

October 2022 // Issue 20

# IN THE FRAME

## MARKET DOWNTURN

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### FUND PERFORMANCE

How our strategies performed in September

### HIRING SLOW DOWN

Which global business announced slow downs to their hiring plans

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# WHAT I SAW SEPTEMBER 2022

WRITTEN BY HUE FRAME

*In this issue of 'What I saw', Hue covers recent communication from the US Federal Reserve, what action the Bank of England took, and how our strategies performed in September.*

September saw the S&P / ASX 200 decline by -7.34%, which was the third month this year where the Australian share market dropped by over -5%. The Australian share market was not the only market that dropped during September; the Nasdaq 100, Russell 2000, Dow Jones 30 and S&P 500, all declined by over -8.5%.

## Don't fight the Fed

Investor focus continues to be on communication from the US Federal Reserve regarding interest rates. After market participants misinterpreted US Federal Reserve minutes as dovish, Powell reiterated on numerous occasions through-out the month, that interest rates need to increase above the terminal rate in an effort to slow down consumer and corporate demand. Powell emphasised that this slowdown will impact the property market, businesses and they expect to see an increase in the number of people out of work.

## Hiring slow down

In September we had a number of global businesses announce that they will slow down their hiring plans, or in some instances, look at letting people go. Goldman Sachs stated they will look to let go between 1-5% of their workforce after the Labour Day weekend. Meta (parent of Facebook) are slowing their hiring plans, by reducing the number of engineers hired by 30%. Snapchat also announced they were cutting its 6400 workforce by 20%.

## Bank of England steps in

UK Government debt markets went into a spiral middle of last week. As a result the Bank of England stepped in to restore market function and reduce any risks from contagion to credit conditions for UK households and businesses. They said that they will carry out temporary purchases of long-dated UK government bonds from 28 September. As interest rates continue to increase, and financial conditions tighten, we expect to see further periods of market stress.



**HUE FRAME**  
Managing Director & Portfolio Manager

## Portfolio performance

During September, both strategies continued to be defensive. The Frame Futures Fund – Class 1F declined by -3.47%. The Long Short Australian Equity strategy declined by -3.30%.

Top equity contributors for the Frame Long Short Australian Equity Fund (**FLSAEF**) were our investments in New Hope Corporation (**ASX: NHC**) and Whitehaven Coal (**ASX: WHC**), they contributed approximately +0.40%, and +0.29% respectively.

Largest detractors for the month were Atlas Arteria Group (**ASX: ALX**) and Mineral Resources (**ASX: MIN**). They detracted approximately -0.27%, -0.27% and -0.22% respectively.

## Wrapping up

Like I have mentioned in earlier issues, we continue to focus on incoming data, and protecting downside during these periods of extreme volatility.

Our research team continue to focus on strategy development, and we look forward to discussing these improvements with our investors over the upcoming weeks.

# MARKET INSIGHTS

## SEPTEMBER 2022

WRITTEN BY FRAME FUNDS RESEARCH TEAM

*In this issue of 'Market Insights', we look at a method of investing during a market drawdown. We provide an example of how investors could prepare themselves to add to good performing investments.*

Market downturns are painful to go through and are an unavoidable part of investing.

The way you handle periods when your investment portfolio is declining, can define the type of returns you generate over the upcoming decade.

There are obviously other considerations when deciding when to buy and sell, and how to respond during drawdowns, some of these may be leverage, time to retirement, time required before you may need to call on your investment, and the current risk profile of your investments, to name a few.

This article aims to provide a number of simple steps to undertake during market downturns to ensure you are not one of the investors who always sells the lows by capitulating right at the last moment before a market rebound.

As markets (and investment portfolios fall), most investors struggle to deal with the negative emotions associated with losing money. These emotions can cause investors to make rash, short term decisions, as the immediate decision of selling (flight response) reduces the immediate pain. Unfortunately these emotionally fuelled decisions, can impact an investors prospects over the medium to long term.

Most investors know this, however do not have a simple process to follow to help navigate these periods. Here are a few simple ideas.

1. Reduce the risk of ruin.
  - a. Ensure the companies you are investing in will survive (they have enough liquidity to last a sustained downturn).
2. Reduce your investment size in companies which contain the most investment risk.
3. Reduce the frequency of monitoring your portfolio.

- a. Take a medium term view.
- b. During downturns, market volatility increases, therefore your portfolio could be up or down 10% in a week.
- c. You don't get your property valued week, therefore why would you do the same thing with your equity portfolio?

4. Plan out additional investments to capitalise on lower valuations.

- a. After completing Steps 1 - 3, investors should then look to allocate further in a systematic way.

- i. Monthly, Quarterly, Semi-annually, Annually, or a predetermined technical indicator, such as when the index price is above the 200 daily moving average for instance.

5. Commitment to your investment plan for the next business cycle.

Investors must realise that during market downturns, the likelihood of you investing once and getting the bottom is extremely low. It is far more likely, that after you have planned your additional investments, you will strategically invest further into favoured Funds/ Companies and their prices may fall further.

However, as long as you have done your due diligence and have committed to your investment plan, over the medium term you should ultimately do far better.

For instance, if you had invested in the S&P500 at the start of 1987 (roughly 8 months before the '87 crash), you would have generated an annualised return of 10.04%. Yes painful, and unenjoyable over the short term, however over the long term, by strategically investing into the best Funds and companies, you should come out much further ahead.

*Past performance is not an indicator for future performance. This is not intended to be financial advice and does not take into account any particular person's circumstances. Before relying on this information, please speak to an independent financial adviser.*

# GLOBAL MACRO

WRITTEN BY HUE FRAME

## Frame Futures Fund 1F

Units of the Frame Futures Fund – Class 1F declined by -3.47%. The Fund's trading strategies added detracted -0.68%, while the core strategy detracted -2.75%.

The Australian share market closed down over -7%, while most US equity markets finished ~-9%. The long end of the US yield curve continued to accelerate higher, while the Japanese Yen continued to weaken dramatically, which caused continued talk of intervention from the Bank of Japan.

Equity, Commodity and Fixed Income investments all declined by -2.62%, -0.47% and -0.28% respectively. Currency investments were flat.

Largest contributors to performance were positions in gold, cocoa, and lean hogs. Largest detractors were our small equity investments in the US equity markets, as well as our trading in copper.

In terms of fund activity, exposure levels were low during the month, as most of the trading activity occurred with a reduced time frame.

Recently, we have opened a new class for the Frame Futures Fund, called 1F. This class has a lower management and performance fee. Performance listed above and below will now refer to this new class.

If you would like a copy of the original class track record '0F', please email our office on [investors@framefunds.com.au](mailto:investors@framefunds.com.au).

There will be no performance for any period outside of 1 month.

## INVESTMENT TEAM



**HUE FRAME**  
Portfolio Manager



**SYDNEY ROBERTSON**  
Quantitative Research Analyst

## FUND PERFORMANCE as at 30<sup>th</sup> September 2022

	1-Mth	6-Mth	1-Yr	2-Yr p.a	3-Yr p.a
<b>Frame Futures Fund 1F</b>	<b>-3.47%</b>	-	-	-	-
RBA Cash Rate + 3%	0.44%	-	-	-	-
<b>Excess Return</b>	<b>-3.91%</b>	-	-	-	-

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# AUSTRALIAN EQUITIES

WRITTEN BY HARRY HEANEY

## Frame Long Short Australian Equity Fund

Units of the Frame Long Short Australian Equity Fund declined -3.30% in September. Comparatively, the S&P/ASX200 declined -7.34% for the period.

Aggressive selling pressure returned to global financial markets in September. Another upside CPI surprise out of the United States sparked fresh fears inflation may be more persistent than previously expected. Both equity and bond markets took a hit as investors adjusted to the idea of higher interest rates for longer. In Australia, the cash rate was increased to 2.35%, the highest level since December 2014. At the close of the month, market pricing suggested a 79% chance of a fifth consecutive 50 basis point increase to 2.85%. The implied terminal rate is now over 4%.

Alternative energy commodities were top performers once again. Our investments in New Hope Corporation Ltd (**ASX: NHC**) and Whitehaven Coal Ltd (**ASX: WHC**) contributed approximately +0.40% and +0.29% respectively. Energy market turmoil continued in Europe, aided and abetted by leaks in the Nord Stream gas pipelines. Pilbara Minerals also contributed +0.18% as spodumene concentrate prices at auction continued to exhibit significant strength. The strategy took profit in these businesses but has maintained a smaller core position in the portfolio.

Largest detractors were Atlas Arteria Group (**ASX: ALX**), Mineral Resources Ltd (**ASX: MIN**) and NIB Holdings (**ASX: NHF**). They detracted approximately -0.27%, -0.27% and -0.22%. Atlas Arteria fell after they announced their acquisition of a majority interest in the Chicago Skyway, a deal that required them to raise ~\$3.1 billion AUD. Mineral Resources experienced a choppy month, with falling iron ore prices offset by leaked news that suggested they could list the lithium component of the business. NIB fell with the broader market.

Fund performance benefitted from tight risk management and low exposure. Our longer-term strategies remain defensive, while short term volatility presents opportunities to trade long and short. Capital preservation remains our focus as it is our view that elevated volatility will continue in for some time.

At the conclusion of the month the Fund held 76.97% in cash.

## INVESTMENT TEAM



**HARRY HEANEY**  
Co-Portfolio Manager



**HUE FRAME**  
Co-Portfolio Manager

### FUND PERFORMANCE as at 30<sup>th</sup> September 2022

	1-Mth	6-Mth	1-Yr	2-Yr p.a	3-Yr p.a
<b>Frame Long Short Australian Equity Fund</b>	<b>-3.30%</b>	<b>-15.83%</b>	<b>-18.08%</b>	-	-
RBA Cash Rate + 3%	0.44%	2.09%	3.68%	-	-
<b>Excess Return</b>	<b>-3.74%</b>	<b>-17.93%</b>	<b>-21.77%</b>	-	-

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# Frame Funds.

## Contact

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### Frame Funds Management Pty Ltd

Ph: +61 2 8668 4877  
Email: [investors@framefunds.com.au](mailto:investors@framefunds.com.au)  
Address: S25, L6, 58 Pitt Street  
Sydney, NSW, 2000  
Website: [www.framefunds.com.au](http://www.framefunds.com.au)

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