ALC Market Neutral Australian Equities Fund

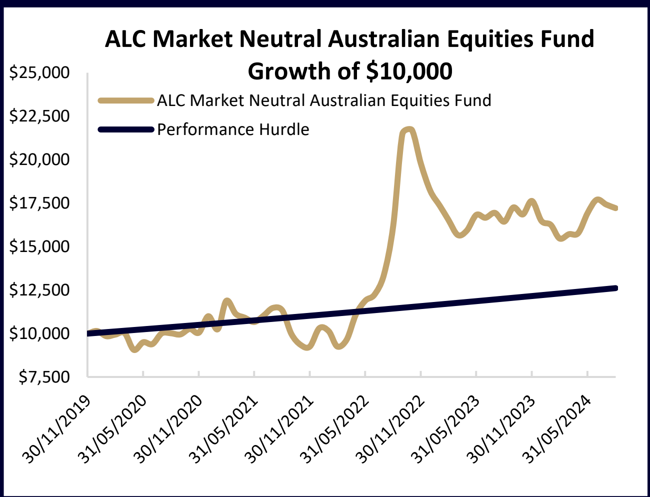
Monthly report – September 2024

Returns	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	Since inception p.a.*
Fund	-5.13%	-7.71%	4.05%	-5.22%	17.88%	10.70%
Hurdle rate (5% p.a.)	0.40%	1.23%	2.47%	5.00%	5.00%	5.00%
Outperformance	-5.54%	-8.94%	1.58%	-10.22%	12.88%	5.70%

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 and investment management team as the ALC Market Neutral 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 Market Neutral Australian Equities Fund is 31/01/2024, and inception date of the Strategy is 30/11/2019. Since inception performance is shown at the Strategy inception date, annualized.

The Fund is an algorithm-based portfolio that has been developed to generate a return from participating in the stock market, without being correlated with broader market movements. The algorithm is optimized for a high return-to-downside volatility-ratio.

The Fund uses a combination of factors to rank stocks according to their attractiveness. Currently, these factors relate to stock momentum, earnings momentum, value, quality, and cyclicality, but they could be updated in future algorithm upgrades. The resulting ranking is used to construct a portfolio by choosing long positions from the top of the list and short positions from the bottom. In this portfolio construction process, certain constraints are applied: there are limits on the number of stocks per sector, size of single-stock long position, size of single-stock short position, among others. The algorithm strives to attain as close to a sector-neutral position across all sectors as the ranking list permits. The algorithm is run and the portfolio is rebalanced once a month.



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

Performance

The portfolio returned -5.13% in September. Longs contributed (+0.67%), while shorts detracted (-5.80%).

The overall market was up 3.0%, which explains why the longs were working but the shorts were not.

The largest contributors were packaging manufacturer Orora (ORA, long, +54 bps), travel company Flight Centre (FLT, long, +51 bps) and Services company Brambles (BXB, long, +51bps). The largest detractors were insurance broker Steadfast (SDF, long, -75 bps), retailer Dominos (DMP, short, -60 bp), and property platform Domain (DHG, short, -50 bps).

Sept 2024	Total	Longs	Shorts	ASX200*
Total	-5.13%	0.67%	-5.80%	2.97%

*ASX200 return shown for informational purposes only – the portfolio is not managed or measured against this index.

Overall, the fund continues to perform in line with the statistical parameters as predicted by the model. As an example, 66% of months have delivered a return within 1 standard deviation of the expected average return, and the correlation between the fund and the ASX is 0.020.

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 12bps 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.

<u>September portfolio</u>

For October, our largest longs are Flight Centre (cheap, with decent momentum and high quality), Qantas (cheap, with strong momentum and high quality), Newmont (attractive across all parameters), and Brambles (strong momentum and high quality).

The portfolio has a slight tilt to Technology (10% net exposure) but is otherwise balanced from a sector exposure point of view.

For all general enquiries, please contact our distribution team:

REGINA JIANG

CLIENT RELATIONSHIP MANAGER

E: regina.jiang@alcapital.com.au

P: +61 426 291 017

CLIENT SERVICES TEAM

E: contact@alcapital.com