

# ALCapital

## ALC Active International Equities Fund

### Monthly report – September 2024

Returns	1 month	3 months	6 months	Since inception*
Fund	4.07%	4.19%	2.09%	11.32%
MSCI World (AUD)	-0.41%	2.39%	2.66%	16.12%
Outperformance	4.47%	1.80%	-0.57%	-4.80%

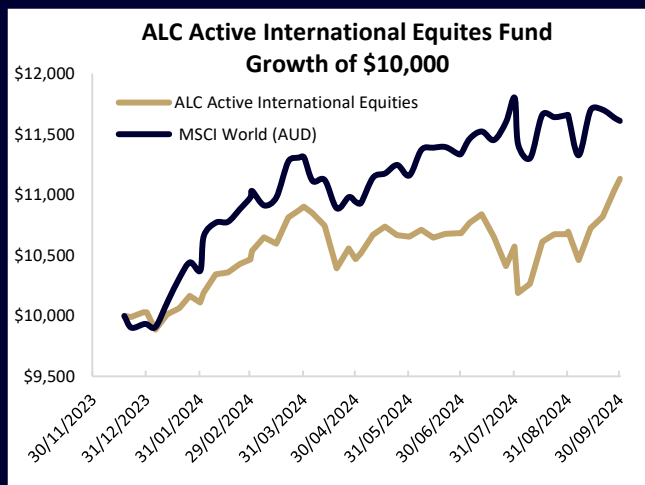
Performance is reported net of all fees. Returns greater than one year are annualized. Past performance is not a reliable indicator of future returns.

\*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.



### Performance

The portfolio returned 4.07% in September, outperforming the MSCI World (in AUD) by 447 bps.

The stocks in the portfolio outperformed the benchmark in constant currency in all four regions, with especially strong performance in Asia and Japan, outperforming in excess of 1200 bps in both regions.

Our relative allocation to the different regions add further outperformance, given our overweight position in Asia in particular.

On currency, the portfolio was broadly hedged. Since the currency movements constituted a headwind for the index, the portfolio also benefited from being currency hedged.

The only detracting influence, similar as in previous months, was the fact that the portfolio's cash holdings are quite large, which reduced the performance relative to what it would have been with a full cash allocation.

### Largest contributors/detractors

The largest contributors for the month were Meituan (Asia, +48bps), Pinduoduo (Asia, +42bps), and Alibaba (Asia, +40 bps). The largest detractors were Eli Lilly (USA, -13 bps), Adobe (USA, -13 bps), and General Motors (USA, -7 bps).

### Market commentary

In September, a month known for its volatility, markets ended on a positive note amid macroeconomic and geopolitical influences. The FOMC began its first rate-cutting cycle in four years, reducing the Fed Funds rate by 50 basis points to a range of 4.75% to 5% after US inflation showed significant cooling in August, with the Consumer Price Index (CPI) at +2.5% year-over-year (down from +2.9% in July) and

the Producer Price Index (PPI) at +1.7% (compared to +2.1% in July). Toward the end of the month, China announced substantial stimulus measures aimed at combating deflation and addressing a weakening local economy. The S&P 500 gained 2.02%.

The ASX 200 increased by 2.97%, buoyed by unexpected stimulus announcements from China and the initiation of the Federal Reserve's easing cycle. Commodity prices performed well in September, with the Mining sector emerging as the top performer on the ASX, rising by +14.1%. This sector was particularly bolstered by China's stimulus news. Although tensions escalated in the middle east, market impacts were minimal.

In fixed income markets, the Australian 10-year bond yield was unchanged, while the AUD/USD appreciated by 2.2%. The Reserve Bank of Australia (RBA) held rates steady at 4.35%, signalling a shift from a mild tightening bias to a more neutral stance, as discussions of a rate hike were muted. Economic data continued to reflect weak growth and a gradual easing of inflationary pressures. The US 10-year bond yield also was lower again, dropping 12 bps to 3.78%. The Federal Reserve expressed comfort with the trajectory of inflation while increasingly voicing concerns about employment, as highlighted in both the September FOMC statement and press conference. Federal Reserve Chair Jerome Powell emphasised that the monetary easing actions

should be viewed as precautionary measures aimed at maintaining economic stability rather than reactive steps to address significant economic deterioration.

Japan experienced heightened volatility in both the Nikkei and the Yen following the election of former Defence Minister Shigeru Ishiba as leader of the LDP party. The new Prime Minister is perceived as supportive of the Bank of Japan's gradual tightening strategy (indicating more potential rate hikes). This appointment follows July's BOJ meeting minutes indicating that several members saw room for further rate increases; however, officials and the new Prime Minister later moderated this hawkish rhetoric, asserting that the BOJ must maintain an accommodative monetary policy stance.

### **Portfolio positioning**

At the end of the month our largest positions were Apple (USA), Tesla (USA), Amazon (USA), NVIDIA (USA), and Broadcom (USA).

The portfolio is well diversified with 76 stocks, and the top-5 positions less than 10% of exposure. The portfolio is currently slightly overweight the USA, overweight Asia, and underweight Europe and Japan.

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