

ALCapital

ALC Active International Equities Fund

Monthly report – July 2024

Returns	1 month	3 months	6 months	Since inception*
Fund	-1.03%	1.00%	4.58%	5.73%
MSCI World (AUD)	4.08%	7.86%	13.75%	18.02%
Outperformance	-5.11%	-6.87%	-9.18%	-12.29%

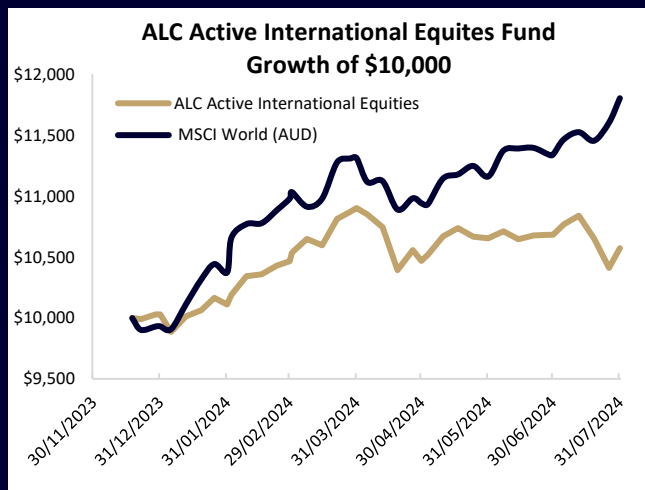
Performance is reported net of all fees. Returns greater than one year are annualized. Past performance is not a reliable indicator of future returns.

*The inception date of the ALC Active International Equities Fund is 19/12/2023.

The Fund seeks to generate returns above the performance benchmark by investing in Global Equities. The Fund expects to generate outperformance from three sources: stock picking, regional allocation, and currency hedging. The benchmark is the MSCI World index measured in Australian Dollars.

AL Capital employs a combination of quantitative tools and fundamental stock analysis to select stocks in four regions: USA, Europe, Asia-ex Japan, and Japan. Similarly, the weight of the four regions in the portfolio is determined by a combination of quant signals and the manager's view on the relative short-term attractiveness of each region. Finally, hedging decisions are based on the manager's view of the relative value of the main currencies in the portfolio.

Risk management sits at the heart of the investment process, playing a defensive role in helping AL Capital avoid losses. AL Capital considers risk from both a bottom-up and top-down perspective. The bottom-up analysis employs a proprietary risk scoring methodology and considers risk at the security level while the top-down assessment considers risk at a portfolio level.



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

Performance

The portfolio returned -1.03% in July, underperforming the MSCI World (in AUD) by 511 bps.

The stocks in the portfolio underperformed the benchmark in constant currency in the USA and Asia, while they outperformed in Europe and Japan.

Unfortunately, our relative allocation to the different regions exacerbated the relative stock performance, as the portfolio was overweight Asia relative to the index, while at the same time being underweight the best absolute performing region, the USA.

On currency, the portfolio was broadly hedged, with a small exposure left in the portfolio to the Japanese yen, as we consider the yen to be undervalued. Since the currency movements constituted a tailwind for the index, the portfolio also took a relative hit from being currency hedged.

Finally, as flagged in previous months' reports, the portfolio's cash holdings are quite large, which did help the portfolio in July.

Largest contributors/detractors

The largest contributors for the month were Progressive Corp (USA, +3 bps), GE Verona (USA, +3 bps), and Barclays (UK, +3 bps). The largest detractors were Dexcom (USA, -27 bps), SK Hynix (Korea, -19 bps), and Micron Technology (USA, -17 bps).

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 were United Health (USA), Nvidia (USA), Amazon (USA), Alphabet (USA), Broadcom (USA). United Health and Broadcom are new positions in July. During the month we sold out of ABB, ExxonMobil, among others.

The portfolio is well diversified with 77 stocks, and the top-5 positions less than 15% of exposure. The portfolio continues to be underweight the USA, and overweight Europe, Asia and Japan.

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ALC Active International 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.