Frame Funds.

In the Frame

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

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What I saw in October 2021

COAL, GOING, GOING, GONE & PORTFOLIO PERFORMANCE

October saw global equity markets recover from the slump we saw in September. The S&P 500, Nasdaq and Russell 2000, all jumped +6.91%, +7.90% and +3.01%. The Australian share market struggled, it finished down -0.12%. Global fixed income markets continued to price in rate increases. This is contrary to the current rhetoric from global central banks. Major commodity markets were volatile. Coking coal was down over -30%, while Natural Gas was down approximately -10% for the month.

Coal, going, going, gone

The Chinese government has been picking off commodities which have risen further than they would like. We have seen intervention in the Iron ore, copper and in October, Coal markets. Their general play book is; they first release commodities from their reserves (increase supply), secondly they adjust their margin requirements, and finally, implement price ceilings. Since they started this action on coking coal, prices have declined by approximately 45%.

US inflation hits 5.4%

Another surge in consumer prices in September sent inflation up 5.4% from a year ago. This matched the highest such rate since 2008. Tangled global supply lines continue to create havoc. Consumer prices rose 0.4% in September from August, as supply chain disruptions kept many good scarce.

Portfolio performance

During October, the performance of our strategies was mixed. The Global macro strategy had a solid month of performance, it rose +6.09%. The long short Australian equity strategy dropped -1.12%.

The Frame Futures Fund (FFF) had a solid month of performance, it rose +6.09%. Both the trading & core strategies contributed positively, they added +2.23% and +4.18% respectively. Largest contributors to performance were ASX 200 Future trading +1.55%, Natural Gas Future trading +0.68% and our investments in an ASX listed Blockchain Technology business +2.05%.

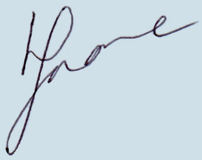
The six & 12-month performance of the FFF continues at a solid +10.01% and +25.19%. Impressively, the 12-month rolling performance continues above >20% p.a.

The Frame Long Short Australian Equity Fund (FLSAEF) dropped -1.12%.

Largest contributors for the Frame Long Short Australian Equity Fund were Boral Limited, Nine Entertainment and Seven West Media, +0.20%, +0.19% and 0.19% respectively. The largest detractors were Newscorp, Cleanaway and Brickworks, -0.39% -0.29% and -0.28%.

The 12-month and CYTD performance of the FLSAEF continues at a solid +13.25% and +6.41% respectively.

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

Inflation and Interest Rates

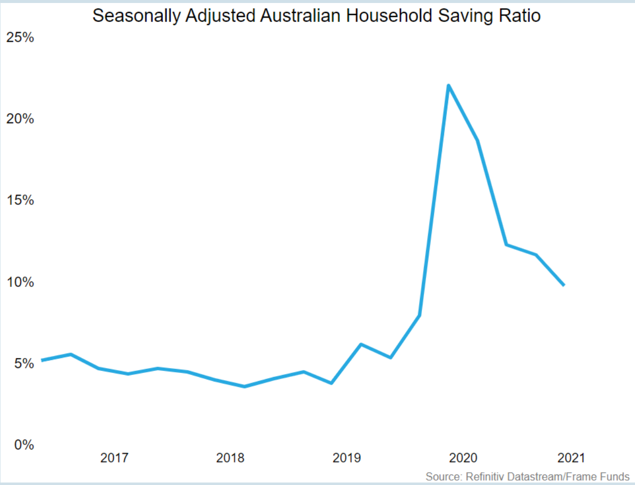
WRITTEN BY HARRY HEANEY

In our 2019 market insight titled 'Federal Funds Rate projections. They expect what???', we covered what the US Federal Reserve's expectations for interest rate increases were. We felt at the time there was a mismatch between what the dot plot was indicating vs what the interest rate market was indicating. You can find the article here: https://www.framefunds.com.au/federal-funds-rate-projections-they-expect-what/

We are once again seeing a major dislocation between interest rate markets and central banks. It has stemmed from the unique combination of persistently high inflation data and policy makers who insist it is 'transitory'. This piece will discuss how we got here, what is happening now and possible future changes in inflation and interest rates.

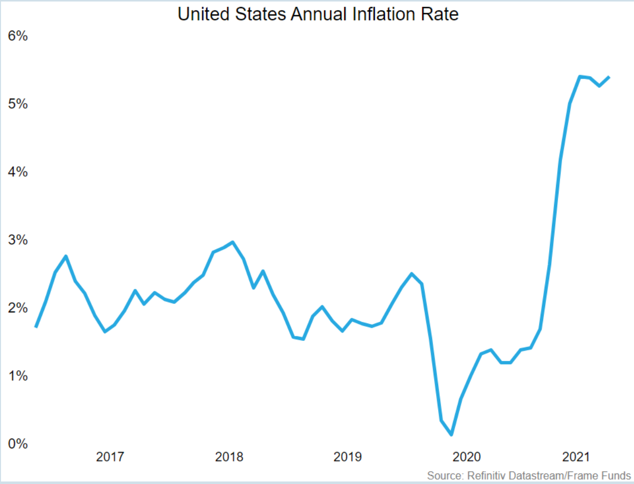
Household Savings

After the record amounts of monetary and fiscal support offered to economies in the wake of the COVID-19 pandemic, households were cash rich coming out of lockdowns. This meant people were willing and able to spend when restrictions were eased, which resulted in significant increase in demand for goods and services.



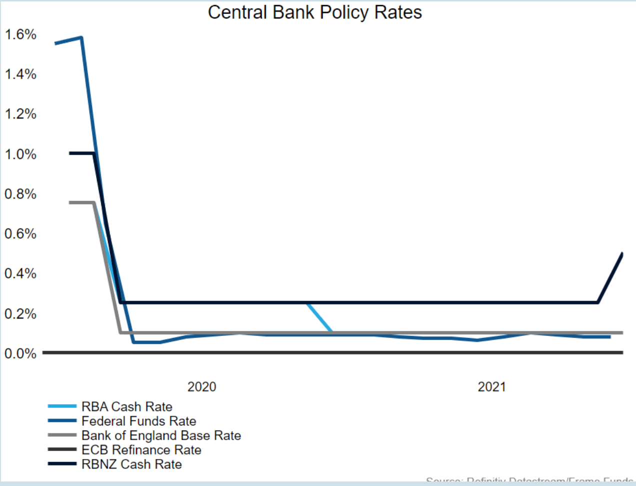
Global Supply Chains

The decrease in consumer demand that came with the shutdown of the global economy resulted in drastic cuts to production, leaving many ports and shipping services which operated at a severely diminished capacity. As the world emerged from lockdown, consumer demand came with it, meaning suppliers scrambled to adjust. Shortages of workers in key positions at ports and in transportation (truck drivers) meant demand outstripped supply and prices rose.



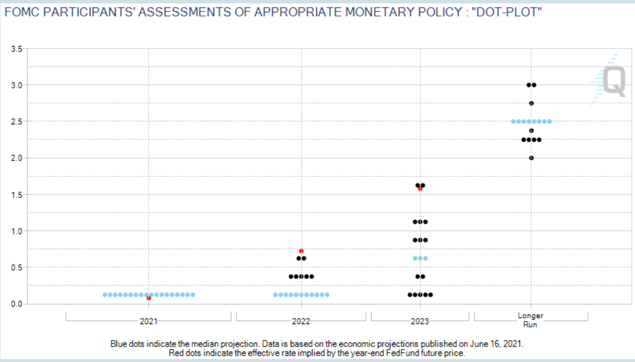
Global Interest Rates

Global Central Banks have taken the view that inflation is 'transitory'. While this is probably the case, the big question is the timeline around the transition. Inflation can still be considered transitory and last two years, a scenario that would undoubtedly be very harmful to many low and middle income earners. Hawkish notes have begun to creep into rhetoric from some Central Banks like the Bank of England and the United States Federal Reserve, with some going even further and increasing interest rates (Reserve Bank of New Zealand, Norges Bank and the Central Bank of Brazil). The Reserve Bank of Australia and the European Central Bank continue to take a softer policy stance. They are not looking to increase rates until 2024 and 2023 respectively.



While some Central Banks are more dovish than others, the general theme we have seen in the market is disbelief around the timeline of tapering. The US Federal Reserve maintains they won't increase rates until tapering is finished, around July 2022. The market on the other hand (via the 30-day Fed Fund futures) is pricing in 48.9% chance of one increase by then, with an 18.7% chance of two increases to their interest rate target.

The RBA is even more dovish, with Governor Lowe reinforcing rate hikes will not be rushed into until inflation is sustainably within the 2-3 per cent target range. The RBA projects underlying inflation will be no higher than 2.5 per cent by the end of 2023, meaning an increase in rates before then is unlikely. Again, the market appears to not believe the RBA's commentary, with the December '22 30-day Interbank Cash Rate futures contract implying an increase of almost 87 basis points at that time.



Who is correct?

There has been a decrease in yields around the world after the Bank of England bucked market expectations by not increasing rates at their November meeting, but there remains a significant mismatch between Central Bank rhetoric and market pricing.

There is sure to be significant volatility in interest rate markets in the short term as investors digest new data points and central bank commentary. Eventually one or both parties will have to 'catch up' to each other as such a high disconnect cannot last forever. We believe the most likely outcome is the market and central banks will meet somewhere in the middle, with yields declining and central banks moderating towards sooner than planned rate hikes. This will be facilitated by economic data and inflation continuing to improve, with supply chain problems easing over the next 12 to 18 months.

One risk to this outcome would be supply chains remaining tight for longer than expected in combination with sustained high demand. This could cause a more permanent inflation risk. If inflationary expectations become permanent, we could see consumers beginning to 'front run' price rises by purchasing goods immediately instead of delaying buying. This scenario would require more aggressive action from central banks and could potentially be very destabilising for the economy.

**as at 11/11/21*

Global Macro

HUE FRAME
Portfolio Manager

HARRY HEANEY
Co-Portfolio Manager

WRITTEN BY HUE FRAME

Frame Futures Fund

Units of the Frame Futures Fund appreciated by +6.09%. Both strategies contributed positively to the monthly performance. The core strategy added +4.18%, while the trading strategy contributed +2.23%.

Fixed Income and Currency investments detracted approximately –0.49% and -0.03% respectively. Commodity and Equity investments contributed by +1.25% and +5.69% respectively.

Global equity markets rebounded aggressively following last month's sell off. The S&P 500 & Nasdaq both rose +6.91% and +7.90%. The Australian share market underperformed relative to its peers. Yields across the globe continued to rise, especially the front end of the curve (the market is telling the various federal reserves that rates should be higher than they are now). The debate surrounding whether inflation is transitory or something more permanent is our key focus over the next three months. We have reduced our medium-term global equity exposure; however, we continue to be active when opportunities present themselves.

Largest contributors to the performance were our active trading strategies on the S&P/ASX 200 future contract (+1.55%), our investment in an ASX listed blockchain technology company (+2.05%) and our investment in Blackstone Minerals Ltd (+0.91%). Our investment in Fortescue Metals Group was the largest detractor to performance.

In terms of fund activity, we added to our US Dollar Index position, took advantage of the volatility within the Natural Gas Futures market, and continued to accumulate listed Nickel explorers and producers, as stockpiles of Nickel continue to decline at an increasing rate.

At the conclusion of the month, the Fund held 22 investments.

FUND PERFORMANCE as at 31st October 2021

	1 month	3 months	6 months	1 year
Frame Futures Fund	**+6.09%**	**+6.16%**	**+10.01%**	**+25.19%**
RBA Cash Rate + 3%	+0.26%	+0.78%	+1.56%	+3.16%
Excess Return	**+5.83%**	**+5.38%**	**+8.44%**	**+22.04%**

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.

HUE FRAME
Portfolio Manager

HARRY HEANEY
Co-Portfolio Manager

Australian Equities

WRITTEN BY HARRY HEANEY

Frame Long Short Australian Equity Fund

Units of the Frame Long Short Australian Equity Fund decreased -1.21% in October. Comparatively the S&P/ASX200 declined -0.12% for the month.

October was characterized as a relatively low volatility month, as the Australian share market closed fractionally lower. Investor focus was on the bond market as yields spiked due to inflationary concerns. There appeared to be a mismatch between central bank rhetoric and market pricing of interest rate expectations around the globe. It remains to be seen if central banks will succumb to market pressure or continue with the same tapering timeline. Only time will tell.

October was another busy month for the Fund, starting out with approximately 36% in cash. As the market looked to hold steady over the course of the month, the strategy began allocating into industries that look poised to benefit from higher rates in the medium term, namely financials and real estate. We opened positions in Macquarie Group (**ASX: MQG**), National Australia Bank (**ASX: NAB**), Scentre Group (**ASX: SCG**), GPT Group (**ASX: GPT**), National Storage (**ASX: NSR**), Waypoint REIT (**ASX: WPR**), Computershare (**ASX: CPU**) and Cleanaway Waste Management (**ASX: CWY**). We exited our position in Alumina Limited (**ASX: AWC**) as the aluminum price corrected.

Top equity contributors were Nine Entertainment Co Holdings Ltd (**ASX: NEC**), Boral Ltd (**ASX: BLD**) and Seven Group Holdings (**ASX: SVW**), which contributed +0.27%, +0.20% and +0.19% respectively. Boral benefitted from the completed sale of various building product lines which will add to surplus capital and reduce net debt. Both Seven Group and Nine moved higher on no specific news. Discretionary activity in the ASX200 SPI futures contract added +0.93%.

Largest detractors were NewsCorp (**ASX: NSW**) and Bank of Queensland (**ASX: BOQ**), which cost -0.37% and -0.31% respectively. NewsCorp fell after the release of their 2021 annual report, despite reporting their most profitable year on record. Bank of Queensland fell after they completed the sale of St Andrew's Insurance for a loss. After a considerable reshuffle of the portfolio over the last two months, real estate is now our heaviest weighted sector at 19.88%.

At the conclusion of the month, the Fund held 21 investments.

FUND PERFORMANCE as at 31st October 2021

	1 month	3 months	6 months	12 months
Frame Long Short Australian Equity Fund	**-1.21%**	**-6.40%**	**-1.47%**	**+13.25%**
RBA Cash Rate + 3%	+0.26%	+0.78%	+1.57%	+3.14%
Excess Return	**-1.48%**	**-7.19%**	**-3.05%**	**+10.11%**

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HARRY HEANEY
Co-Portfolio Manager

Stocks in Play

WRITTEN BY HARRY HEANEY

Computershare (ASX: CPU)

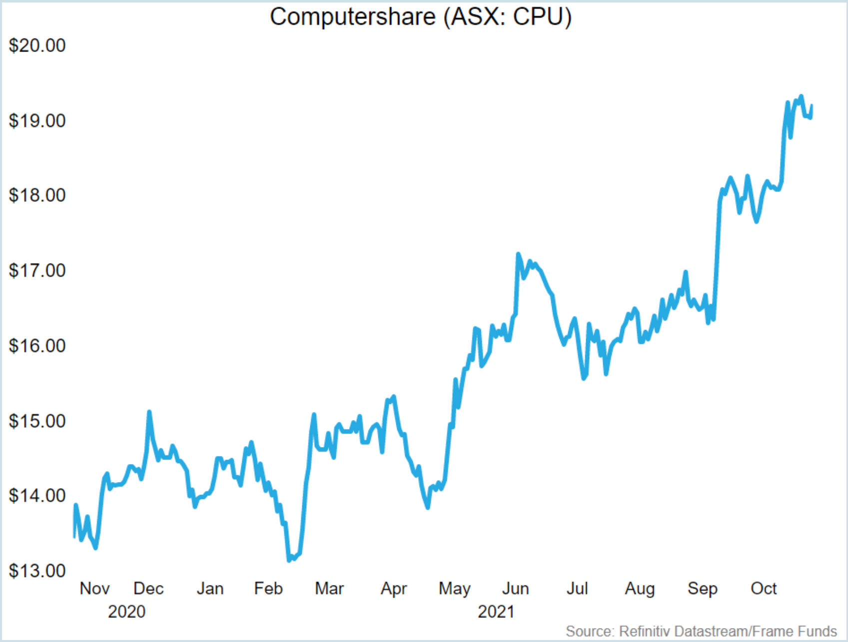
Computershare (**ASX: CPU**) is an Australian success story that from its' roots as a technology start-up in the 1970s, has grown predominately through acquisition to become an ASX50 constituent.

CPU is a stock transfer & registry company that offers client services for corporate trust, stock transfer and employee share plans in over twenty countries.

The recent completion and integration of acquired Wells Fargo Corporate Trust Services for $1 billion (now called CCT), has accelerated CPU's position in the US corporate trust market to a top four player.

Besides their well-received full year financials in August, in their FY22 outlook the company is expecting margin income to increase 35.5% on its prior corresponding period (with CCT) and management EBIT to increase 3.7% (excl. CCT). This has culminated in a share price increase of 20.75% post their financial report.

Aside from the recent growth, report and integration of CCT, we believe in their ability to generate further income and minimise integration expenses. This in combination with forecasted global rate increases, may support margin expansion.



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Cleanaway Waste Management (ASX: CWY)

Cleanaway Waste Management (**ASX: CWY**) is an Australian waste management company with significant market share domestically, as well as operations in the United Kingdom.

Specifically, their main operating segments include Solid Waste Services (59% of net revenue), Liquid Waste & Health Services (23% of net revenue) and Industrial Waste Services (14% of net revenue). Our view is the domestic resource recycling and energy segment to be an area for growth.

At their most recent AGM, CWY provided an update on current trading conditions. They noted they see trading activity levels return to more normalised levels. This is a far cry from the $4m per month cost of the NSW COVID lockdowns seen earlier this year. They expect container deposit schemes to lead the recovery.

Whist the impacts of COVID continue to linger, the company's bottom line should continue to improve as they return to normal in their key trading markets. We expect an improvement in their EBITDA margin as they continue to focus on growth in domestic recycling and their energy waste operations.

Scentre Group (ASX: SCG)

Scentre Group (**ASX: SCG**) is the spin off from Westfield Development Corporation in 2014. SCG comprises of both the retail real-estate assets and shopping centre ownership interests of around 42 Westfield shopping centres.

With that portfolio, they undertake ownership, development, design, construction, and marketing activities for its centres – effectively a REIT with a hands-on approach.

Scentre Group's half-yearly financials was a major catalyst for their recent share price growth. Additionally, the 3Q21 operational update released on the 9th of November was a key insight into the business.

Naturally sales in NSW experienced a significant decline during the lockdown, with over 50% of their income originating from the state. Currently 95% of the portfolio is now open, which should allow SCG to return to a more normalised level of operation. Gross rent for the 10-month period to the 31st of October exhibited an increase of $604 million ($1.8 billion total) compared to their prior year.

We like the operational resilience of SCG, especially the way they handled their COVID sensitive retail segment. Further to this, the redevelopment of Westfield Knox and its Mt Druitt development should accelerate earnings over the medium term as shoppers continue to return to their shopping centres.

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