Apostle Ethical Global Credit Fund

Monthly Report – **September 2024**

The Apostle Ethical Global Credit Fund is an actively managed strategy that provides investors with access to global credit markets hedged to Australian Dollars. The Fund aims to invest in public and private alternative high yield and investment grade fixed income markets by partnering with specialist investment managers. The Fund is actively managed at the underlying strategy and asset allocation level to position the portfolio to preserve capital and generate target returns across a full market cycle.

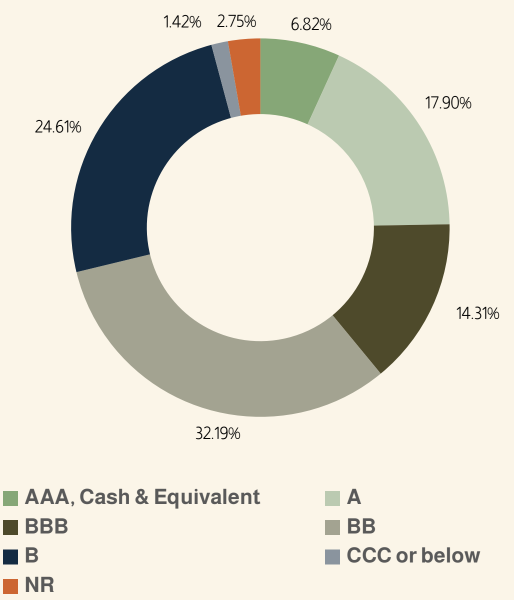
Investment Objective

The Fund targets a total return of 5-7% p.a. net of fees over rolling 5-year periods. It aims to produce strong risk-adjusted returns by focusing on downside protection. It invests responsibly by adopting Apostle's Ethical Investment Policy.

Fund Overview

Unit Price (NAV)	1.0337
Fund Size (AUD)	$62,076,069.66
Benchmark	5% p.a. over rolling 5-year periods
Asset Class	Fixed Income
Portfolio Inception Date	8 August 2022
Investment Manager	Apostle Funds Management
Management Fee	0.95% excl GST
Buy/Sell Spread	0.20%/0.20%
Minimum Investment	$500,000
APIR Code	KAM2611AU
ISIN	AU60KAM26113
Currency	Hedged to AUD
Pricing & Distributions	Daily unit pricing, daily liquidity and quarterly distributions
Portfolio Team	John Barrasso, Co-Portfolio Manager Tony Breen, Co-Portfolio Manager
Responsible Entity	K2 Asset Management
Custodian/Registry	State Street Australia Limited

Breakdown by Credit Rating



As at 30/09/2024. Source: State Street, Bloomberg, Apostle FM. Data for private market investments is based on information provided by sub-investment managers. All figures are approximate and based on the best available data.

Performance

Return (%)	1 mth	3 mth	6 mth	1 year	Since inception (p.a.)
Total (gross)	0.64	2.29	3.78	8.84	5.35
Total (net)	0.57	2.04	3.29	7.81	4.36
Benchmark	0.41	1.31	2.57	5.00	5.00
Relative (net)	0.16	0.73	0.72	2.69	(0.73)

As at 30/09/2024. Source: State Street. The Benchmark is 5-7% net of fees p.a. For comparison purpose, 5% is used in the calculation. Note: Net returns are based on the fund's full management fee of 0.95% p.a. and do not account for fee rebates. Performance inception date is 8th August 2022.

Portfolio Characteristics

Yield to maturity (A$ hedged)	7.48%
Yield to maturity with curve (A$ hedged)	6.74%
Credit spread	272 bps
Interest rate duration	0.77
Credit spread duration	3.10
Average credit rating	BB+
Floating rate exposure	76.89%
Number of holdings	297

As at 30/09/2024. Source: State Street, Bloomberg, Apostle FM. Data for private market investments is based on information provided by sub-investment managers. All figures are approximate and based on the best available data.

Portfolio Look-Through

Asset Class/Strategy	Allocation (%)
Bonds	**46.02**
Corporate Bonds	21.10
Infrastructure Bonds	23.33
Government Bonds	1.59
Loans	**41.51**
Corporate Loans	36.00
Infrastructure Loans	5.51
Private Debt	**9.97**
Private Real Estate Debt	9.97
Cash or Cash Equivalents	**2.50**
Total	**100.00**

As at 30/09/2024. Source: State Street, Bloomberg, Apostle FM. Data for private market investments is based on information provided by sub-investment managers. All figures are approximate and based on the best available data.

Portfolio Commentary

The Fund returned 0.57% net of fees in September, with all underlying strategies producing positive returns. Infrastructure-focused bonds returned approximately 0.82%, the Australian tier 2 corporate debt strategy returned approximately 0.50%, the U.S. senior loan strategy returned approximately 0.55%, and private real estate debt returned approximately 0.62%.

Given stable credit spreads, the portfolio's return largely reflects its expected income over cash. In July, the Asset Allocation Committee adjusted the Dynamic Asset Allocation (DAA) by reducing U.S. loans and increasing exposure to Australian tier 2 floating-rate bonds, enhancing the portfolio's credit quality.

Market Commentary

Two key events shaped the global economic outlook in September:

The Fed delivered a larger cut at its September meeting of 50 basis points (bps) and signaled 250 bps of rate cuts through 2026. The Fed's bold move to stimulate the economy and safeguard jobs was well received by equity and credit markets.

Unexpected policy actions from Chinese authorities boosted stock prices at the end of the month. While the announcements were like previous ones, their scope and the promised fiscal stimulus signaled a renewed determination to combat deflation. This shift from supply-side policies to demand-driven growth is significant. The rally's sustainability will depend on the fiscal package meeting market expectations and a stronger economy that leads to improved corporate earnings.

Australian government bond yields round tripped on the month ending September, and the 10-year bond yield was 3.97%, 1 bps from where it started the month. There were bigger moves in the U.S. as the 2-year U.S. Treasury yield fell 28 bps to 3.64% and the 10-year fell 13 bps to 3.79%, leading to a 14bps steepening in the yield curve.

Credit market returns remain in positive territory as the U.S. HY delivered a 1.6% return and the IG 1.8%, as spreads tightened further. The combination of policy cuts in the U.S. and a weaker U.S. dollar is easing financial conditions in the emerging world, creating a better performance in emerging market (EM) debt. EM dollar denominated sovereign bonds are 8% higher this year as are EM corporate bonds.

There was nothing new from the Reserve Bank of Australia (RBA) at its September meeting, as the cash rate was left at 4.35%. Compared to other central banks, the RBA is viewed as hawkish and continues to push back against market pricing of rate cuts in 2024. However, unlike in past meetings, the RBA did not discuss the need for a rate hike, which suggests the mood may be changing.

Apostle's Exclusions

We avoid any company or asset that has direct exposure to the following industries and activities:

- Fossil fuels (extraction and production of coal, oil, or natural gas)
- Weapons and armaments production
- Gambling production
- Alcohol production
- Tobacco production
- Nuclear Power – direct revenue from uranium mining or from the production of conventional nuclear power. Allows investment in 'new' nuclear technologies, such as nuclear fusion.

For general-purpose securities, direct revenue exposure is defined as direct revenue from a company's operations or from any of its wholly owned subsidiaries. For special-purpose securities, defined as direct revenue from the investment's use of proceeds.

We qualitatively assess companies and may choose to exclude companies that do not comply with our corporate governance standards where they have operational involvement in any of the following activities:

- Human rights violations – disrespectful and unequal treatment of citizens, including modern slavery, human trafficking, and child labour.
- Unethical corporate governance –unsatisfactory treatment of employees, customers, other stakeholders, and the environment.

Where possible we aim to have no exposure to our list of exclusions. However, where we are required to invest into pooled vehicles, and because in Over the Counter (OTC) securities data can be difficult to obtain, we aim to ensure that at least 95% of our Fund has no exposure to our exclusions list. We allow a 5% soft tolerance at the aggregate portfolio level where necessary.

For more details, please refer to Apostle's Ethical Investment Policy.

Platform Availability

- AMP North
- BT Panorama
- CFS Edge
- Hub24
- NetWealth
- Powerwrap

Contact us

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Signatory of:

PRI Principles for Responsible Investment

Member of:

riaa Responsible Investment Association Australasia