



December 2022 // Issue 21

IN THE FRAME

INTEREST RATE INCREASES

RESERVE BANK

FUND PERFORMANCE

How our strategies performed in November

VOLATILITY

Why the S&P500 had one of its largest gains in history

WHAT I SAW NOVEMBER 2022

WRITTEN BY HUE FRAME

In this issue of 'What I saw', Hue covers recent Interest rate increases from global central banks, talk of a US Federal Reserve pivot, and how our strategies performed in November.

November ended with some significant trend reversals across all asset classes, as officials from the US Federal Reserve hinted that they may decide to slow the pace of rate increases sooner, rather than later. This change in communication had been brewing for a few weeks and most markets saw reversals. The S&P ASX 200 rose 6%, while the Nasdaq, S&P 500 and Dow Jones all finished up over 5%. 30-year US treasury yields dropped, while the US Dollar Index experienced a -4.95% decline.

Interest rate increases

During November, we saw most global central banks increase interest rates further. Australia increased rates by 0.25%, while the US, UK and NZ all increased rates by 0.75%. This brought their rates to 4.00%, 3.00% and 4.25% respectively.

Seasonality

Investors should not have been surprised to see stock markets rally during November. Over the last 20 years, November has been the second strongest month of the year for the S&P 500, with an average gain of 1.8%, while being positive 75% of the time.

Volatility

As talk of a potential Fed pivot gained traction among investors, the renewed optimism resulted in one of the largest outlier-moves in the history of the S&P 500. On the 10th November it rose 5.5%, its largest one day gain since 2020, an increase of over 3.5 standard deviations.

Portfolio performance

During November, both strategies continued to be defensive. The Frame Futures Fund – Class 1F declined by -0.16%. The Long Short Australian Equity strategy declined by -0.212%.



HUE FRAME

Managing Director & Portfolio Manager

Top equity contributors for the Frame Long Short Australian Equity Fund (FLSAEF) were AMP Ltd (**ASX: AMP**), Mineral Resources (**ASX: MIN**) and Computershare Ltd (**ASX: CPU**). Largest detractors were Allkem Ltd (**ASX: AKE**), Ramelius Resources Ltd (**ASX: RMS**) and Perpetual Ltd (**ASX: PPT**).

For the Frame Futures Fund, largest contributors to performance were investments in soybean oil, lean hogs and US 30-year treasury bond futures. Largest detractors were investments in cotton, canola and live cattle futures.

Coming up

Through-out December and January, we will be reaching out to current and future investors to provide updates on Frame Funds Management and our recent strategy development work. There have been many exciting developments on both a corporate and strategy level which we will communicate to everyone.

If you are heading away and plan to be unreachable, please call our office on 02 8668 4877 to schedule a call.

If we don't speak prior to the holiday break, I would like to wish all investors and followers a Merry Christmas and a Happy New Year, and we look forward to speaking to you in January.

MARKET INSIGHTS

NOVEMBER 2022

WRITTEN BY HARRY HEANEY



HARRY HEANEY
Co-Portfolio Manager

In this issue of 'Market Insights', we provide an insight into a new strategy called 'Equity Flow'. We look at how integrating this strategy into the current portfolio, improves the performance profile of the Frame Futures Fund.

When conducting strategy research and development, we like to think in terms of what the new strategy will add to our current portfolio of systems. In general, we are looking for one or more of the following factors:

- Additional alpha
- A reduction in volatility
- Exposure to different/more markets (diversification)
- Exposure at different times

We tend to favour strategies that provide the above but also have a robust investment thesis backing them (a repeatable, definable and explainable edge). This reduces our reliance on back testing and possible model overfitting.

One strategy we have recently introduced meets these criteria – introducing 'Equity Flow'. The strategy offers the Frame Futures Fund additional exposure to a suite of equity index futures markets at specific times of the year where we believe we have an edge.

The investment thesis is simple: Large institutional managers (both active and passive) must adjust their portfolio exposure for inflows and outflows. These adjustments are more likely to happen at certain times of the year. When you combine the scale of the flows, they can be significant enough to move markets in the direction of the flow. By identifying when these periods are, we can take positions in the relevant markets in advance and therefore profit from the resulting market move.

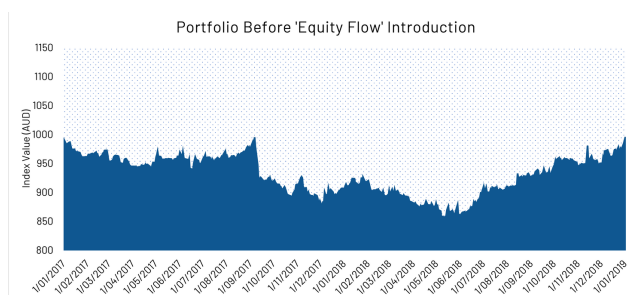
So, how does the strategy look in a back test? With some additional measures to manage risk more actively, we have a strategy that wins approximately 63% of the time, returning 12% per annum with a maximum drawdown of -13%.

But this is only half the picture. What happens when we introduce the strategy into our current portfolio? Constructing an unleveraged, equally weighted portfolio of all our strategies (including 'Equity Flow') we analyse some 'before' and 'after' performance metrics.

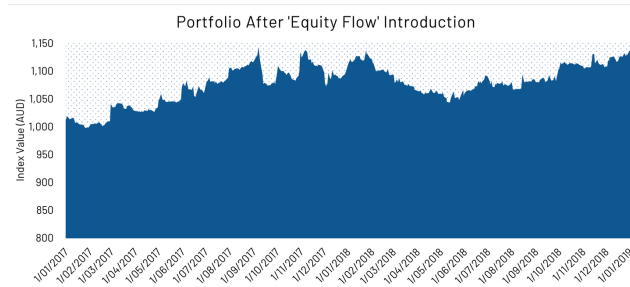
	Excluding 'Equity Flow'	Including 'Equity Flow'
Annualised return (p.a)	19.18%	20.67%
Annualised volatility (p.a)	12.00%	9.80%
Worst drawdown	16.28%	-9.87%
Beta to S&P 500	-0.29%	-0.152%
Correlation to S&P 500	-0.18%	-1.078%

The introduction of 'Equity Flow' has both generated additional alpha and reduced volatility. The increased equity market exposure means beta and correlation to the S&P 500 increase slightly.

Another benefit is increased returns during periods where the portfolio was weak. Consider the prior portfolio's performance between 01/01/2017 and 01/01/2019. It was approximately flat for the period with a maximum draw of -14.7%.



After introducing the 'Equity Flow' strategy however, the portfolio returns 13.6% for the period with a max drawdown of -8.7%, considerably smoothing the returns for the period.



GLOBAL MACRO

WRITTEN BY HUE FRAME

Frame Futures Fund

Units of the Frame Futures Fund 1F declined by -0.16%. Commodity and equity investments detracted -0.65% and -0.46% respectively. Fixed income and currency investments added +0.39% and +0.28% respectively.

November saw a significant number of change in trends across all major asset classes. US Federal Reserve officials hinted that they may slow the pace of rate increases, however they also expect the ending cash rate to be higher for longer. Investors continued to buy the dip in fixed income markets, which in turn, led investment flow into equity markets.

Currency and commodity markets also reversed course due to the above, as well as talk of China adjusting its COVID-zero policy. The S&P 500 and Nasdaq finished up over 5%. Copper rose ~10% while the US Dollar Index was down -4.95%.

Largest contributors to performance were investments in soybean oil, lean hogs and US 30-year treasury bond futures. Largest detractors were investments in cotton, canola and live cattle futures.

In terms of fund activity, the strategies were active in 37 markets, with a large skew to commodity markets. Fixed Income and equity markets have recently reversed aggressively which means the activity levels of our trend following systems will reduce over the upcoming months until sustained trends form.

INVESTMENT TEAM



HUE FRAME
Portfolio Manager



SYDNEY ROBERTSON
Quantitative Research Analyst

FUND PERFORMANCE as at 30TH November 2022

	1-Mth	6-Mth	1-Yr	2-Yr p.a	3-Yr p.a
Frame Futures Fund	-0.16%	-	-	-	-
RBA Cash Rate + 3%	0.46%	-	-	-	-
Excess Return	-0.62%	-	-	-	-

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.

AUSTRALIAN EQUITIES

WRITTEN BY HARRY HEANEY

Frame Long Short Australian Equity Fund

Units of the Frame Long Short Australian Equity Fund decreased -0.21% in November. Comparatively, the S&P/ASX200 advanced +6.13% for the period.

Global equity markets staged another strong month in November as most central banks followed the RBA's 'soft pivot' from October. Downside surprises in global inflation data seemed to confirm this attitude, with terminal rate forecasts repriced lower around the world. The RBA is expected to lift the cash rate another 25 basis points in December to 3.10%.

Top contributors for the month were AMP Ltd (**ASX: AMP**), Mineral Resources (**ASX: MIN**) and Computershare Ltd (**ASX: CPU**). They each contributed approximately +0.14%. Computershare upgraded their FY23 guidance to reflect substantial growth in Margin Income, driven by the global rising rate environment. Mineral Resources benefitted from the continued rebound in iron ore prices and robust demand in the lithium market. AMP continued its rebound, making a new yearly high for the first time since February 2015.

Largest detractors for the month were Allkem Ltd (**ASX: AKE**), Ramelius Resources Ltd (**ASX: RMS**) and Perpetual Ltd (**ASX: PPT**). They detracted approximately -0.31%, -0.25% and -0.17% respectively. Allkem fell as broad profit taking hit large cap lithium miners. Perpetual fell after it was announced that the Pandal acquisition would move forward. A short trade in Ramelius was covered as gold prices pushed higher.

Fund activity was elevated over the course of the month. Our longer-term strategies re-entered the market as it appeared momentum higher was broad based. Shorter term strategies trading both long and short were also busy. The Fund holds longer term positions in every sector, with materials being the highest weighted at 13.43%.

INVESTMENT TEAM



HARRY HEANEY
Co-Portfolio Manager



HUE FRAME
Co-Portfolio Manager

FUND PERFORMANCE as at 30TH November 2022

	1-Mth	6-Mth	1-Yr	2-Yr p.a	3-Yr p.a
Frame Long Short Australian Equity Fund	-0.21%	-7.70%	-16.03%	-	-
RBA Cash Rate + 3%	0.48%	2.52%	4.14%	-	-
Excess Return	-0.69%	-10.22%	-20.17%	-	-

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