



Alexander  
Funds

# The Alexander Perspective

Quarterly Update  
March 2022

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# CEO's Update

## Welcome to our inaugural quarterly newsletter.

Its launch coincides with an environment best characterised by uncertainty. Inflation and rates on the rise, geopolitical insecurity and its potential impacts on financial markets, and the backdrop of a global pandemic that continues to infect millions around the world. As your credit income investor, we believe it's important to keep you informed, particularly as to how this environment may impact credit markets and, in particular, the Alexander Funds portfolios.



As you may know, I recently stepped into the CEO role. My appointment allows Chris Black to focus solely on the portfolio management of our Funds alongside a growing investment team. It allows a clear delineation of our investments and operations, which is increasingly important as we continue to scale and grow.

As a co-founder of Alexander Funds, I have been responsible for leading the firm's growth strategy from day one. I will continue to drive broader business initiatives and continuous improvement, as well as the strategic directions set by the board.

You will have noticed our new brand and updated website. Our new look better reflects our investment approach; modern, bold, high quality. The tagline clearly positions Alexander Funds as credit income investors, an important point of differentiation from other fixed income houses.

In another change, Alexander Funds is on the move. Our growth has resulted in a need for larger premises. From mid-May we will be located at Level 14, 140 William Street in Melbourne.

Our Funds are available through a number of investment platforms, including Allan Gray Solutions, Australian Money Management, HUB24, Netwealth, Powerwrap and Praemium. We're working with several other platforms to get the Funds on those menus. If you have a particular platform through which you'd like to access our Funds, please let us (and the platform provider) know.

I hope you enjoy reading this newsletter and always welcome your feedback.

Warm Regards

**Rachel Shirley**

CEO



# Economic Update

"How aggressively will central banks raise rates?" was the March quarter's dominant theme. Though geopolitics were turbulent and COVID-19 continued to affect economies globally, growth remained strong. However, when growing cost-of-living pressures began to be felt more acutely, business and consumer sentiment began to deteriorate.

While business and consumer sentiment are weakening, strong past economic growth still has momentum, reinforced by a build-up of household savings through the pandemic. In the US, Q4 GDP increased by 7% annualised, double the long-term norm, and unemployment fell to 3.8%, the lowest since the pandemic began. Inflation hit a 40-year high of 7.9% in February only to be toppled by March's figure of 8.5%, outpacing wage growth by more than 3%.

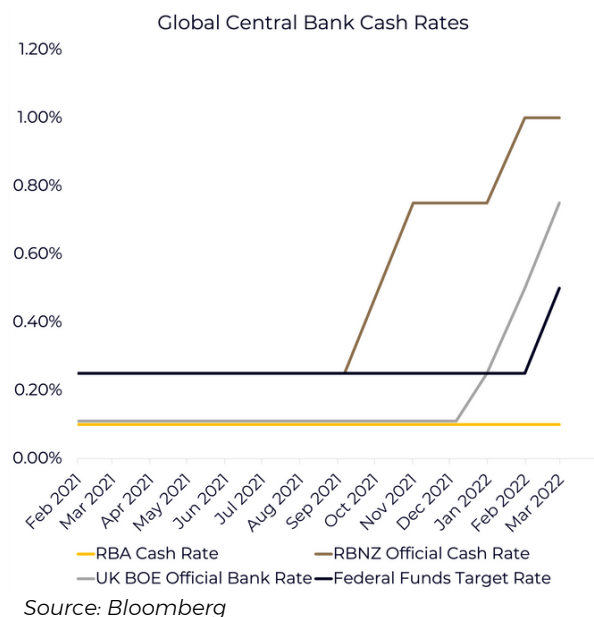
It's a similar story in Australia. Q4 GDP rose 3.4%, driving by an upswing in spending in NSW and Victoria after lockdowns and restrictions were lifted. However, while the Ukraine crisis has harmed consumer confidence, the worldwide rise in energy and commodity prices has boosted Australia's national revenue.

Global economic growth remains strong, although concerns about weaker future growth are increasing, with the Ukraine war adding to high inflation and central banks under increasing pressure to act more forcefully to contain inflation. In March, the US Federal Reserve raised interest rates by 0.25%, the Bank of England raised rates for the third time in a row, bringing their base rate to 0.75%, while the Reserve Bank of Australia has kept rates at 0.10% for the time being.

Throughout the quarter, data and developments in Australia raised the possibility of a rate tightening cycle. The jobless rate decreased to 4% in February, marking the equal-lowest since the poll began in 1978.

Meanwhile, the March 29th Federal Budget is more likely to boost than lower inflation. The economy is doing significantly better than expected, with growth close to a percentage point higher and unemployment close to a percentage point lower, reducing the projected Budget Deficit for 2021-22.

The RBA's 0.10% cash rate is rapidly becoming a low outlier among its peers. Central banks are beginning to accept that high inflation is unlikely to be a temporary phenomenon that needs containment, and Australia is behind the 8-ball. As such, we expect the RBA will begin to raise the cash rate in June and will continue to do so throughout the year, with an estimated rate at or around 1% by the end of 2022.



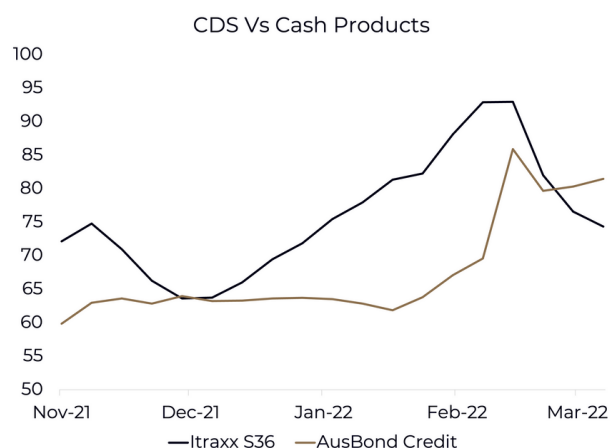


# Market Commentary

## Debt Capital Markets

During the March quarter, credit spreads experienced gradual widening across both cash products and synthetic credit default swap indices. Cash came under pressure early in the quarter as the impact of the RBA's removal of the Term Funding Facility (TFF) at the end of June 2021 impacted spreads within the bank market. Senior bank spreads had reached their most expensive level post GFC as a result of the TFF but started widening in the back half of 2021 as the banks were forced to return to capital markets. Over the quarter, domestic banks were particularly active within offshore markets given the scope to issue larger and longer dated bonds, particularly in USD.

Some of these issues were priced at spreads meaningfully wider of the AUD market and thus exerted additional pressure on local market pricing. A highlight being CBA's \$4.5bn multi tranche USD deal in early March, with the 5-year senior tranche pricing ~25 bps wider of domestic comparables.

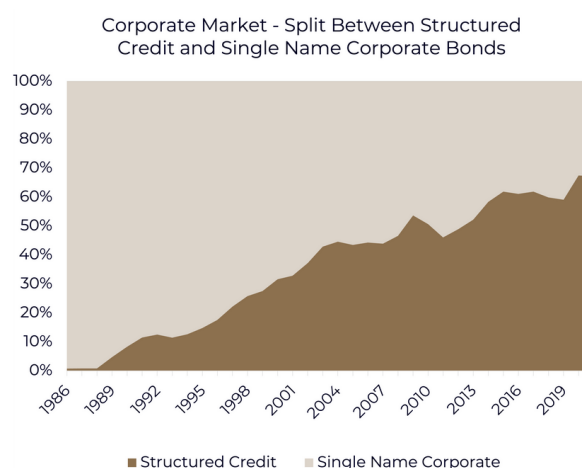


Source: Bloomberg

In addition, building inflation concerns combined with rising geopolitical risks centered on the Ukraine war added further pressure to spreads. This first impacted synthetic (CDS) indices such as the Australian iTraxx and was later followed by the cash market. The Australian iTraxx Series 36 started the quarter at 63 basis points and widened out to over 100 basis points before rallying into the end of the quarter and closing at 74 basis points.

## Structured Credit

Within structured credit markets (RMBS/ABS), issuance levels maintained strong momentum from 2021 and calendar year to date are at a 5 year high, despite the macro and political challenges facing markets. Pricing on new issues has moved wider, in line with corporate bond markets, with the impact most acutely felt in the higher rated (AAA/AA) tranches given they directly compete with senior and subordinated bank bonds for investor funds.



Overall the Non-Bank Financial Institution (NBFI) market continues to grow at pace and as a result their funding requirements continue to build. Reflecting this growth, structured credit markets are now larger than the single name corporate bond market in Australia.



# Market Commentary

## Private Markets

In addition to using public structured credit markets (RMBS/ABS) as a funding source, the NBF market also utilizes private funding warehouses to meet the growing demand for their product. The warehouse funding market is relatively unknown outside of certain participants in the lending and credit sector but represents a significant ongoing opportunity for investors with specialist expertise. Alexander Funds has a long pedigree in providing this type of lending and the ongoing growth of the NBF market has created an environment of high demand and thus attractive pricing relative to risk.

Access to these specialised investments has given Alexander Funds the ability to construct portfolios with low levels of market risk (measured by credit duration) without sacrificing yield.

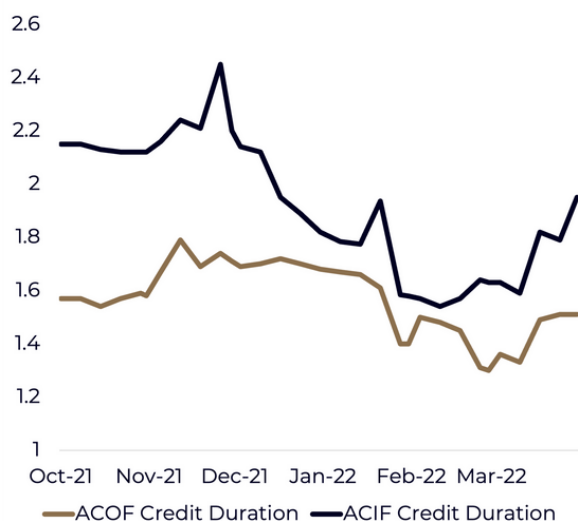
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## Risk Management & Portfolio Construction

In response to the move wider in spreads, Alexander Funds utilised its hedging program to reduce portfolio risk within both the Alexander Credit Opportunities Fund (ACOF) and the Alexander Credit Income Fund (ACIF) during January. This resulted in a reduction of the credit duration of both portfolios, leaving the funds conservatively placed at 1.2 years (for ACOF) and 1.5 years (for ACIF). The low credit duration combined with the high running yield of both funds (ACOF around 6.25% and ACIF around 4%) allowed them to navigate through the volatility in markets with only a marginal impact on return...

...Continued concerns around inflation and how that translates into interest rate rises are likely to create further volatility in the medium term. Alexander Funds is purely focused on credit risk and does not take interest rate risk so both funds are not directly impacted by rising interest rates (in fact as the RBA raises the official cash rate, it increases the running yield of the funds). Overall the strategy in both portfolios is expected to remain consistent, using our ability to generate excess returns across the credit spectrum to keep both portfolios with conservative levels of market risk but maintaining their current yield.

Historical Credit Duration





# Fund Performance

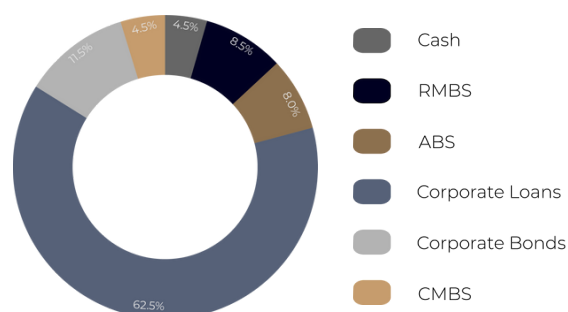
## Credit Opportunities Fund

The Alexander Credit Opportunities Fund has a benchmark of the AusBond Bank Bill Index +2% pa. The Fund achieved a return of 0.97% for the quarter ended 31 March 2022 for an annualised return over the previous 12 months of 4.78%, and paid a distribution for the quarter of 0.75 cents per unit.

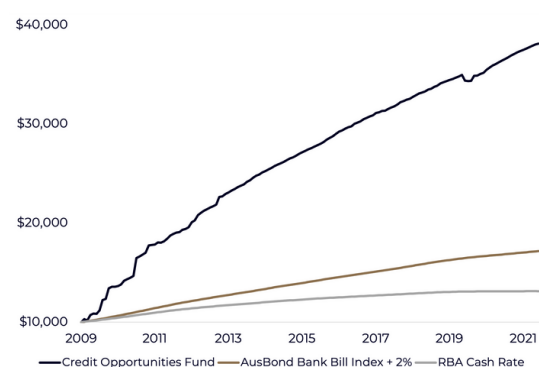
### Returns as at 31 March 2022

	Fund	Benchmark
1 Month*	0.23%	0.17%
3 Month	0.97%	0.51%
6 Month	2.06%	1.02%
12 Month	4.78%	2.06%
3 Year (pa)	4.44%	2.49%
Since Inception (pa)	11.38%	4.45%

### Portfolio ~ as at 31 March 2022



### Performance of \$10k Invested Since Inception^



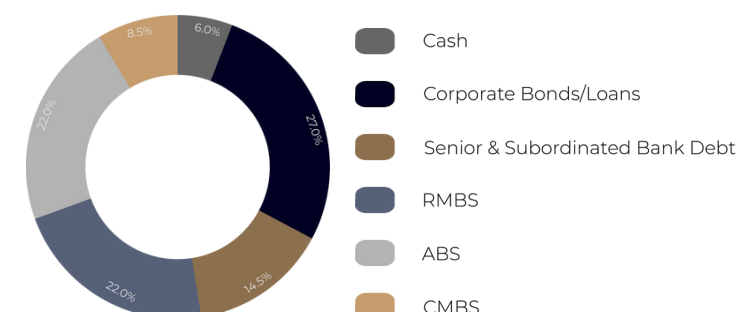
## Credit Income Fund

The Alexander Credit Income Fund has a benchmark of the AusBond Bank Bill Index + 1% pa. The Fund achieved a return of 0.50% for the quarter ended 31 March 2022 for an annualised return over the previous 12 months of 3.39%, and paid a distribution for the quarter of 0.50 cents per unit.

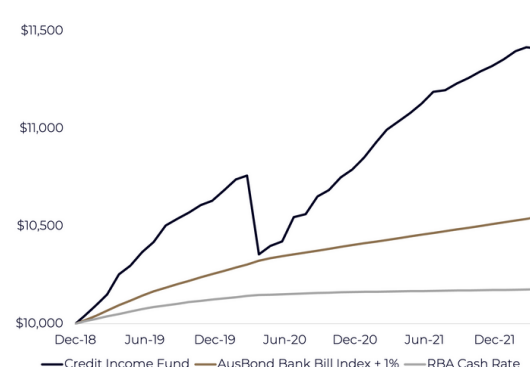
### Returns as at 31 March 2022

	Fund	Benchmark
1 Month*	-0.05%	0.09%
3 Month	0.50%	0.26%
6 Month	1.35%	0.52%
12 Month	3.39%	1.04%
3 Year (pa)	3.63%	1.47%
Since Inception (pa)	4.04%	1.61%

### Portfolio ~ as at 31 March 2022



### Performance of \$10k Invested Since Inception^





# Notices & Disclaimers

\* The monthly return is an actual return net of all fees, costs and taxes generated by dividing the redemption unit price by the previous month's redemption unit price. Past performance is not a reliable indicator of future performance.

~ Portfolio Composition is net of hedges

^ Assumes reinvestment of all distributions

Alexander Funds Management Pty Ltd (ABN 77 136 871 924) (AFSL 476697) ("Alexander Funds") is the Investment Manager of the Alexander Credit Opportunities Fund (ARSN 156 026 514) ("ACOF" or "Fund") and the Alexander Credit Income Fund (ARSN 629 915 199) ("ACIF" or "Fund"). Equity Trustees Limited ("Equity Trustees") (ABN 46 004 031 298) AFSL 240975 is the Responsible Entity for the Fund. Equity Trustees is a subsidiary of EQT Holdings Limited ABN 22 607 797 615, a publicly listed company on the Australian Securities Exchange (ASX: EQT).

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ACIF's Target Market Determination can be found at

<https://www.alexanderfunds.com.au/alexander-credit-income-fund>

ACOF's Target Market Determination can be found at

<https://www.alexanderfunds.com.au/alexander-credit-opportunities-fund>

A Target Market Determination is a document which is required to be made available from 5 October 2021. We recommend that you read this document as it 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.

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