

ALCapital

ALC Active Australian Equities Fund

Monthly report – July 2024

Returns	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	5 years p.a.	Since inception p.a.*
Fund	-1.23%	1.29%	-1.56%	-12.74%	6.66%	14.72%	18.19%
ASX 200	4.19%	6.21%	7.31%	13.53%	7.44%	7.52%	11.10%
Outperformance	-5.43%	-4.92%	-8.88%	-26.27%	-0.78%	7.20%	7.10%

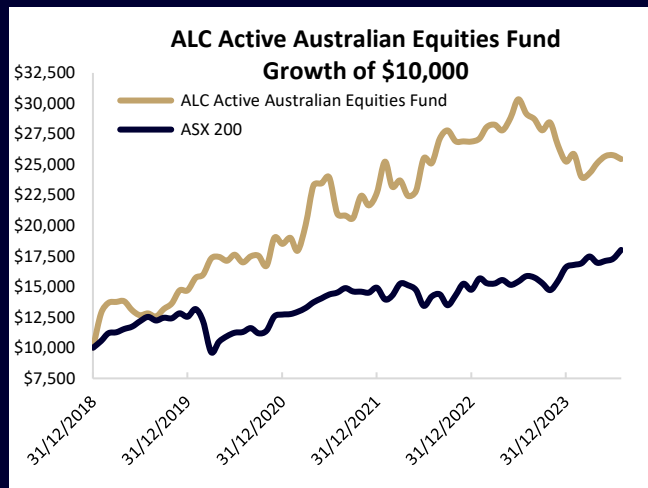
Performance is reported net of all fees. Returns greater than one year are annualized. Historical performance shows the ongoing performance both of a different fund previously managed by the AL Capital that operated with the same strategy as the ALC Active Australian Equities Fund, and the ALC Active Australian Equities Fund. This information has been provided for illustrative purposes only. Past performance is not a reliable indicator of future returns.

*The inception date of the ALC Active Australian Equities Fund is 28/07/2023, and inception date of the Strategy is 2/1/2019. Since inception performance is shown at the Strategy inception date, annualized.

The Fund seeks to generate positive absolute returns above the performance benchmark by investing in Australian-listed equities. The Fund employs a mixed strategy comprising of a high-conviction portfolio that is designed to deliver strong total returns, augmented by a short-term portfolio with a number of holdings that are expected to deliver short-term returns and provide risk-mitigation.

AL Capital employs a combination of in-depth top-down and bottom-up research to construct the high-conviction portfolio, led by our portfolio managers with strong track records. To achieve the desired net market exposure, as well as for risk control, the actively traded short-term portfolio is also utilised. Through this, AL Capital aims to achieve positive returns regardless of the overall market direction.

Risk management sits at the heart of the investment process, playing both a defensive role in helping AL Capital avoid losses in a leveraged structure as well as an offensive role in identifying shorts where risks are often mispriced.



Past performance is no indication of future performance. Investments may rise and fall in value and returns cannot be guaranteed.

Performance

The portfolio lost 1.23% in June. The High Conviction portfolio (HCP) delivered +2.10%, coming mostly from the long positions. The Short-Term portfolio (STP) detracted – 3.33%, driven both by long and short positions.

The fund continues to show very strong absolute and relative performance over longer time frames, outperforming the ASX 200 by 7.2% p.a. since inception.

Largest contributors/detractors

The largest contributors in the HCP were our positions in Polynovo (PNV +0.49%, stock was up 9%) and CSL (CSL +0.49%, stock was up 5%). Polynovo continued its run as it announced strong preliminary earnings for FY24, while CSL moved broadly in line with the market.

The largest detractors in the HCP were our short positions in Cochlear (COH, -0.14%, stock was up 4%) and JB HiFi (JBH, -0.13%, stock was up 14%). Cochlear moved in line with the market, while JB HiFi found some support based on the thesis that consumers will have to upgrade their computers to take advantage of advances in AI.

Market commentary

In July, risk markets experienced significant sector rotation, shifting from growth to value and cyclical sectors, as stretched valuations and concerns about a potential growth slowdown weighed on technology and consumer-related stocks. Globally, the bond market saw considerable volatility, with a notable decline in yields. Commodity markets were similarly volatile, influenced by muted policy stimulus from China and geopolitical events.

Domestically, inflation came in below expectations at 0.8% versus the anticipated 1% for the quarter, which led to a short-lived rally in the ASX at the end of the month, closing

up 4.18% (although the ASX has seen this reverse, trading 5.47% lower in the first 3 trading days of August). This lower inflation gives the Reserve Bank of Australia (RBA) more time to assess the need for another rate hike or potential cuts. The Australian 10-year yield declined 20 basis points to 4.11% as bonds rallied on the weaker than expected inflation data.

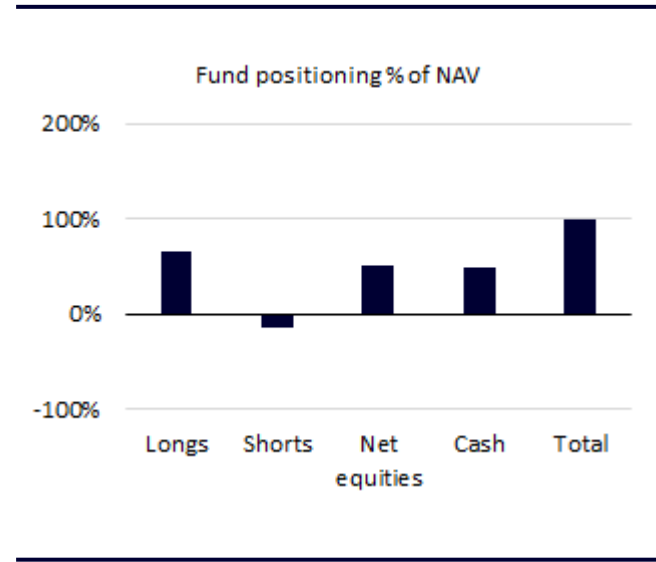
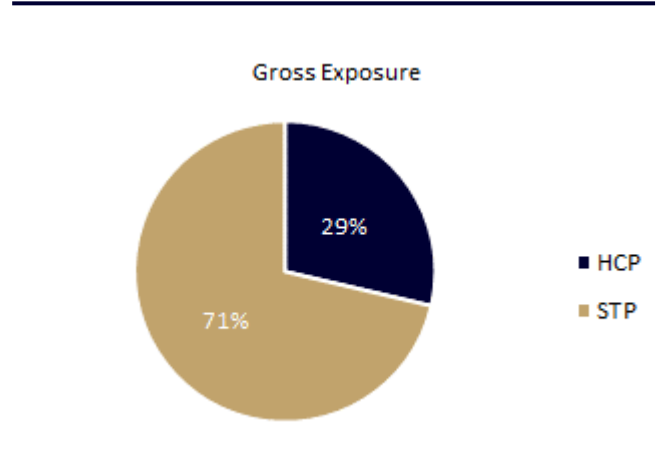
In the US, Federal Reserve Chair Jay Powell signaled the possibility of a rate cut in September, stating that a rate cut "could be" on the table. Powell emphasized the Fed's focus on potential labour market weaknesses, highlighting the risks to both sides of its dual mandate, rather than solely focusing on inflation risks. The S&P 500 closed up 1.13% for July, while the US Government 10-year yield declined 37 basis points to 4.03% as bonds rallied on US interest rate cut expectations.

The Bank of Japan (BOJ) surprised markets with a rate hike during its meeting and announced plans to halve the pace of quantitative easing by Q1 2026. This led to a significant rally in the Yen and prompted a reversal of the popular "Japanese Carry Trade", where investors borrowed Yen at near zero rates and invested typically in US Treasuries.

Portfolio positioning

At the end of the month, our largest positions in the HCP were Worley, QBE and MPL. During the month we exited CSL as it had reached our target price. We also exited our position in Orora, as we evaluated the possibility of a rebound in earnings to be pushed back further. We initiated a position in Deterra, on the basis that the negative market reaction to its recent acquisition is overdone.

We remained relatively lowly exposed to the market with a small net long during June. We continue to be cautious on the market due to the overall uncertainty on geopolitics, interest rate movement and macro-economic outlook.



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ALC Active Australian Equities Fund's Target Market Determination is available <https://www.eqt.com.au/insto>. A Target Market Determination 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.