



July 2022 // Issue 17

IN THE FRAME

KEEPING TABS ON INFLATION

FUND PERFORMANCE

How our strategies performed in June

CENTRAL BANK WATCH

Which central banks increased rates last month

WHAT I SAW

JUNE 2022

WRITTEN BY HUE FRAME

In this issue of 'What I saw', Hue covers recent market performance, systematic risk management, which Global Central Banks increased interest rates last month, and how our strategies performed in June.

Once again, global share markets swung around on news of potential and realised rate increases, and expectations for slowing global economic growth. Locally, the RBA increased interest rates by 50 basis points, as Governor Lowe reiterated that they would do whatever it takes to reduce inflation back to their target range. US inflation continued to accelerate. It printed a reading around 9%.

Central bank watch

Central Banks continued to take action to contain inflation by increasing interest rates. June saw the following central banks increase interest rates; Bank of Canada raised 50bps to 1.50%. Reserve Bank of Australia, increased 50bps to 0.85%. Reserve Bank of India rose by 50bps to 4.9%. US Federal Reserve increased 75bps to 1.75%. Bank of England increased 25bps to 1.25%, while Norges Bank rose 50bps to 1.25%.

Tough markets

To put the first half of the year into perspective, this has been the worst start to the year for equities since 1970. For a balanced 60/40 portfolio (60% equities/40% bonds), it has been the worst start to the year, ever.

Systematic risk management

One of the key things that we have built here at Frame Funds, is systematic risk management. What that means is that if we experience a period of extreme downward movement in global equity markets, we will exit the market as these risks increase.

By making risk management systematic, we ensure that we systematically get taken out of the market when the market loses momentum. Our trend following strategies will only re-enter new positions when the market momentum returns. Currently our cash balances are sticky, until the market gains momentum once again.



HUE FRAME

Managing Director & Portfolio Manager

Portfolio performance

During June, both strategies suffered, as markets broke to new lows and volatility continued to expand within global equity markets. The Long Short Australian Equity declined by -4.81%, while our global macro strategy declined by -7.19%. Both strategies outperformed the S&P/ASX 200, which was down -8.92%.

Both strategies have experienced periods of expanded volatility as markets have whipsawed, in response, they have reduced their equity exposure. This has increased their cash holdings, which puts both in a positive to take advantage of upcoming opportunities.

Top equity contributors for the Frame Long Short Australian Equity Fund (**FLSAEF**) were Atlas Arteria Group (**ASX: ALX**), Computershare Ltd (**ASX: CPU**) and the Lottery Corporation Ltd (**ASX:TLC**). They contributed +0.41%, +0.21% and +0.06% respectively.

Largest detractors for the month were National Australia Bank (**ASX: NAB**), Whitehaven Coal (**ASX: WHC**) and Origin Energy (**ASX: ORG**). They detracted -0.44%, -0.42% and -0.41% respectively.

For the Frame Futures Fund (**FFF**), Commodity and Currency investments rose by 0.29% and +0.22% respectively. Fixed Income investments were flat, while Equity investments declined by -7.51%.

Wrapping up

Going through a period of market volatility is never enjoyable, however it is an unavoidable part of investing in equity markets.

Both our strategies have experienced drawdowns and are currently at the outer limits of our back tested drawdown ranges. We have increased our cash holdings pro-actively, to put us in a position to benefit from the opportunity set we currently see.

We are working harder than ever to improve returns, and we continue to focus on all the things that are within our circle of control.

We continue to focus on our research processes, executing our short and long reversion strategies, refining our trend following strategies, further research on strategy improvements, and the tightening of our risk management systems.

In my view, if we continue to focus on the things we can control (like we did during the COVID induced sell-off), we will come out of this period much stronger than when we entered.

Thank you for your support during these testing times. Our team is working harder than ever to provide the best possible outcome for our investors through this period.

If you would like to discuss the current markets or the recent fund performance, please call our office on 02 8668 4877 or email me at hue@framefunds.com.au.

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MARKET INSIGHTS

JUNE 2022

WRITTEN BY FRAME FUNDS RESEARCH TEAM

In this issue of 'Market Insights', we provide an update on the key inputs we are watching for inflation. We cover the recent Natural Gas and Crude oil price movement, and also look at the Wheat, Corn, Copper and Iron Ore prices.

This market insight will provide readers with an update in charts on some of the key components we are monitoring for an easing of inflation.

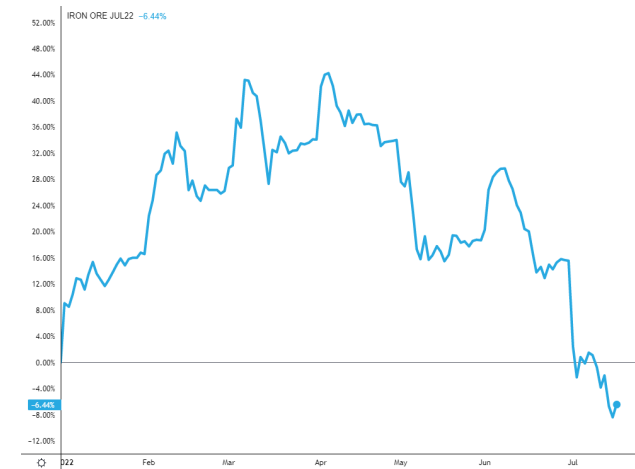
Natural Gas prices have declined approximately ~25%



Copper prices are down ~30%



Iron ore prices have dropped ~40%



Crude Oil prices are down ~15%



Wheat prices are down ~35%

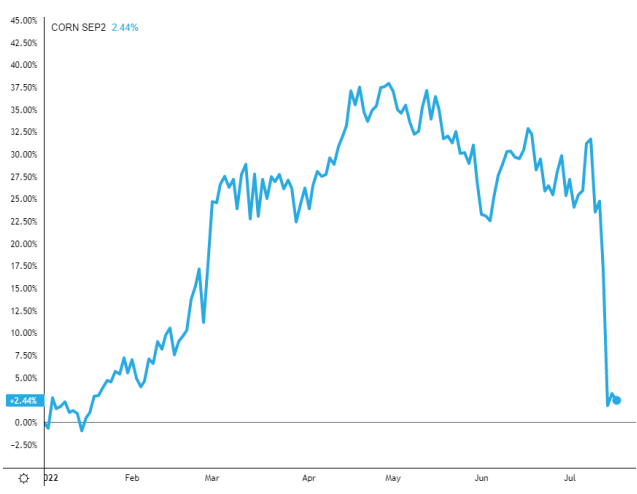


We interpret the declines seen in most of these commodities as a direct repositioning, as investors adjust to the expected decline in global growth rates over the next 12 months and beyond, however importantly, these are also key inputs into the goods that have blown inflation readings out of the water.

Although these inputs will take some time to properly flow through to consumer inflation, it does show that key producer inputs have declined from recent highs, which may, over the upcoming 6 months, provide some respite to cost push inflation.

This respite may ease future inflation expectations, however in our view, investor focus will at some point pivot to the deflating global economy.

Corn prices are down ~15%



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GLOBAL MACRO

WRITTEN BY HUE FRAME

Frame Futures Fund

Units of the Frame Futures Fund declined by -7.19%. The Fund's trading strategies declined by -0.75%, while the core strategy declined by -6.44%.

Commodity and Currency investments rose by +0.29% and +0.22% respectively. Equity investments continued to fall, dropping -7.51%. Fixed Income investments were flat.

The core strategy once again suffered, as indiscriminate selling occurred across the strategy's investment universe. Over the previous two years, we have benefitted from holding high conviction investments in the small to mid-cap space, in companies which were exposed to our key macro-economic themes, however, over the last quarter, these positions have been the largest drags on performance.

The market has now reached a point where the US Federal Reserve has caught up to market expectations. In our view, it means that the indiscriminate selling which has occurred over the prior the months, may subside over the short term, however until either the US Federal Reserve pivots, or demand destruction occurs on a greater scale, we will continue to be underweight (short) equities in the short term. Fixed income markets continue to present opportunities, however, are also trying to determine if rates are needed to be priced higher from here, or if growth is going to roll aggressively, which would justify lower rates in 12 months' time.

Largest contributors to performance were short investments on the Ethereum, Bitcoin and Euro Stoxx 50 future contracts. Largest detractors were trading on the S&P/ASX 200 future contract and the basket of ASX listed companies mentioned above.

In terms of fund activity, we continued to reduce exposure out of individual ASX stock positions. These smaller cap businesses thrive during periods of economic expansion, however when liquidity and funding dries up, can drag (as seen over the last quarter).

Looking forward, we continue to monitor how inflation responds to further interest rate increases. We will be looking for a leveling of headline inflation to occur before actively looking at additional positions in our long portfolio.

At the conclusion of the month, the Fund held 12 investments.

INVESTMENT TEAM



HUE FRAME
Portfolio Manager



SYDNEY ROBERTSON
Quantitative Research Analyst

FUND PERFORMANCE as at 30th June 2022

	1-Mth	6-Mth	1-Yr	2-Yr p.a	3-Yr p.a
Frame Futures Fund	-7.19%	-24.69%	-17.18%	+3.99%	+1.00%
RBA Cash Rate + 3%	0.32%	1.58%	3.17%	3.21%	3.25%
Excess Return	-7.51%	-26.27%	-20.34%	0.78%	-2.25%

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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 decreased -4.80% in June. Comparatively, the S&P/ASX200 declined by -8.92% over the same period.

Australian equities suffered their worst month of performance since March 2020 as investors came to grips with a more hawkish Reserve Bank and a deteriorating global economy. A shock 50 basis point increase to the cash rate kicked off a fortnight of selling, as investors rapidly priced in a more aggressive monetary policy tightening cycle. Commodity prices also fell over the month, as slower global growth led to reduced demand for raw materials. This caused additional downside pressure on the Australian market, with the materials sector falling -12.44% in June.

Top equity contributors for the month were Atlas Arteria Group (**ASX: ALX**), Computershare Ltd (**ASX: CPU**) and Lottery Corporation Ltd (**ASX: TLC**). They added +0.41%, +0.21% and +0.06% respectively. Atlas Arteria became a possible takeover target as IFM Investors revealed a 14.96% stake in the firm, acquired at a 14% premium. Lottery Corporation Ltd completed a successful split from Tabcorp Holdings Ltd (**ASX: TAH**). Media speculation around Lottery Corporation being a prime private equity takeover target drove its share price higher.

Largest detractors for the month were National Australia Bank (**ASX: NAB**), Whitehaven Coal (**ASX: WHC**) and Origin Energy (**ASX: ORG**). They detracted -0.44%, -0.42% and -0.41% respectively. NAB fell in line with the broader financial sector, as higher interest rates raised concerns around loan defaults. Whitehaven and Origin depreciated as energy commodity prices reversed. We are no longer invested in these businesses.

Overall, our risk management practices worked well in June. We entered the month with a substantial cash holding and continued to exit positions that lacked momentum. In previous months the market has rallied off lows after initial selling, however sellers followed through in June. We have maintained tight stops on our long-term holdings and continue to seek out shorter term opportunities when companies enter extreme overbought or oversold conditions.

The fund is currently holding approximately 82.43% cash.

INVESTMENT TEAM



HARRY HEANEY
Co-Portfolio Manager



HUE FRAME
Co-Portfolio Manager

FUND PERFORMANCE as at 30th June 2022

	1-Mth	6-Mth	1-Yr	2-Yr p.a	3-Yr p.a
Frame Long Short Australian Equity Fund	-4.80%	-19.40%	-19.80%	-	-
RBA Cash Rate + 3%	0.32%	1.63%	3.23%	-	-
Excess Return	-5.11%	-21.03%	-23.03%	-	-

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