

April 2022 // Issue 15

# IN THE FRAME

## SUPPLY CHAIN DISRUPTIONS

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### FUND PERFORMANCE

How our strategies performed in March

### NATURAL GAS VOLATILITY

How the Russian invasion has impacted the price of Natural gas

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# WHAT I SAW

## MARCH 2022

WRITTEN BY HUE FRAME

*In this issue of 'What I saw', Hue covers the volatility seen in the Natural gas market, interest rate expectations and how our strategies performed in March.*

March started with a continuation of the trend seen earlier in the year, where investors extracted money out of global equity markets and reduced holdings within the bond market. If I wrote this commentary at the end of the first week of the month, global equity markets were significantly in the red, the Nasdaq entered a technical correction (a decline of > 20%) and bond market experiencing the worst start to the year in more than 40 years.

However, by the end of the month, global equity market finished in the green, after Jerome Powell from the FOMC increased interest rates by 25bps and stated that they think a recession is very unlikely in the near term.

The Australian equity market was one of the best performers globally, as it rose +6.39%. Commodity markets continued to swing around, natural gas, oil, wheat and nickel, still experiencing the effects of the Russia-Ukraine war.

### Natural gas volatility

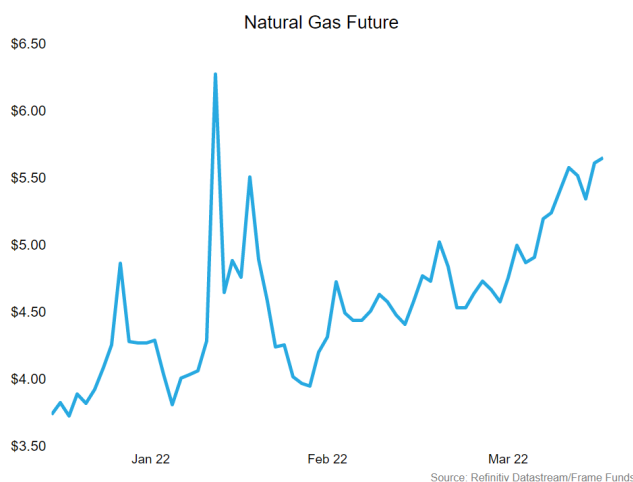
Natural gas prices surged to the highest level in more than 13 years as the war between Russia and Ukraine causes a global energy crunch, at the same time as some forecasts call for cooler spring temperatures. The move during April means Natural gas has risen over 100% this year.

Europe is scrambling to move their dependence on Russian energy, however most European countries continue to buy the vast majority from Russia. Germany for example still import approximately 30% of their gas from Russia.



**HUE FRAME**  
Managing Director & Portfolio Manager

A MESSAGE FROM HUE

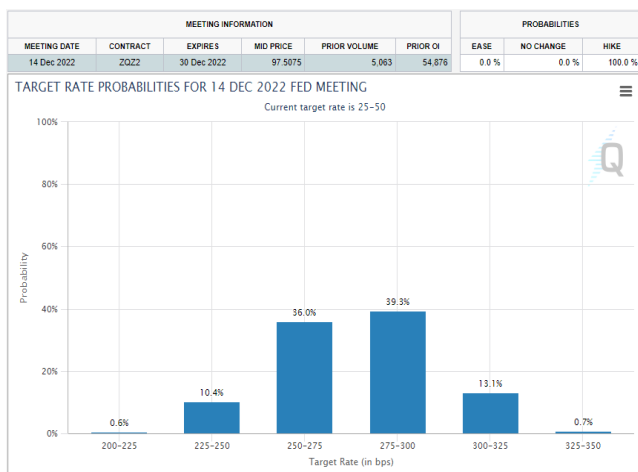


### Interest rate expectations

During March we saw the first increase in interest rates in the US. Jerome Powell from the US FOMC rose rates by 25bps and stated that the risk of a recession in the near term is unlikely. He also stated that the path of interest rate increases would be gradual.

By the end of this year, interest rate markets still have a 75% probability that rates will be between 2.50%-3.00% (currently 0.25%-0.50%).

So, although the US Federal Reserve has stated that rate rises would be gradual, markets are saying that they do need to be more aggressive than they are projecting to the market.



## New Head of Distribution

We have recently expanded our growing team by hiring Timothy Wilson as Head of Distribution. Tim will be heading up our Distribution team, where his primary focus will be on distributing the Frame Futures Fund and the Frame Long Short Australian Equity Fund products. You can contact Tim on 0418 188 146 or at [timothy.wilson@framefunds.com.au](mailto:timothy.wilson@framefunds.com.au).

## Portfolio performance

During March, both strategies had adapted to the environment of increased volatility, which was seen during February. The Long Short Australian Equity strategy rose by +1.20%, while our global macro strategy appreciated by +8.15%.

The Frame Long Short Australian Equity Fund (FLSAEF) rose by +1.20%. Top equity contributors were AVZ Minerals Limited (ASX: AVZ), Brickworks Limited (ASX: BKW) and National Australia Bank Limited (ASX: NAB). Largest detractors were Whitehaven Coal (ASX: WHC), Incitec Pivot Limited (ASX: IPL) and Atlas Arteria Group (ASX: ALX).

The Frame Futures Fund (FFF) appreciated by +8.15%. Equity, Fixed Income and Currency investments all rose by +5.56%, +2.25% and +1.30% respectively. Commodity investments declined by -0.88%.

## Outlook

April will be a hesitant month for equity markets, as we have a break in the FOMC meeting schedule. Economic data will continue to provide colour to market participants as to the rate of expected interest rate increases, however with meetings scheduled during April, we expect markets to continue to find their footing.

*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.*

# MARKET INSIGHTS

## MARCH 2022

WRITTEN BY HARRY HEANEY



**HARRY HEANEY**  
Co-Portfolio Manager

*In this issue of 'Market Insights', Harry covers how the investments within the Frame Long Short Australian Equity Fund have changed before, during, and after the Russian Invasion.*

Prior to the Russian invasion of Ukraine, the focus for investors was the future path of inflation and interest rates. Investors had begun to reposition into sectors that would be shielded from inflation and that would benefit from a higher interest rate environment. Post invasion, western nations imposed harsh sanctions on

names now accounting for 20.07% of the portfolio. The strategy is now exposed to key resources which cover lithium, iron ore, coal, gold, nickel and aluminium. Real estate exposure was cut to 10.81% from 19.46%, with industrials, consumer staples and financials all holding allocations between 8.01% and 9.06%.

Russia, which sparked concerns surrounding the supply of energy, agriculture, and construction commodities. Already tight supply chains became even tighter, and equity markets sold off aggressively. After the sell-off however, the pockets of the stock market related to affected commodities exhibited significant strength. This market insight will cover how the Frame Long Short Australian Equity Fund was positioned prior to the Russia-Ukraine war, and how the strategy is positioned now.

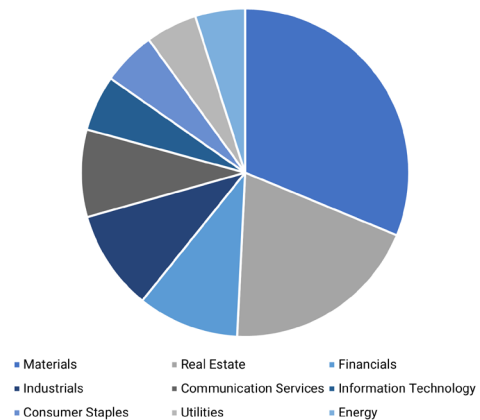
### Where was the strategy positioned before the invasion?

The strategy was last fully invested on January 19, more than a month prior to the invasion. At that time, the top three sector investments were materials (31.09%), real estate (19.46%) and financials (9.96%). Combined, industrials and utilities investments accounted for a further 14.86% of the portfolio. The materials component of the portfolio was dominated by investments in construction materials businesses. The strategy had also allocated into banks (**ASX: NAB** and **ASX: MQG**) to capture expected margin expansion as interest rates rise.

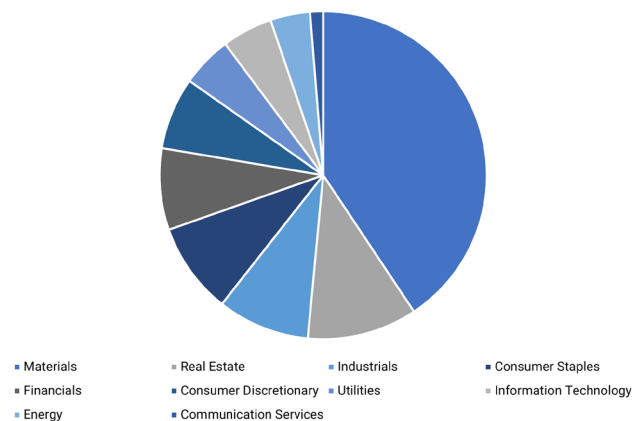
### Where was the strategy positioned before the invasion?

After spending some time with decreased exposure through January, February and March, the strategy re-entered the market and became fully invested during March. The highest weighted sector is still materials, but the allocation has increased to 40.42% from 31.09%. The nature of the businesses held in the materials space also changed, with direct materials

Sector Weights as at 19 January 2022



Sector Weights as at 13 April 2022



### Why the shift in positioning?

The strategy has clearly responded to the change in equity market flows post invasion. With agriculture and raw material products unable to be exported from

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Ukraine and Russian energy commodities shunned, prices have risen significantly. Clear beneficiaries of higher prices are external producers and exporters. Generally, they will experience increased profitability as a result of improved margins. They will also benefit from a diversion of demand away from geopolitically unstable regions.

Take nickel as an example – in 2020, the ASX hosted 3 of the top 10 largest nickel producing companies in the world: BHP Group (**ASX: BHP**), South32 Ltd (**ASX: S32**) and IGO Ltd (**ASX: IGO**). The strategy identified considerable strength in these businesses post invasion and has since initiated positions in all three.

Energy operators and producers are another sector that should benefit from higher energy prices by way of margin expansion. The strategy has identified this strength and is now invested in Ampol Ltd (**ASX: ALD**), Worley Ltd (**ASX: WOR**), Origin Energy (**ASX: ORG**) and APA Group (**ASX: APA**).

Investments in the food and agriculture space were also initiated after the invasion. New investments include agribusinesses Elders Ltd (**ASX: ELD**) and Nufarm Ltd (**ASX: NUF**). With Russia and Ukraine exporting more than a quarter of the world's wheat (2019), other wheat exporting nations should see an increase in demand. These countries include the United States, Canada, France and Australia.

### What have we learned?

If 2022 so far has taught us anything, it is that areas of focus for equity markets can shift rapidly and in a significant way. The start of the year was dominated

by inflation and interest rate news which caused significant concern to markets. Post the Russian invasion however, key commodity shortages are front and centre in the mind of equity investors.

Our key takeaway is to follow a robust strategy, with strong risk management practices. This should ensure we survive drawdowns and put the Fund in a position to capitalise on emerging investment themes which may persist for the foreseeable future.

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# GLOBAL MACRO

WRITTEN BY HUE FRAME

## Frame Futures Fund

Units of the Frame Futures Fund appreciated by +8.15%. The Fund's trading strategies generated +1.41%, while the core strategy added +6.59%.

Equity, Fixed Income and Currency investments contributed +5.56%, +2.25% and +1.30% respectively. Commodity investments declined by -0.88%.

March can be described as a month of two halves. Continuing on from what we have seen since the start of the year, global equity markets continued to drift lower for the first week of the month, as investors focused on the Russian invasion of Ukraine, while also assessing the path of interest rates. Yields across the globe continued to rise, as expectations for higher rates became priced in. The commodity complex experienced erratic price action, while volatility expanded across currency markets, which presented numerous opportunities. Equity markets started to find their feet after US Federal Reserve President, Jerome Powell increased rates by 25bps, and stated that they think a recession is very unlikely in the near term. Following the Federal Reserve meeting, equity markets rallied for the remainder of the month, and finished in the green. To emphasise the volatility, the Nasdaq entered a technical bear market early March, then proceeded to rally ~17% off lows.

Largest contributors to performance were our active trading on the S&P/ASX 200 Future contract, investment in an ASX listed technology business, and our investment in the Chilean equity market which was initiated last month, they contributed +1.27%, +1.61% and +0.80% respectively. Largest detractors were our investments in the Moex market and Crude Oil Future trading.

In terms of fund activity, we took profit on most of our Fixed Income exposure, in our opinion these markets moved to extremes and fully priced in rate hikes. We closed our investment in an ASX listed blockchain technology business. We also took advantage of the expanded volatility within currency markets.

Our focus now turns to monitoring economic data, in particular manufacturing input costs, which may accelerate inflation readings over the next 3 months. We will closely monitor how the US Federal Reserve responds to such increases in CPI.

At the conclusion of the month, the Fund held 29 investments.

## INVESTMENT TEAM



**HUE FRAME**  
Portfolio Manager



**HARRY HEANEY**  
Research Analyst



**SYDNEY ROBERTSON**  
Quantitative Research Analyst

## FUND PERFORMANCE as at 31<sup>st</sup> March 2022

	1-Mth	6-Mth	1-Yr	2-Yr p.a.	3-Yr p.a.
<b>Frame Futures Fund</b>	<b>8.15%</b>	<b>12.53%</b>	<b>23.52%</b>	<b>28.54%</b>	<b>12.41%</b>
RBA Cash Rate + 3%	0.26%	1.55%	3.14%	3.19%	3.33%
<b>Excess Return</b>	<b>7.89%</b>	<b>10.98%</b>	<b>20.37%</b>	<b>25.35%</b>	<b>9.08%</b>

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# AUSTRALIAN EQUITIES

WRITTEN BY HARRY HEANEY

## Frame Long Short Australian Equity Fund

Units of the Frame Long Short Australian Equity Fund increased +1.20% in March. Comparatively, the S&P/ASX200 rose by +6.39% over the same period.

March was another volatile month for financial markets as the Russia-Ukraine conflict continued to unfold. The month began in a choppy fashion as the true impact of the war on global supply chains and prices remained unknown. Optimism returned to equity markets after negotiations between Russia and Ukraine seemed to progress positively. The market rallied nearly 7.5% off the month's lows to finish in the green year-to-date.

It was a busy month for the fund. We continued to increase portfolio diversification as the market gathered momentum. Many of the recently acquired businesses are poised to benefit from the continuing tensions between Russia and the West. Allocations were made in sectors such as materials, energy and agriculture.

Top equity contributors were AVZ Minerals Limited (**ASX: AVZ**), Brickworks Limited (**ASX: BKW**) and National Australia Bank Limited (**ASX: NAB**). They contributed approximately +0.68%, +0.37% and +0.29% respectively. AVZ benefitted from soaring lithium prices and a return of positive investor sentiment to the battery metal space, while Brickworks rose after they released positive first half results. NAB continued to trend higher as money was allocated broadly into the Australian financial sector. Generally, financials perform better as interest rates rise due an expansion of their net interest margin. The active trading strategy also added +0.59%. It compensated for the core strategy being underinvested for the first half of the month.

Largest detractors for the month were Whitehaven Coal (**ASX: WHC**), Incitec Pivot (**ASX: IPL**) and Atlas Arteria Group (**ASX: ALX**) which detracted -0.39%, -0.33% and -0.23% respectively. Weaker coal demand from China sparked profit taking in Whitehaven. The Chinese government continues to pursue a 'zero Covid' policy which decreases energy usage as entire cities are locked down. Investors also took profit in Incitec Pivot as positive news out of Ukraine suggested a resolution could be around the corner. This would ease pressure on global fertilizer supply and bring prices down.

The fund currently holds 30 equity investments and materials is the highest weighted sector at 41.52%.

## INVESTMENT TEAM



**HARRY HEANEY**  
Co-Portfolio Manager



**HUE FRAME**  
Co-Portfolio Manager

### FUND PERFORMANCE as at 31<sup>st</sup> March 2022

	1-Mth	6-Mth	1-Yr	2-Yr p.a.	3-Yr p.a.
<b>Frame Long Short Australian Equity Fund</b>	<b>1.20%</b>	<b>-2.68%</b>	<b>-3.90%</b>	-	-
RBA Cash Rate + 3%	0.26%	1.56%	3.14%	-	-
<b>Excess Return</b>	<b>0.94%</b>	<b>-4.23%</b>	<b>-7.04%</b>	-	-

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# COMPANIES IN FOCUS

WRITTEN BY SYDNEY ROBERTSON



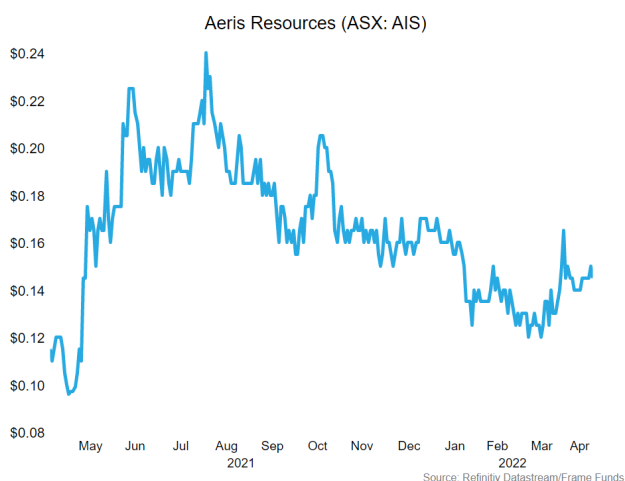
**SYDNEY ROBERTSON**  
Quantitative Research Analyst

The 'ASX Companies in Focus' section provides an update on a selection of companies that may be held within the Frame Futures Fund and the Frame Long Short Australian Equity Fund.

## Aeris Resources (ASX: AIS) Update

In last month's 'Companies in Focus' where we covered Aeris Resources (**ASX: AIS**). Since then the company has provided numerous updates which we will cover here.

Aeris is a mid-tier diversified miner, with two wholly-owned assets – the Tritton Copper Mine, and the Cracow Gold Operations. Further to this, Aeris has an additional two joint ventures, the Canbelego JV (30% stake) with Helix Resources (**ASX: HLX**), which is predominately testing for copper, and the Torrens JV (70% stake), which is exploring for iron-oxide copper-gold (IOCG) deposits.



## Updates

During March, Aeris released a collection of price-sensitive updates pertaining to its' current operational mines and results orientated around its' exploratory joint-ventures. The company announced that the construction of the Avoca Tank underground mine (Tritton) is underway, with completion expected in Q4 FY23. Further to this, the connected exploration drill program for potential mine-lifecycle extension, has delivered promising results with copper found beneath

the current mineral resource.

This was followed by a joint-announcement at the Canbelego JV (with **ASX: HLX**), which confirmed the presence of two new lodes, with the potential for a third, with varying levels of quality (0.38% - 3.18% Cu). This was also taken as a proof-of-concept of the 'Cobar-Style' exploration model which focuses on parallel, structurally controlled lode positions.

In the corrected update for the Tritton Copper Operations, AIS reaffirmed its FY22 production guidance, and tipped that its copper production target would increase to over 30kt p.a. in FY25 (20-22kt FY23, 21-23kt FY24, 30-33kt FY25). Based on known deposits, mine life is expected to be greater than 8 years, however further life of mine extension may occur from current exploration projects.

For one of the exploration zones in the Tritton tenement, the Kurrajong deposit, Aeris announced that its drilling program is underway. With initial drill holes supporting the current geological model for a maiden Mineral Resource – assays pending.

## Outlook

As we look ahead at Aeris's operational activities, we see a few key catalysts surrounding the company's financial performance. The completion of the Avoca Tank underground mine in Q4 FY23, along with the results from further drilling in the resource scheduled for post-FY22, will be key in solidifying future progress at Tritton.

In addition, we look to monitor further exploration updates from Helix at the Canbelego JV, and at the Kurrajong deposit. Further information surrounding the composition and quality of this deposit is anticipated.





# Frame Funds.

## Contact

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