Frame Funds.

In the Frame

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

August 2021 // Issue 7

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HOW IT IS DIFFERENT

FUND PERFORMANCE

How our strategies performed in July

CHINA & HONG KONG

What is happening over there

What I saw in July 2021

NSW LOCKDOWN, CHINA& HONG KONG, FUND PERFORMANCE

In a continuation from prior months, July saw an expansion of volatility but major markets continued to close higher.The S&P 500 and S&P/ASX 200 finished the month up 2.27% & 1.09% respectively.

The Chinese and Hang Seng share markets saw huge downside volatility, the China A-50 Index and Hang Seng Index both closed down -12.60% & 9.94% respectively.

The Chinese government continued to crack down on their listed technology businesses, and extended this crack down into the education sector.

NSW lockdown

Sydneysiders have been in lockdown for over 6 weeks now. We continue to see a gradual increase in daily cases, however the concerning thing is the consistently high number of infectious people in the community. The question I ask though, is at what point does NSW change tact and try something different?

China & Hong Kong

During July, the Chinese and Hong Kong share markets imploded. Both were down around -10% as the Chinese government published reforms that will fundamentally alter the business model of private education companies.

The new regulations ban firms that teach school curricula from making a profit, raising capital or going public. This is yet again another demonstration of the power their government yields and how investing in this region is becoming increasingly difficult.

Portfolio Performance

We saw mixed performance across our strategies. Long Short Australian Equities generated a positive return of +2.06%, while the Global Macro strategy declined -3.16%.

Largest contributors for the Frame Long Short Australian Equity Fund (FLSAEF) were Bluescope Steel, Mineral Resources and Seven Group, while the largest detractors were Codan, A2 Milk and Kogan.

The three, six & 12-month performance of the FLSAEF continues at a solid +5.27%, +17.03% and +17.53%.

The Frame Futures Fund had a mixed month of performance. Disappointingly, a small number of investments contributed to much of the underperformance. Our investments in China & Hong Kong were the largest detractors, while our investments in Lynas Rare Earths and Aeris Resources contributed +0.71% and +0.49% respectively. The three, six and 12-month performance of this strategy is +3.62%, 4.86% and 25.85%.

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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COVID-19 The Delta Variant

WRITTEN BY HARRY HEANEY

Over the last few months, we have seen the focus of the world's media shift from the original COVID-19 strain to its younger sibling – the delta variant.

This article will discuss the differences between the Delta variant and original strain in terms of transmissibility, hospitalisation rates and deaths, as well as the potential economic impact of its spread.

Origin

The Delta variant of SARS-CoV-2 was first identified in India last December. It spread throughout India and the United Kingdom before reaching the United States and Australia. By the end of July, it was responsible for more than 80% of new US COVID-19 cases and is the variant that has caused New South Wales to be plunged into a now months long lockdown.

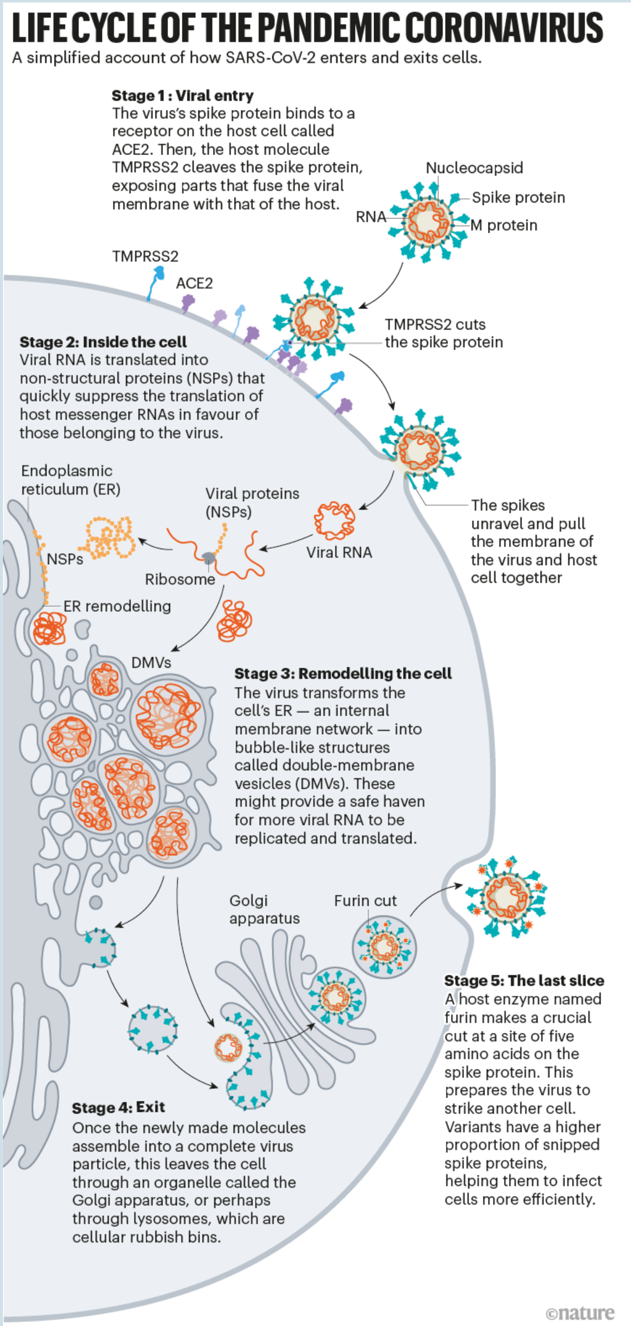
Transmissibility

The main cause of this rapid spread is due to Delta's transmissibility compared to the original strain of the virus. According to Dr Perry Wilson, a Yale epidemiologist, the Alpha mutation (first found in the UK) was 50% more contagious than the original SARS-CoV-2 virus, but Delta is 50% more contagious again. Practically, this means in a completely unmitigated environment (no masks, social distancing or vaccinations) one person infected with the original virus would transmit the disease to approximately 2.5 other people.

In the same setting, a person with the Delta variant would infect roughly 3.5 to 4 other people.

The reason for the increased transmissibility is still under investigation, but preliminary and yet to be peer reviewed studies suggests infection with the delta variant leads to greater levels of the virus accumulating more rapidly in human airways. This seems to then result in more viral particles being spread.

Current speculation points to the P681R mutation of the Delta variant being responsible – it is believed the mutation causes the spike proteins to be split in a way that more effectively fuses with cell membrane (shown in the diagram below). This ultimately means the variant can infect more cells in a given amount of time.



(Graphic produced by Nik Spencer (2021) and is based on work done by Hui Liu from the University of Utah).

As the Delta variant is more infectious, hospitalisation rates are higher which makes logical sense – more people with the virus means an increased chance of an adverse reaction, leading to higher hospitalization rates.

There is no evidence however that delta is more deadly than the original COVID-19 variant. Some preliminary studies from Scotland and Canada suggest that the risk of hospitalisation from delta is higher than the original variant however these claims have not been peer reviewed or verified.

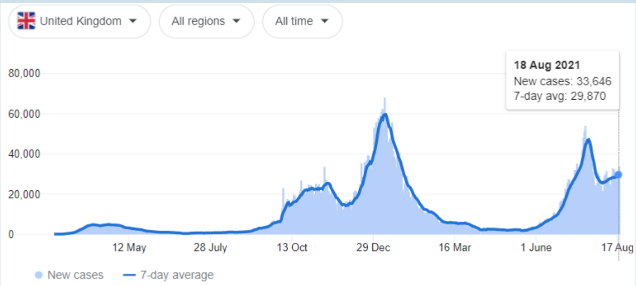
It is also difficult to accurately compare death and hospitalisation rates, as the Delta variant emerged as the global vaccine rollout had started. Delta also may appear more infectious because it has caused more outbreaks in populations which contain higher risk factors, or in regions which had experienced more stress on their hospital systems.

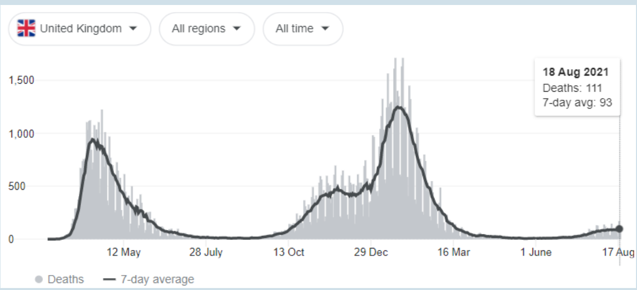
Positives

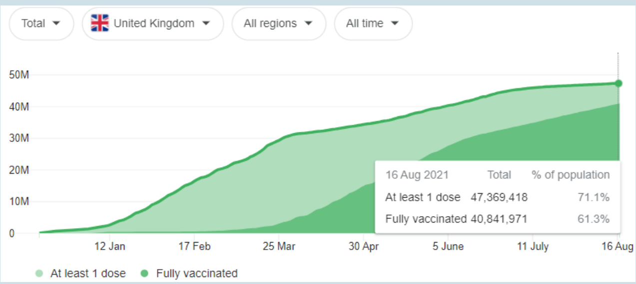
One thing is very clear however – the vaccines are still very effective against preventing serious disease and death at the hands of the Delta variant. Most studies have concluded that all vaccines currently being used in Australia (Oxford/AstraZeneca, Pfizer/BioNTech and Moderna) significantly reduce the risk of death by more than 85%, regardless of the variant.

All vaccines do not provide much protection after 1 dose, and full protection will not be provided until roughly 14 days after the second dose.

There has been a wide array of studies conducted on the various vaccines and their effectiveness in preventing infection, all with differing results. When talking about the efficacy of the vaccines, it seems the proof is in the pudding – if you compare the cases and deaths in the United States and the United Kingdom before and after the vaccine rollout, it is immediately evident that there have been far fewer deaths in the post vaccine era.







Despite the spread of the Delta variant globally this year, global market indices have continued to rise. Since NSW entered lockdown at the start of July, the S&P ASX200 has stubbornly risen more than 2.5%. In that time most other states have also experienced snap lockdowns to contain cases as they emerged.

Market impact

After looking at how aggressively the market rebounded in 2020, investors seem to feel they are better off remaining invested and any buying any dip. This perspective is aided and abetted by central banks who continue to inject record amounts of liquidity into their respective economies and maintain accommodative policy settings. With such little return on low-risk investments, investors continue to believe accepting the equity risk premium is worthwhile.

We also expect another round of ‘revenge spending’, in particular when NSW reopens. While the latest round of government support is not as extensive as ‘JobKeeper’ and ‘JobSeeker’, there will undoubtedly be pent up demand ready to be unleashed once the NSW economy is back up and running.

We expect our ‘reopening’ businesses (retailers, travel companies et cetera) to make up some lost ground into the end of the year as vaccination rates hit targets and Australia once again becomes open for business.

HUE FRAME
Portfolio Manager

HARRY HEANEY
Research Analyst

Global Macro

WRITTEN BY HUE FRAME

Frame Futures Fund

Units of the Frame Futures Fund declined by -3.16%. Both the core and trading dragged on performance, costing -2.22% and -0.72% respectively.

Commodity, Currency and Equity investments detracted -0.22%, -0.19% and -2.75% respectively. Fixed Income investments rose by +0.22%.

July saw continued strength in global equity markets. As in previous months, volatility emerged in concentrated pockets, however equity markets in general trended higher. The US S&P 500 & S&P/ASX 200 finished the month up +2.27% & +1.09% respectively. The Chinese and Hang Seng share markets on the other hand experienced huge downside volatility – the China A-50 Index and Hang Seng Index both closed down -12.60% & -9.94% respectively. This came as a result of continued government crack downs on tech businesses which also extended into the education sector last month.

Again we saw our investments in the battery material space contribute well. The basket of investments which operate across the supply chain added +2.2%. Pilbara Minerals Limited (**ASX :PLS**) updated the market on the results of its first spodumene concentrate auction. Lynas Rare Earths Ltd (**ASX :LYC**) announced they were awarded a $14.8m government grant.

Largest contributors to performance were our active trading strategies on the S&P/ASX 200 future contract (+1.84%), our investment in Lynas Rare Earths Ltd (+0.71%) and our investment in Aeris Resources Ltd (+0.49%). Our investments in the Chinese and Hong Kong share markets were the largest detractor to performance.

In terms of fund activity, we continued to accumulate 're-opening' businesses and participated in a selection of private placements in the copper and gold space. Most of our activity was centred around the analysis of central bank communication and how the recent COVID-19 Delta strain may force a change in rhetoric.

At the conclusion of the month, the Fund held 35 investments.

FUND PERFORMANCE as at 31st July 2021

	1 month	3 months	6 months	1 year
Frame Futures Fund	**-3.16%**	**+3.62%**	**+4.86%**	**+25.85%**
RBA Cash Rate + 3%	+0.26%	+0.78%	+1.55%	+3.18%
Excess Return	**-3.42%**	**+2.84%**	**+3.31%**	**+22.67%**

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Australian Equities

HUE FRAME
Portfolio Manager

HARRY HEANEY
Research Analyst

WRITTEN BY HARRY HEANEY

Frame Long Short Australian Equity Fund

Units of the Frame Long Short Australian Equity Fund increased +2.06% in July. Comparatively the S&P/ASX 200 rose +1.09% for the period.

Global equity markets rose again last month, with the ASX200 posting it's tenth straight month of gains. The market was rangebound for the first half of the month before the materials and industrials sectors drove the market to fresh all-time highs. Yields continued to decline as global central banks maintained their accommodative policy stances amid mixed economic data that fed the 'peak growth' narrative.

Mineral Resources (**ASX: MIN**) was the top equity contributor once again as the battery metal theme returned to centre stage. The approximate contribution was +0.94%. Seven Group Holdings (**ASX: SVW**) and BlueScope Steel (**ASX: BSL**) also contributed +0.56% and +0.55% respectively, where the latter benefitted from materials sector tailwinds and the announcement of record second half year results. Seven Group appeared to benefit from Boral's (**ASX: BLD**) rejection of their takeover offer. Discretionary activity in the ASX200 SPI future contract contributed a further +1.08%.

The largest detractors were Kogan.com Limited (**ASX: KGN**), Codan Limited (**ASX: CDA**) and A2 Milk Company Limited (**ASX: A2M**), costing approximately -0.28%, -0.27% and -0.21% respectively. While Kogan's July business update seemed positive on face value, continued questions around their inventory management sent the stock price lower. A2 Milk struggled to maintain its turnaround momentum after the ACCC reauthorised restrictions on the marketing of infant formula.

Our investments in materials continued to grow with the sector – they now make up 45.45% of the portfolio. We took advantage of an event driven arbitrage opportunity in Strickland Metals (**ASX: STK**) that arose as a result of our participation in their placement. Bellevue Gold (**ASX: BGL**) also presented trading opportunities after upgrading their resource at the start of the month.

At the conclusion of the month the fund held 22 investments.

FUND PERFORMANCE as at 31st July 2021

	1 month	3 months	6 months	CYTD
Frame Long Short Australian Equity Fund	**+2.06%**	**+5.27%**	**+17.03%**	**+13.69%**
RBA Cash Rate + 3%	+0.26%	+0.78%	+1.55%	+1.81%
Excess Return	**+1.80%**	**+4.48%**	**+15.49%**	**+14.36%**

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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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