

September 2022 // Issue 19

IN THE FRAME

COMMODITY MARKET ANALYSIS

FUND PERFORMANCE

How our strategies performed in August

DON'T FIGHT THE FED

What Jerome Powell reiterated at Jackson Hole

WHAT I SAW AUGUST 2022

WRITTEN BY HUE FRAME

In this issue of 'What I saw', Hue covers which Central Banks hiked last month, further energy price increases, and how our strategies performed in August.

During August, global equity markets continued to be volatile. As the month drew to a close, sellers were firmly in control. US equity markets all finished down around -4%. The Australian share market was a global outperformer, surprisingly rising +0.60%.

Central bank watch

Central Banks continued to take action to contain inflation by increasing interest rates. During August we saw the Australian, England, Brazilian, Indian, New Zealand and Norwegian Central Banks all increase their cash rates by 0.50%. Korea raised theirs by 0.25%, while Turkey cut theirs to reduce inflation...

Don't fight the Fed

The US Federal Reserve, and their outlook for the path of interest rates, continues to dictate market pricing. After the most recent US Federal Reserve minutes, markets interpreted the commentary in a dovish manner. They thought that they were planning on slowing the rate of interest rates, however at the Jackson Hole symposium, Fed Chairman Powell reiterated that they are not going to stop increasing interest rates for some time.

Energy price increases

European gas prices have continued to increase. At one stage during the month, prices were over €1000! On top of dealing with already soaring inflation rates, consumer are now also having to deal with extreme gas prices. The 42% increase in our electricity bill I mentioned in the last In the Frame issue, doesn't seem so bad now!

Portfolio performance

During August, both strategies continued to be defensive. The Global Macro strategy generated a positive return of +0.73%. The Long Short Australian Equity strategy declined by -1.19%.



HUE FRAME
Managing Director & Portfolio Manager

Top equity contributors for the Frame Long Short Australian Equity Fund (**FLSAEF**) were Whitehaven Coal Ltd (**ASX: WHC**), NIB Holdings Ltd (**ASX: NHF**) and Atlas Arteria Group (**ASX: ALX**). They contributed approximately +0.60%, +0.14% and +0.12% respectively.

Largest detractors for the month were Endeavour Group Ltd (**ASX: EDV**), Telix Pharmaceuticals Ltd (**ASX: TLX**) and Steadfast Group (**ASX: SDF**).

For the Frame Futures Fund (**FFF**), Equity investments rose by +0.85%. Fixed Income investments added +0.13%. Currency and Commodity investments were flat.

Wrapping up

Like I have mentioned in prior issues, we continue to focus on incoming data, and playing very good defence during periods of extreme volatility.

Central Banks have continued to reiterate that they will continue to raise rates until they have price stability. We do not want to be in the way of this reduction in liquidity, so will continue to keep nimble, play great defence, and when the time is right, start strategically allocating into medium to long term positions.

MARKET INSIGHTS

AUGUST 2022

WRITTEN BY FRAME FUNDS RESEARCH TEAM

In this issue of 'Market Insights', we look at commodity markets to see if their recent price action, and inventory levels provide an indication if we are seeing global demand destruction.

One of the major benefits of analysing commodity markets, is that we can look at the current price, inventory levels and future prices, to better understand how producers, speculators and money managers view the outlook for each commodity.

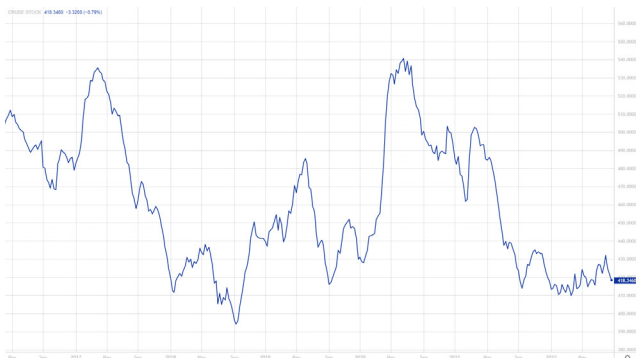
In the current environment of cost push inflation, analysing the outlook for major producer inputs, can help to provide us with a good understanding of what the outlook for inflation may be.

This update will look at current prices, inventory levels and what the forward market is indicating.

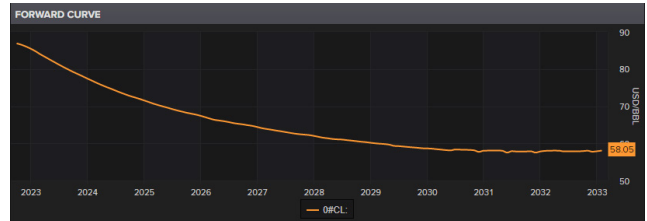
Crude Oil - used in practically everything, is down approximately -35% from highs seen in March.



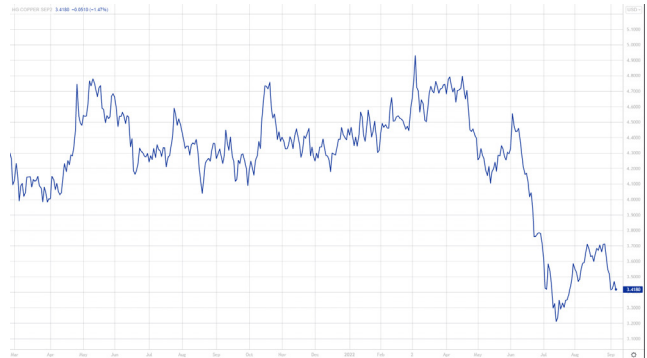
Inventory levels are low, reflective of recent underinvestment.



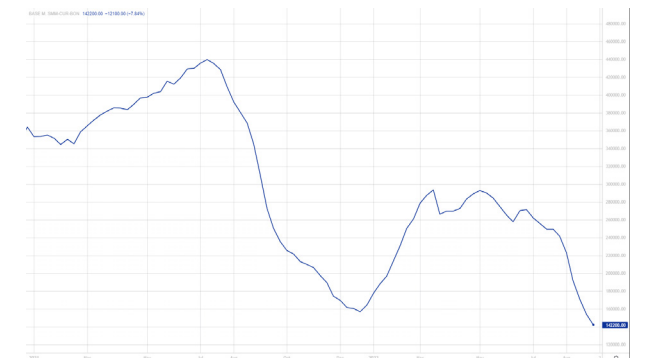
The forward contract term structure is implying that there is current tightness in the market, however traders have positioned for lower prices next year and beyond.



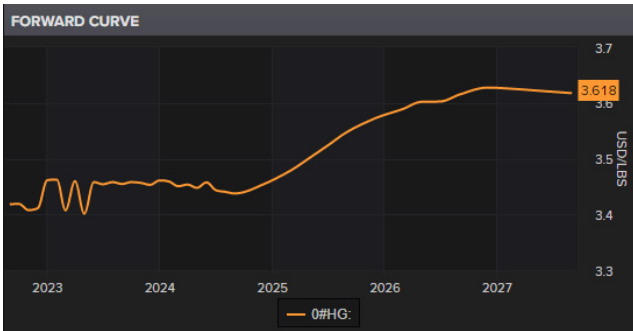
'Dr Copper' - generally a bell weather for economic growth is down approximately -30% from highs seen in March.



Inventory levels are at recent lows - reflective of a lack of new copper projects to add to supply.



The forward contract term structure shows that traders expect prices to be robust into the future.



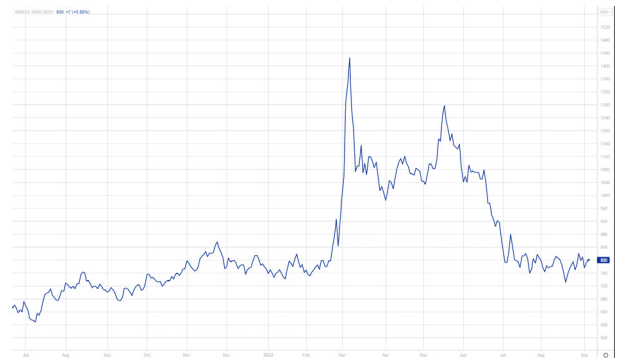
Iron Ore - a key commodity used in steel production. Linked to economic activity is down over 50% since mid-2021.



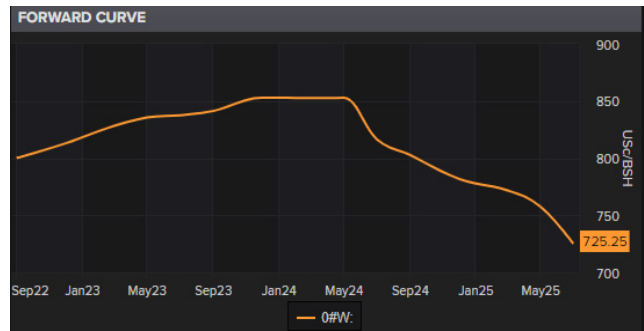
Inventory levels held at Chinese ports has started to increase. Reflective of a slowdown in the Chinese property market and reducing global demand.



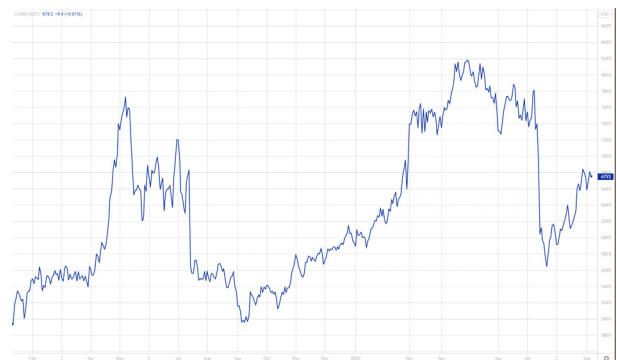
Wheat - a key input of food production and consumption - down around -35% from highs seen in March.



The forward contract term structure shows that traders are expecting prices to stay elevation into 2024. Tightness is expected to reduce thereafter.



Corn - another key component of food production and consumption - down approximately -12% from the highs seen in May.



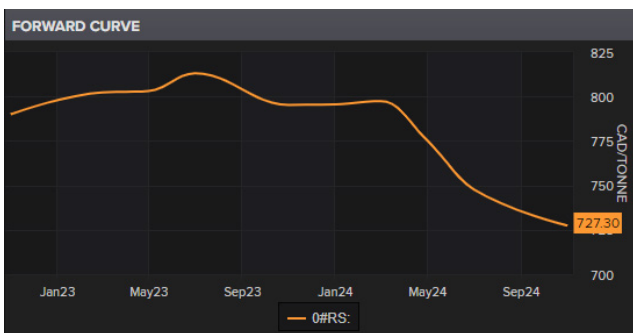
The forward contract term structure shows that traders expects tightness to reduce, and prices to fall over the next 3 years.



Canola - another key input in food production - down approximately -30% from highs seen in May.



The forward contract term structure shows that traders expect prices to remain sticky until mid-next year.



In summary, most of these commodities are well off from the highs seen earlier this year, when Russia caused havoc to commodity markets. We can also see that on the whole, the term structure for these commodities leads us to believe that we will see further lower prices into the future.

The structural underinvestment (Crude) and lack of new deposit discovery (Copper), provides some food for thought regarding upcoming trading opportunities for these commodities.

Within the core strategies of the Frame Futures Fund, we operate a commodity only strategy called the 'B20'.

This strategy trades a universe of major commodities, and uses statistical anomalies for entry signals, which allows it to enter positions to capture outliers (tail events).

If you would like to find out more about this strategy, then please call our office on 02 8668 4877.

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GLOBAL MACRO

WRITTEN BY HUE FRAME

Frame Futures Fund

Units of the Frame Futures Fund appreciated by +0.73%. The Fund's trading strategies added +0.66%, while the core strategy added +0.32%.

Equity and Fixed Income investments rose by +0.85% and +0.13% respectively. Commodity and Currency investments were flat.

Global equity markets continued to experience significant volatility. The S&P500, Nasdaq and Dow Jones were down -4.24%, -5.22% and -3.94% respectively. Volatility across fixed income, currency and commodity markets also continued to expand. Investors spent most of the month attempting to interpret the US Federal Reserve minutes. Initially, the market interpreted that the rate of interest rate increases was going to slow. However, after the Jackson Hole symposium, Federal Reserve Chairman Jerome Powell reiterated, that interest rates will be in restrictive territory for some time. He also continued to reiterate that price stability is the primary mandate of the US Fed, and they will not stop until this has been achieved. Investors took this reiteration negatively and resumed to offload equities and bonds in tandem.

Major commodities continued to swing between the optimism that a slow-down in the rate of interest rate increases may be around the corner, and that further restrictive monetary policy will slow-down economic growth. At the close of the month, most major commodities closed in the red. In currency markets, the one place to hide has been the US Dollar Index. It finished the month up +2.73%, which brings its year-to-date performance to +13.05%.

Largest contributors to performance were our active trading strategies on the S&P / ASX 200 future contract, and our investment in an Australian based fintech company, they contributed +0.76% and +0.14% respectively. Largest detractor was our long position on China A50 future contract which cost the core strategy -0.097%.

In terms of fund activity, exposure levels were kept low during the month which significantly reduced portfolio volatility. This move now allows the Fund to take advantage of both long and short opportunities within both the core and trading strategies.

Looking forward, we will continue to assess incoming data and make suitable investments considering the uncertain investment climate.

INVESTMENT TEAM



HUE FRAME
Portfolio Manager



SYDNEY ROBERTSON
Quantitative Research Analyst

FUND PERFORMANCE as at 31ST August 2022

	1-Mth	6-Mth	1-Yr	2-Yr p.a	3-Yr p.a
Frame Futures Fund	+0.73%	-16.77%	-15.28%	+2.15%	+0.58%
RBA Cash Rate + 3%	0.33%	1.70%	3.30%	3.26%	3.25%
Excess Return	+0.40%	-18.46%	-18.57%	-1.12%	-2.67%

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.

AUSTRALIAN EQUITIES

WRITTEN BY HARRY HEANEY

Frame Long Short Australian Equity Fund

Units of the Frame Long Short Australian Equity Fund declined -1.19% in August. Comparatively, the S&P/ASX200 advanced +0.60%.

Global financial markets experienced a choppy month in August. Whipsaw price action occurred across all asset classes as the future of the global economy remains shrouded in doubt. The Reserve Bank of Australia started the month by raising the cash rate another 50 basis points to 1.85%. At the end of the month, fixed income markets indicated an 83% chance of another 50-basis point increase at the Bank's September meeting. From there on, economists expect the pace of rate increases to slow into the end of the year.

Top equity contributors for the month were Whitehaven Coal Ltd (**ASX: WHC**), NIB Holdings Ltd (**ASX: NHF**) and Atlas Arteria Group (**ASX: ALX**). They contributed approximately +0.60%, +0.14% and +0.12% respectively. Whitehaven continued to rise in line with alternative energy commodities, as the energy crisis in Europe worsened. With winter around the corner and Russia still holding oil and gas supplies hostage, European energy markets have been sent into meltdown. Both NIB and ALX reported strongly. Atlas Arteria noted a 184% increase in net profit after tax due to increased toll revenue as the world moves past COVID lockdowns. NIB reported strong growth in premium revenue and their health insurance business, which was significant against a weak industry backdrop.

Largest detractors were Endeavour Group Ltd (**ASX: EDV**), Telix Pharmaceuticals Ltd (**ASX: TLX**) and Steadfast Group (**ASX: SDF**). They detracted approximately -0.34%, -0.29% and -0.29% respectively. Telix reported a larger than expected loss for the first half, while Endeavour fell off the back of an uncertain outlook for the coming financial year. Steadfast declined after seeking to raise money in order to acquire Insurance Brands Australia.

Our longer-term strategies began to re-enter the market in August. The strategies favoured a diverse basket of companies from all sectors. Our risk monitoring remains tight as we believe further downside risk continues to be present.

INVESTMENT TEAM



HARRY HEANEY
Co-Portfolio Manager



HUE FRAME
Co-Portfolio Manager

FUND PERFORMANCE as at 31st August 2022

	1-Mth	6-Mth	1-Yr	2-Yr p.a	3-Yr p.a
Frame Long Short Australian Equity Fund	-1.19%	-11.92%	-18.48%	-	-
RBA Cash Rate + 3%	0.41%	1.92%	3.49%	-	-
Excess Return	-1.60%	-13.83%	-21.97%	-	-

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