



Frame Funds.

In the Frame

Keeping you up to date with Frame Funds and financial markets.

June 2021 // Issue 5



Tetrahydrocannabinol

UP IN SMOKE

CONTINUING TO THRIVE

How our strategies performed during May

CANNABIS STOCKS IN PLAY

Which ASX listed cannabis stocks are worth watching



What I saw in May 2021

CONTINUING TO THRIVE, CHINA CRACK DOWN

May saw most global equity markets rise. The S&P/ASX 200 put in a solid month of performance, rising +1.93%. Fixed income markets continued to consolidate, which once again allowed investors to focus on how well the global economy is recovering from the pandemic.

Inflation remained at the forefront of investors' minds, as the implications of changes to interest rates and current asset purchase programmes, continue to be considered. Commodity markets experienced extreme volatility as China started to crack down on rampant commodity speculation.

Continuing to thrive

The long short Australian equity strategy finished the month down -0.35% versus the S&P/ASX 200 (XJO) +1.93% for the period. Once again, we saw the XJO rally to a new all-time high and then aggressively decline by -3.5%. This choppy price action is generally the least favourable conditions for the strategy, so generating flat performance over the period, should be viewed positively.

The Global Macro strategy had another strong month, finishing up +6.96%. The core strategy contributed +6.07%, while the trading strategy added +0.94%. Largest contributors were our investments in the China A-50 share market (+1.72%), Aeris Resources Ltd +1.61% and S&P/ASX 200 Future trading (+1.40%).

The performance of the Global Macro strategy continues with an impressive 12-month rolling return of +34.29%, whilst the 6-month performance is a solid +11.32%. The long short Australian equity strategy continues to hold

its price near highs, with the 3 & 6-month performance being +2.08% & +10.71% respectively.

Chinese government commodity crackdown

Iron ore, coal and steel sparked profit taking in the overbought materials sector. The selling began when Chinese officials voiced concerns over the prices of raw materials. They increased trading limits and margin requirements on some iron ore, coal, nickel and crude oil contracts. This type of market intervention increases the difficulty of trading these markets and does constantly make us question our involvement there.

All-time highs

Most equity markets across the globe continue to make new all-time highs. Every time this happens, I see financial market commentators come out of the woodwork and say that there is an impending market crash. In our opinion, there is nothing more bullish than markets and companies hitting all-time highs. Commentators that do this will get it right, eventually, however having this attitude generally ensures they miss the bulk of the move.

Outlook

This time of the year is thought of as good and bad around the office. Good, that we get to see the end of financial year pass and assess how well we have performed for the year. It is also a good opportunity to take stock and set new goals and objectives.

The reason we also find it to be worst time of the year is due to the end of financial year re-balancing, end of quarter re-balancing, end of month re-balancing, profit taking, loss crystalizing, window dressing and positioning for the impending report season.

At this time of the year, we always see some real whacky price action which we attempt to 'look through' considering the factors above.

If you would like to discuss any of these points, please email me at hue@framefunds.com.au or call our office on 02 8668 4877.

Hue Frame
Managing Director

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The cannabis theme, currently up in smoke

WRITTEN BY HARRY HEANEY

Patience is required

Why we invested

The cannabis theme first caught our attention in December, when a United Nations (UN) commission voted to remove cannabis from Schedule IV of the 1961 Single Convention on Narcotic Drugs. The decision removed it from being in the company of more dangerous and addictive substances like heroin and cocaine. Many investors around the world looked at this move and saw it as a major step to normalising the substance. Immediately after this announcement, prices of cannabis related stocks began to climb.

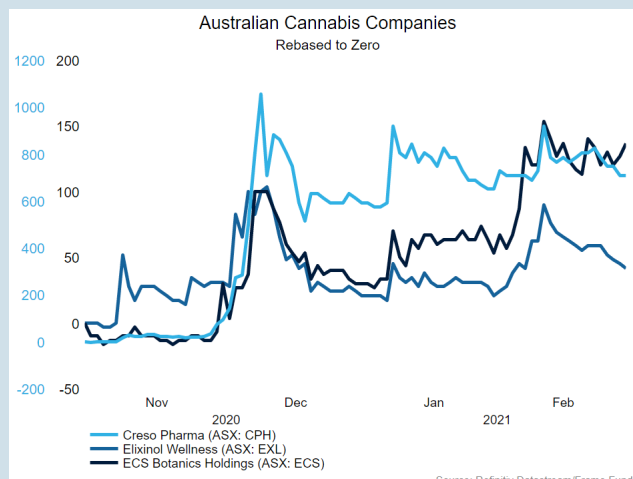
While the change had no immediate material effect on the space, it was seen as a symbolic victory and a sign to nations that it was acceptable to reconsider punitive criminalisation policies. Days later, the US House of Representatives passed the Marijuana Opportunity Reinvestment and Expungement Act (MORE) which decriminalised cannabis on a federal level.

In January 2021, some states in America began renewed efforts to legalise cannabis locally. Lawmakers in New Mexico, New York and Connecticut all made overtures to either medicinal or recreational legalisation. A strong first day of legal sales in Illinois also spurred belief the industry was profitable.

In February, a group of German researchers published a study demonstrating the benefits of medicinal cannabis on patients with Parkinson's disease.

By this time, the continued stream of positive news flow had reached equity markets – from the start of November to the 10th February, AdvisorShares Pure Cannabis ETF had appreciated approximately 183%.

We began to initiate investments in the theme during the month of December, and continued to build positions in companies such as Creso Pharma (**ASX:CPH**), ECS Botanics Holdings (**ASX:ECS**) and Elixinol Wellness (**ASX:EXL**) throughout January.



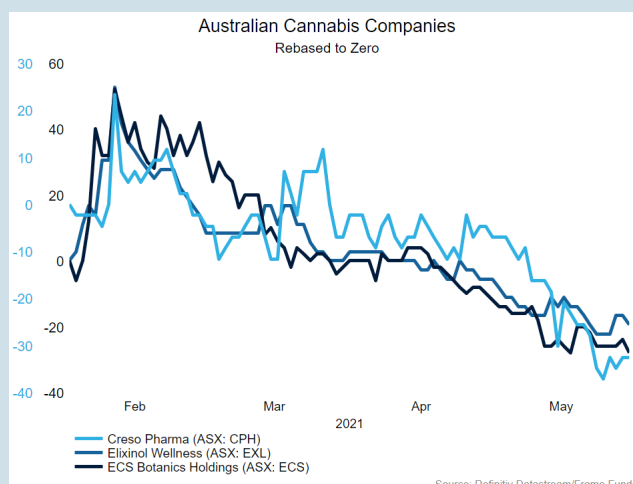
Towards the end of January, it became clear Joe Biden would enter the White House with a Democratic House and Senate. In theory, this would make it easier to pass legislative priorities which strengthened thematic tailwinds and confirmed our view that immanent short-term volatility would present opportunities.

Why we exited

We have since exited our investments in the cannabis theme for multiple reasons.

After significant runs into March, we saw most businesses in the sector become over valued without any real shift in company fundamentals. We also saw a slowing of progress from a governmental and legislation perspective. When it became apparent further legal developments in the industry would be delayed by Congress, prices began to return to more normalized levels, though still inflated.

In February, companies issued their half yearly reports and financial statements. The general market reaction was negative, as business fundamentals could not justify current trading levels across the board.



As companies within the sector saw their share price continue to decline in late February and early March, it became apparent the theme required further developments to be in play once again. We subsequently exited our investments.

What we want to see next

To begin reaccumulating investments in the cannabis sector, we would like to see several developments.

The most important is legalisation, not just in the United States but around the world where there are significant markets for medicinal and recreational cannabis.

In the United States, legalisation of cannabis would break the regulatory shackles that has been holding the industry back. It would open access to funding from federally registered banks and allow companies who sell cannabis to trade on national stock exchanges (thereby providing easier access to capital).

Further developments in the medicinal space would also be beneficial for the theme. If positive research continues to be published around the globe, we expect to see renewed investor interest.

Mergers or acquisitions in the sector would also be positive – this would allow larger companies to gain access to better distribution channels and expand market access. Ultimately the objective is to improve business profits and margins, which will make the companies more attractive investments.



HUE FRAME
Portfolio Manager



HARRY HEANEY
Research Analyst

Global Macro

WRITTEN BY HUE FRAME

Frame Futures Fund

Units of the Frame Futures Fund increased by +6.96%. The core strategy contributed +6.17% to performance, whilst the trading strategy added +0.94%.

Our Equity investments contributed +6.07%. Currency and Commodity investments rose by +0.33% and +0.63% respectively, while Fixed Income investments were marginally higher.

May saw equity markets continue to move higher. As mentioned last month, fixed income markets have consolidated at current levels, which allowed investors to focus on how well the global economy was rebounding, rather than focussing on the risk of near-term interest rate rises. The Australian share market had a positive month, however once again, was well supported by our sector weightings in the big four banks, which continued to perform well. There seemed to be a constructive rotation into listed gold companies during the month. This rotation was supported by a weaker US Dollar Index. Our exposure to gold and silver added +2.72% to performance.

Largest contributors to the performance were our investments in China A-50 equity market (+1.72%), investment in Aeris Resources Ltd (+1.61%) and S&P/ASX 200 Future trading (+1.40%). The largest detractor to performance were our investments in listed cryptocurrency businesses (-1.18%).

In terms of fund activity, we have spent significant energy reviewing our investments which are held within the core strategy. Last month we reduced some holdings based on current market conditions and our outlook for the next 12 months. We removed our investments in ASX listed cannabis companies, reduced some small cap copper exposure on euphoric price action. We also continued to add exposure to emerging and frontier equity markets.

At the conclusion of the month, the Fund held 38 investments.

FUND PERFORMANCE as at 31 st May 2021				
	1 month	3 months	6 months	1 year
Frame Futures Fund	+6.96%	+5.89%	+11.32%	+34.29%
RBA Cash Rate + 3%	+0.26%	+0.78%	+1.56%	+3.21%
Excess Return	+6.69%	+5.11%	+9.76%	+31.08%

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HUE FRAME
Portfolio Manager



HARRY HEANEY
Research Analyst

Australian Equities

WRITTEN BY HARRY HEANEY

Frame Long Short Australian Equity Fund

The Frame Long Short Australian Equity Fund declined -0.35% in May. Comparatively, the S&P/ASX 200 rose +1.93% for the period.

May saw volatility in commodity markets spill over into equity markets. This resulted in the expansion of the trading range for the S&P/ASX 200. After closing at an all-time high on the 10th, the index proceeded to decline by 3.5% as an aggressive sell-off led by iron ore, coal and steel sparked profit taking in the overbought materials sector. The selling began with Chinese officials voicing concerns over the prices of raw materials, as well as increasing trading limits and margin requirements on some iron ore contracts. Profit taking appeared to be short lived however as investors took the opportunity to accumulate at lower levels.

Boral Limited (**ASX:BLD**), Codan Limited (**ASX:CDA**) and Virgin Money (**ASX:VUK**) were the Fund's top contributors as they continued to trend higher and make new 52-week highs. Their approximate contributions were +0.45%, +0.33% and +0.30% respectively.

Costa Group (**ASX:CGC**) was sold off aggressively after their AGM market update. The update cited labour market shortages and only a marginal increase in first half performance compared to 2020. Costa Group detracted approximately -1.32% from the Fund's performance. This is unfortunately an unavoidable part of participating in equity markets – investors will always have differing opinions on company updates which can result in somewhat confusing price moves. Mineral Resources (**ASX:MIN**) and Oil Search (**ASX:OSH**) detracted -0.27% and -0.22% respectively. Their declines can also be attributed to the commodity price volatility mentioned above.

The material sector remains our largest weighting at 43.45%. We believe the selling and subsequent rebound in commodities mid-month is proof of the underlying strength of the sector. The Fund continued to build positions in our basket of materials companies. Additionally, we took advantage of discretionary trading opportunities in Latitude Consolidated (**ASX:LCD**) and ASX200 Index Futures.

At the end of May, the Fund held 21 investments.

FUND PERFORMANCE as at 31st May 2021

	1 month	3 months	6 months	1 year
Frame Long Short Australian Equity Fund	-0.35%	+2.08%	+10.71%	-
RBA Cash Rate + 3%	+0.26%	+0.78%	+1.56%	-
Excess Return	-0.62%	+1.30%	+9.16%	-

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RAYMOND YIN
Equities Trader

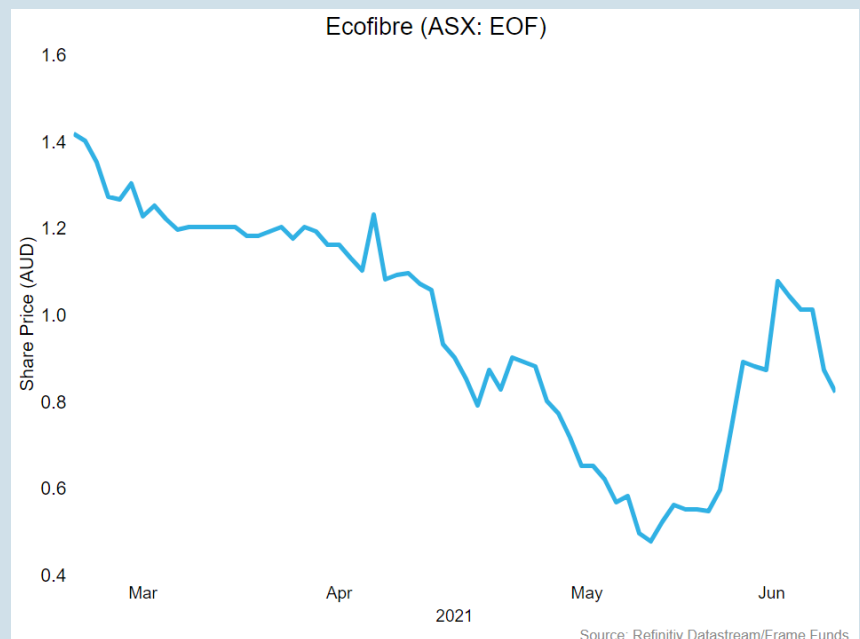
Stocks in Play

WRITTEN BY RAYMOND YIN

ASX-listed Cannabis Stocks in Play

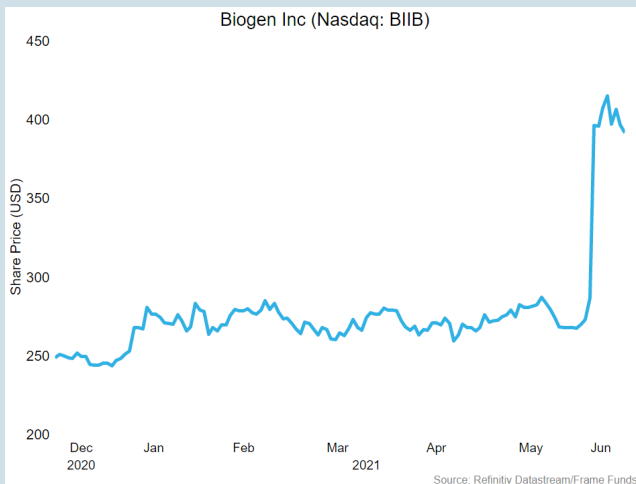
In May, we witnessed the majority of cannabis related stocks continue to sell off. This trend has continued into the start of June. However, there does seem to be a shift in sentiment with cannabis ETFs such as Nasdaq listed Global X Cannabis (**POTX**) and Arca listed ETFMG Alternative Harvest ETF (**MJ**) pivoting from their lows in mid-May. Since then, they are up 23% and 12% respectively.

Unfortunately, the ASX has not seen the same bounce. During May, most cannabis related stocks have either ranged at current levels, or have continued to drift lower. More recently, one ASX-listed cannabis business that has seen a bounce is Ecofibre Ltd (**ASX:EOF**).



Ecofibre has recently surged over 100%, however they haven't released any significant announcements since 12th May 2021. The catalyst for this surge can be attributed to the general sentiment change in the Alzheimer's space, after Nasdaq listed Biogen Inc. (**Nasdaq:BIIB**), was given FDA approval for its Alzheimer's drug (the first approval in almost 20 years). Ecofibre has ongoing clinical research that is in Phase II, which focuses on the agitation of patients with Alzheimer's, using cannabidiol (CBD).

Although there is no direct link between Biogen and Ecofibre, it put a spotlight on the endless number of possibilities that can come from cannabis research and development.



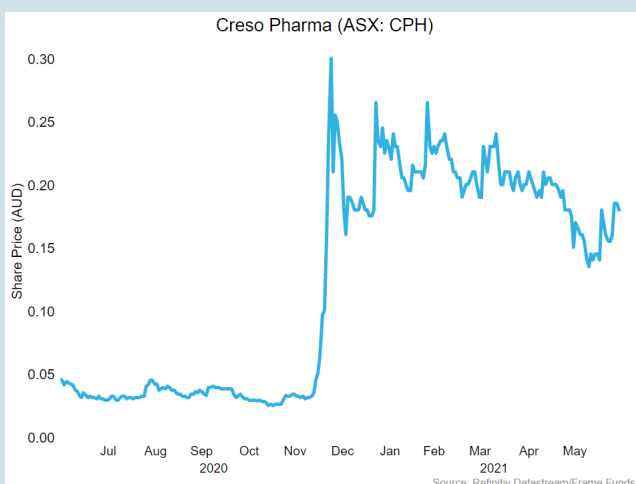
investment, due to its heavy regulation by governments and large retail investor following. However recently, the developments mentioned in our Market Insights section, provide positive news which should compel investors to monitor these businesses as the aforementioned developments unfold.

These possibilities are not limited to just Alzheimer's, but for use in the treatment for mental health, cancer treatments, and several other medical practices to name a few.

There is no guarantee that cannabis research and development will yield any advanced results, however, we have continuously seen developments occur within medical and pharmaceutical fields, which continue to justify research and testing.

At the start of June, we also saw other notable news from ASX-listed cannabis business, Creso Pharma Ltd (**ASX:CPH**). They announced that they had completed a dual listing on the US OTC market. This listing is noteworthy as the US has a large retail investor base, which increases the access Creso has to capital markets for future expansion.

Furthermore, Creso saw a spike in volume traded. On the 3rd June 2021 it traded \$15.5M which was almost seven times the value traded of the previous day. It finished up 28% intraday. Again, this is significant as it brings more investor focus towards the sector.



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Frame Funds.

Contact

Frame Funds Management Pty Ltd

Ph: +61 2 8668 4877
Email: investors@framefunds.com.au
Address: S25, L6, 58 Pitt Street
Sydney, NSW, 2000
Website: www.framefunds.com.au

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