



Frame Funds.

# *In the Frame*

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

October 2021 // Issue 9



## Systematic Approach

WHEN TO INVEST MORE

### FUND PERFORMANCE

How our strategies performed in September

### IRON ORE MINER SELL OFF

Which is our preferred investment within the iron ore space



# What I saw in September 2021

## IRON ORE MINER SELL OFF, NATURAL GAS SHORTAGE

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September saw global equity markets sold off aggressively due to a combination of factors. The yield on 10 & 30-year US treasuries continued to rise, which gave investors a reason to start positioning their portfolios for higher interest rates in the future. We also saw Chinese property giant Evergrande, move to the brink of a collapse, as they failed to make their debt repayments. The S&P500 slumped by -4.65% while the Australian share market was the relative out-performer, as it declined by -2.69% for the month.

### Iron ore miner sell off

The story of the last 3 months really has been the iron ore sell-off. The sell-off accelerated during September due to the issues with Chinese Evergrande mentioned above. Australia's largest miners felt the brunt of the selling pressure. Rio Tinto, Bhp Billiton and Fortescue continued to sell-off aggressively as investors attempted to assess the level of demand for iron ore due to a slowing Chinese property market. Although the recent performance of these companies has been poor, we are still optimistic on the long-term outlook for Fortescue in particular.

### Natural gas shortage

As Europe enter the colder winter months, markets assessed the level of natural gas available to supply this region. What was found was there is not an awful lot. Supply chain issues and underinvestment have meant

that most regions are struggling to source enough natural gas to survive the winter. Russia to the rescue... but with strings attached.

### Portfolio performance

Performance for both strategies under-performed during September. The long short Australian equity strategy declined by -3.76%, while the Global Macro strategy declined by -2.17%.

The Long Short Australian Equity Fund (FLSAEF) suffered due to the iron ore and material sell off, however the strategy responded quickly and increased its cash holding.

Largest contributors for the Frame Long Short Australian Equity Fund were Oil Search Limited, Whitehaven Coal and News Corp, +0.67%, +0.40% and 0.38% respectively. The largest detractors were BlueScope Steel, Mineral Resources and Fortescue Metals Group, -0.89%, -0.86% and -0.79% respectively.

The 12-month and CYTD performance of the FLSAEF continues at a solid +17.79% and +7.72% respectively.

The Frame Futures Fund (FFF) had a lacklustre month of performance dropping -2.17%. The trading strategies generated +0.69% while the core strategy detracted by -2.87%.

The six & 12-month performance of the FFF continues at a solid +9.76% and 23.25%. Impressively, the 12-month performance has continued to track above >20% p.a.

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

**Hue Frame**  
Managing Director

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# Systematic Strategies

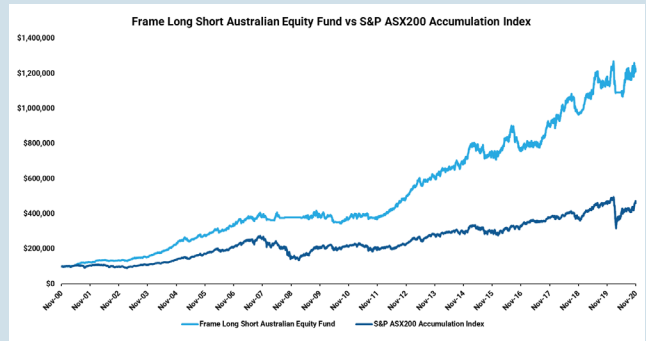
WRITTEN BY HARRY HEANEY

## WHEN IS THE BEST TIME TO INVEST?

This is one of the first questions people ask when they are looking to participate in financial markets. It's right up there with "what should I invest in"? Of course, the adage "time in the market beats timing the market" holds true, but if we can squeeze some extra returns out of our investments, why wouldn't we?

Firstly, the approach and answer will depend on the type of strategy you are investing into. If the strategy is systematic, we can utilise a statistical methodology. Take one of the trend-following strategies we traded in the Frame Long Short Australian Equity Fund as an example. It has been extensively tested over 20+ years of data to prove it is robust and can deliver strong risk adjusted returns over the long-term.

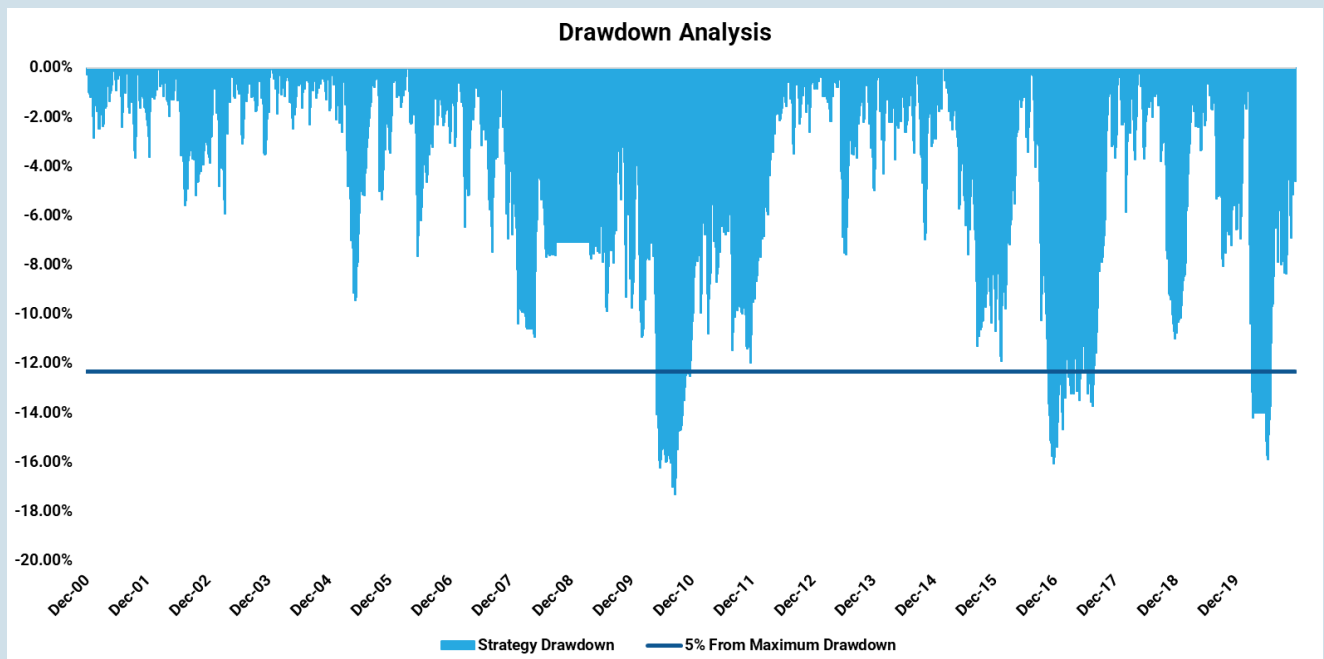
The chart to the right shows the hypothetical growth of \$100,000 invested in December 2000 until December 2020. The back test shows the strategy to have an annualised return of 13.11% and a maximum drawdown of 17.33% for the period – very respectable performance statistics.



Now, given we know the theoretical 'maximum' loss of the system, it would make sense to increase the amount we invest as the strategy nears that level. Theoretically, we would invest more at a lower unit price, which ideally would capture more of the recovery. If we were to increase our investment by 10% every time the strategy dipped -12.33% from its peak, what impact would this have on the long-term annualised performance.

As we can see below, you would be making additional investments in 2010, 2016 and 2020. With just three extra 'top-ups', your annualised rate of return becomes 14.60%, an additional 1.49% every year!

While this simple calculation introduces an aspect of 'look ahead' bias, it demonstrates the benefits of increasing your exposure at an opportune time. Importantly, you are still investing with a 'time in the market' approach, letting the positive expectancy of the strategy play out over the long term.





**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 -2.17%. The core strategy under-performed, it declined by -2.87%. The trading strategy contributed +0.69%.

Equity and Commodity investments detracted approximately -2.38% and -0.30% respectively, while Currencies and Fixed Income investments rose by +0.48% and +0.27% respectively.

Global equity markets sold off aggressively due to a combination of factors. The yield on 10 & 30 year US treasuries continued to rise, which gave investors a reason to start positioning their portfolios for higher interest rates in the future. During the month we also saw Chinese property giant Evergrande, move to the brink of a collapse, as they failed to make their debt repayments. These factors caused the S&P500 to slump by -4.65%. The Australian share market was the relative out-performer, only declining by -2.69% for the month.

Largest contributors to the performance were our active trading strategies on the S&P/ASX 200 future contract (+2.45%) and our investment in Liantown Resources Ltd (+1.85%). Our investment in Fortescue Metals Group was the largest detractor to performance once again, however we remain positive on the long-term outlook for the business.

In terms of fund activity, we started to accumulate positions in a variety of ASX-listed Nickel companies. We also continued to reduce the number of holdings in businesses where our level of conviction had waned. We used the sell-off in US equities as an opportunity to increase our holdings in the Nasdaq and the Russell 2000.

At the conclusion of the month, the Fund held 24 investments.

### FUND PERFORMANCE as at 30<sup>th</sup> September 2021

	1 month	3 months	6 months	1 year
<b>Frame Futures Fund</b>	<b>-2.17%</b>	<b>-3.09%</b>	<b>+9.76%</b>	<b>+23.25%</b>
RBA Cash Rate + 3%	+0.25%	+0.78%	+1.57%	+3.17%
<b>Excess Return</b>	<b>-2.43%</b>	<b>-3.88%</b>	<b>+8.19%</b>	<b>+20.08%</b>

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**HUE FRAME**  
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Research Analyst

# Australian Equities

WRITTEN BY HARRY HEANEY

## Frame Long Short Australian Equity Fund

Units of the Frame Long Short Australian Equity Fund decreased -3.76% in September. Comparatively the S&P/ASX200 declined -2.69% for the month.

The benchmark Australian index snapped its 11-month winning streak in September, as global equity markets finally succumbed to selling pressure. Concerns around a weakening Chinese economy drove the profit taking, in combination with news that real estate giant Evergrande is teetering on the brink of collapse. As the market digested the implications of possible credit contagion and a slowdown of the Chinese property sector, investors aggressively sold off Australian materials businesses. The sector declined by -12.1% for the period, with iron ore companies experiencing the brunt of the selling.

In terms of Fund activity, September was a busy month. We began to reduce our exposure to the materials sector when it became apparent worries surrounding the Chinese economy may persist for longer than anticipated. The focus was on reducing our investments in companies that were exposed to Chinese iron ore demand or the steel industry. It is our view that these investments will be subject to significant short-term volatility with limited upside potential due to the risks stated above. We initiated investments in South32 Limited (**ASX: S32**) and Alumina Limited (**ASX: AWC**) as they look poised to benefit from aluminium shortages in the medium term.

Top equity contributors were Oil Search Limited (**ASX: OSH**), Whitehaven Coal Limited (**ASX: WHC**) and NewsCorp (**ASX: NWS**), which contributed +0.67%, +0.40% and +0.38% respectively. Oil Search benefitted from rising crude prices, as OPEC+ remained firm on production levels despite increased demand. Whitehaven rose with coal prices, as strong demand from Asia looks set to continue until 2025.

Similar to last month, investments in materials companies detracted from performance as money continued to flow out of the sector. BlueScope Steel Limited (**ASX: BSL**), Mineral Resources Limited (**ASX: MIN**) and Fortescue Metals Group (**ASX: FMG**) detracted from performance by -0.89%, -0.86% and -0.70% respectively. Materials remains our heaviest weighted sector, however our allocation has decreased to 24%.

At the conclusion of the month, the Fund held approximately 36% in cash.

### FUND PERFORMANCE as at 30<sup>th</sup> September 2021

	1 month	3 months	6 months	CYTD
<b>Frame Long Short Australian Equity Fund</b>	<b>-3.76%</b>	<b>-3.30%</b>	<b>+2.07%</b>	<b>+7.72%</b>
RBA Cash Rate + 3%	+0.25%	+0.78%	+1.56%	+2.34%
<b>Excess Return</b>	<b>-4.02%</b>	<b>-4.08%</b>	<b>+0.51%</b>	<b>+5.38%</b>

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