Practically this stance manifests across both portfolios in levels of;

- Market risk that is higher than in 2022/2023 when our outlook for risk assets was anchored at negative. This is most clearly demonstrated through credit spread duration in both funds that has lifted over the last 6 months but still sits below what we expect to see through the cycle.

Chart 4



- Credit risk, where we remain constructive on accepting more credit risk in securities that have had their cashflows thoroughly stress tested for recessionary conditions and are offering adequate reward.

As we move closer to the end of 2024, depending on the path of monetary policy, we'll likely either take further steps to normalise Market and Credit Risk to neutral levels, or be active in reducing both in the face of a deteriorating economic situation.



Sector Performance & Fund Positioning

Debt Capital Markets

Non-financial corporates have taken advantage of favourable conditions to access primary markets at a rate unparalleled over the past 10 years. In the first half of 2024, non-financial corporates issued \$11.8bn of new bonds which represents an increase on the previous corresponding period of 170%. In addition to being able to issue at size, the general trend of new deals was longer in maturity, with many falling into the 7-10 year maturity bucket. In general, we haven't participated in the new deals as they've offered spreads in the mid to low 100 basis point area, which in our view, doesn't offer relative value for risk versus other parts so the credit market we have access to.

In the financial space, during the June quarter, Bank Tier 2 issuance was down drastically from a record level in the previous quarter (\$1.3bn versus \$8bn). Whilst the drop off in new bonds was partly down to deals being dragged forward earlier in the year, it's also worth noting that the Australian major banks have now largely completed the task of lifting their Tier 2 holdings to the 6.5% of Risk Weighted Assets mandated to be in place by APRA in 2026. As such, the requirement for new Tier 2 issuance going forward will be generally limited to refinancing and growth in assets.

Structured Credit

Led by RMBS, issuance levels in 2024 in public securitisation markets are on track for a post GFC record. RMBS volumes are up 130% versus the same period in 2023, with the growth in volumes coming from a mix of banks and non-banks.

In a similar theme to the price action within Debt Capital Markets, the material growth in supply of new deals has occurred in concert with a tightening of spreads as the market broadly chases yield. The spread compression has been particularly acute in BBB rated notes that are now trading at levels analogous with the regulation impacted markets of 2021.

Given the favourable market conditions, time will tell how much of the growth in primary volume is issuers dragging forward supply to take advantage of current market appetite.

However, there is no doubt that a more rational competitive environment within the mortgage market has been a net benefit to the non-bank sector.

Whilst we remain reasonably sanguine about the credit risk contained in RMBS given the amortising nature of the securities, the relatively conservative LVR's of the lending and the structural shortage of housing that will help underpin house prices even in a recession - we are cautious about which notes we participate in as any downturn could see spreads revert back to their historical averages.

Private Assets

Given the huge amount of interest "Private Credit" is generating from investors and the press, we thought there was some value in providing a high level view of the segment.

It feels like with each passing day there is a new "Private Credit" offering that is looking to take advantage of the growing opportunity created by banks broadly reducing their willingness and capacity to provide lending into certain markets. This trend is well established both domestically and offshore and has created a rich new source of opportunity for private capital to generate healthy risk adjusted returns.

However, within "Private Credit" the universe of potential investment options varies significantly in risk and return outcomes. Often the terms used to promote products and strategies are factually correct but don't necessarily provide the full context of the risk involved. For example, senior secured sounds low risk but if the collateral/business supporting the loan has high leverage, no hard assets and is making losses - then being senior, secured won't offer much protection. Alternatively, having property security with 70% loan-value-ratio (LVR) sounds good.

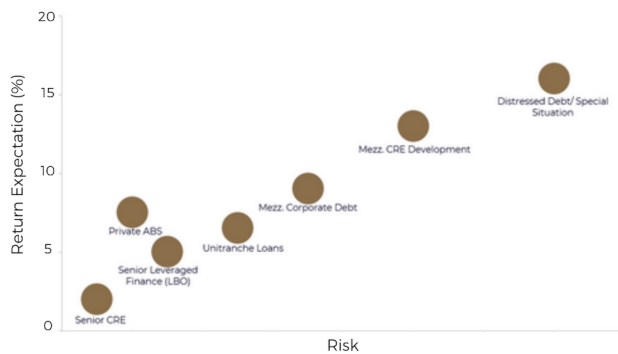


Fund Performance

However, if you scratch below the surface and find that the V in the equation is a partially complete residential development that has been valued using its expected value at completion, then it carries a lot more risk than the 70% implies.

Whilst accessing “Private Credit” can be a useful way to provide a healthy income stream to investors, before making any commitment to the space, it’s vital that a prospective investor understands the type of lending and markets a manager is accessing, as the universe has a broad range of risk profiles and is in no way homogenous. As the chart below demonstrates the risk/reward trade off between different sub-sectors within Private Credit can be very diverse.

Chart 5



Our current activity within Private Assets is exclusively focused on providing warehouse (private securitisation) funding capacity to the non-bank sector. In practical terms, each warehouse is secured lending against pools of loans issued by a single originator.

We like the risk profile of this type of lending because;

- It comes with a highly prescriptive set of documents that mandate monthly reporting of portfolio performance and tests compliance with all warehouse terms and conditions.
- The loan pools contain hundreds to thousands of loans creating diversification and no reliance or exposure to the performance of an individual loan.
- As a lender to the warehouse, we are provided with control over the loan pool in the event of an originator default.

This market continues to offer attractive relative value and growth in new opportunities as the non-bank sector increases in size in response to the same “de-banking” thematic that is supporting the growth of private credit more broadly.

Fund Positioning & Activity

Over the quarter, credit spread duration (the key measurement of market risk) reduced slightly through the addition of portfolio hedging as we looked to offset the addition of credit risk in areas of the market, we feel are offering sufficient reward.

A key focus will continue to be the opportunity set available within the warehouse funding market with several new transactions at expected to close between now and the end of the calendar year.

Our current risk setting is broadly positioned in the mid-point of neutral and negative, with any decision to either complete the transition to neutral or move back towards negative reliant on the state of the domestic and US economy in late 2024.



Fund Performance

Credit Opportunities Fund

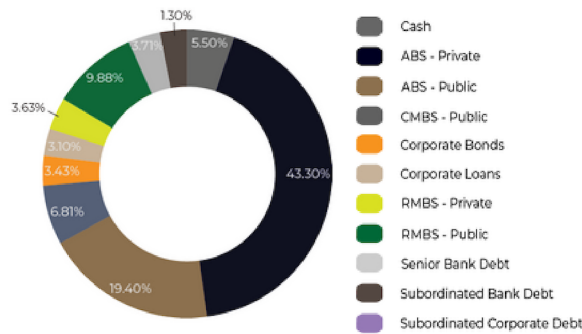
The Alexander Credit Opportunities Fund has a benchmark of the Bloomberg® AusBond Bank Bill Index +2% pa. The Fund achieved a net return of 2.07% for the quarter ended 30 June 2024 for an annualised net return over the previous 12 months of 8.88%, and paid a distribution for the quarter of 4.97 cents per unit.

Source: Bloomberg Index Services Limited

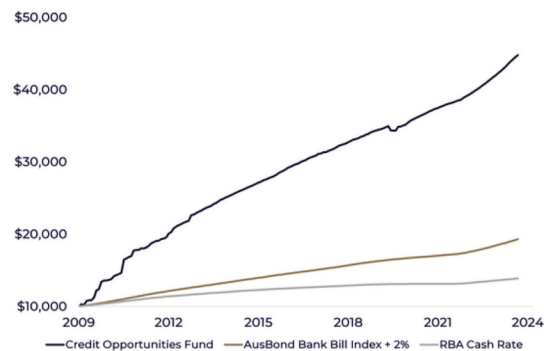
	Fund	Benchmark
1 Month*	0.66%	0.52%
3 Month	2.07%	1.58%
6 Month	4.54%	3.17%
12 Month	8.88%	6.48%
3 Year (pa)	6.67%	4.50%
Since Inception (pa)	10.77%	4.59%

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

Portfolio~ as at 30 June 2024



Performance of \$10k Invested Since Inception^



Credit Income Fund

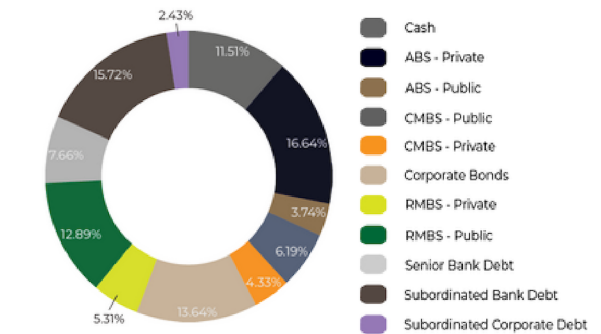
The Alexander Credit Income Fund has a benchmark of the Bloomberg® AusBond Bank Bill Index + 1% pa. The Fund achieved a net return of 2.07% for the quarter ended 30 June 2024 for an annualised net return over the previous 12 months of 7.95%, and paid a distribution for the quarter of 2.74 cents per unit.

Source: Bloomberg Index Services Limited

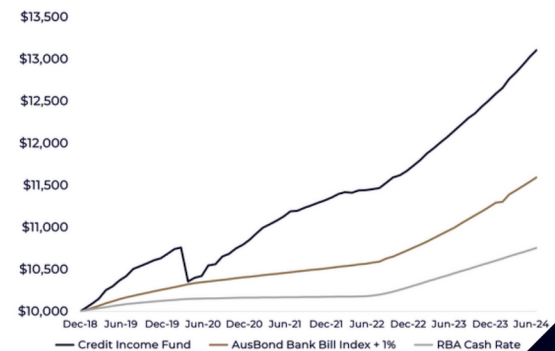
	Fund	Benchmark
1 Month*	0.62%	0.43%
3 Month	2.07%	1.33%
6 Month	4.13%	2.66%
12 Month	7.95%	5.42%
3 Year (pa)	5.42%	3.47%
Since Inception (pa)	4.96%	2.68%

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

Portfolio~ as at 30 June 2024



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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