ALC Market Neutral Australian Equities Fund

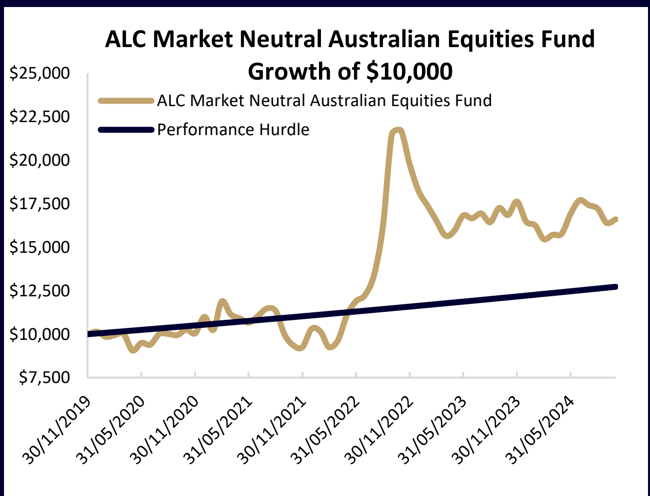
Monthly report – October 2024

Returns	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	Since inception p.a.*
Fund	1.22%	-4.68%	5.27%	-1.47%	21.11%	10.86%
Hurdle rate (5% p.a.)	0.41%	1.23%	2.48%	5.00%	5.00%	5.00%
Outperformance	0.81%	-5.92%	2.79%	-6.47%	16.11%	5.86%

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 1.22% in October. As one would expect in a falling market, longs detracted and shorts contributed.

The overall market was down -1.31%, showing the portfolio can deliver uncorrelated returns.

The largest contributors were travel company Webjet (WEB, short, +134 bps), asset manager HUB24 (HUB, long, +125 bps), and airline Qantas (QAN, long, +123 bps). The largest detractors were travel company Flightcentre (FLT, long, -285 bps), tech company Wisetech (WTC, long, -99 bps) and gold miner Newmont (NEM, long, -73 bps).

Oct 2024	Total	Longs	Shorts	ASX200*
Total	1.22%	-3.19%	4.41%	-1.31%

*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 0.0199.

Market commentary

October saw some increased volatility, notably with the US election pending in November, as well as China 'Stimulus' impacting Asian market and a surprising increase in longer bond yields. Australian equities saw a decline of -1.31%, primarily driven by a notable -5.21% drop in the Resources sector. The month was marked by a significant sell-off in global bond markets, with the yield on Australian 10-year bonds rising by 53 basis points to 4.50%. Concurrently, the AUD/USD exchange rate fell by -4.79% to 0.6582. Economic data from Australia indicated resistance against market expectations for a rate cut by the Reserve Bank of Australia (RBA), as both the labour market showed resilience and inflation remained persistent. Australia's Q3 CPI data registered a modest increase with the RBA's preferred measure the 'trimmed mean' CPI, rose by +0.8% quarter-on-quarter (+3.5% year-on-year), down from an upwardly revised +0.9% quarter-on-quarter (+4.0% year-on-year).

In international markets, the U.S. experienced significant fluctuations in employment reports due to Hurricane Milton, which left millions without power in Florida, compounded by an extended strike by Boeing workers. Earnings reports from U.S. companies were mixed; however, overall performance remained healthy, with approximately 76% of the roughly 160 companies in the S&P 500 that reported earnings surpassing EPS expectations by an average of 6%, according to Bloomberg data. The S&P 500 declined by -0.99% in October, while the U.S. 10-year bond yield increased by 50 basis points to 4.28% amid growing fiscal concerns as investors focused on upcoming tax and spending decisions in Washington for 2025. This longer bond yield increase is particularly surprising given the Fed began to cut rates at the end of September by 50 basis points.

In the Eurozone, inflation continued to decrease, and ECB President Christine Lagarde expressed growing confidence in returning inflation to target levels in a timely manner. The Bank of Japan maintained its policy rate at 0.25%, reflecting ongoing caution due to recent market volatility following a rate hike in July, coupled with domestic political uncertainty and the impending U.S. election.

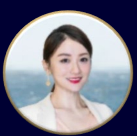
China saw aggressive profit-taking as speculative investors withdrew following a seemingly innocuous press conference from the National Development and Reform Commission (NDRC) earlier in the month. Nonetheless, substantial fiscal, monetary, and housing measures enacted in September are too significant to overlook. This setback in China led to a sharp decline in Brent crude prices, despite rising tensions in the Middle East. Conversely, gold prices surged by 10.3%, supported by central bank purchases and geopolitical uncertainties that continue to bolster demand for gold.

September portfolio

For November, our largest longs are Qantas (cheap, with decent momentum and high quality), Resmed (attractive across all parameters), Regis Resources (cheap, with good momentum).

The portfolio has a slight tilt to Technology (15% net exposure) but is otherwise balanced from a sector exposure point of view.

For all general enquiries, please contact our distribution team:



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