Frame Funds.

In the Frame

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

April 2021 // Issue 3

Electric Vehicles

WHERE TO NEXT

PROFIT TAKING & CONSOLIDATION

How our strategies performed during March

LISTED LITHIUM COMPANIES

Which businesses look attractive on the ASX

What I saw in March 2021

PROFIT TAKING & CONSOLIDATION, US TREASURY YIELDS

March could only be described as the month of rotation. There was large divergence between the performance of the Dow Jones (DJIA) and the NASDAQ. At one stage the DJIA was up 6.9% while the Nasdaq was down 1.11%. The rotation we saw during February continued and in some companies accelerated. The Australian share market was still range bound, however did finish up 1.76%. Much of this strong performance was attributed to the big four banks with ANZ, CBA, NAB and WBC. They rose +7.04%, +3.94%, +4.06% and +1.42% respectively.

Profit taking & Consolidation

The long short Australian equity strategy finished the month up 0.1% which was a good result, all things considered. The strategy thrives in markets that are trending as opposed to those that are range bound, which is what we saw in March. I expect this strategy to excel when the Australian share market breaks through the key 7000 level.

The Global Macro strategy had a challenging month, declining by -6.48%. The portfolio of listed investments experienced profit taking across the board. Businesses that had contributed significantly to the strategy's performance over the last 12 months were sold down, as they were included in the rotation mentioned above. Although unpleasant to experience, these periods of profit-taking and consolidation are a healthy part of the investment cycle.

Even with this sell off, the 6 & 12-month performance figures for the Frame Futures Fund are strong at +12.28% and +33.76% respectively. The 3 & 6-month performance figures for the Frame Long Short Australian Equity Fund are +5.53% and +15.40% respectively.

Yields, yields, yields, again…

In February, we saw 10-year US Treasury yields gradually climb from 1.07% to 1.41%. During March, they continued to rise, however at a slightly more gradual pace (closing at 1.74%).

Economic data released from the US continued to improve. The unemployment rate dropped to 6.2% and Final GDP q/q came in at a strong 4.3% vs 4.1% expected. As data continues to improve, we expect yields will either trade sideways or continue to move higher.

Outlook

April is the start of the quarterly reporting & guidance season. Companies will provide updates on how well they have gone over the last quarter, as well as attempt to 'guide' the market as to how they are looking for the full financial year. This time of the year presents the opportunity to increase our investments in companies that have beat expectations, while reducing investments in businesses that appear to be falling short of guidance.

Our outlook remains positive on the Australian share market and we expect new highs will be around the corner on a break-out of the current trading range.

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 and Portfolio Manager

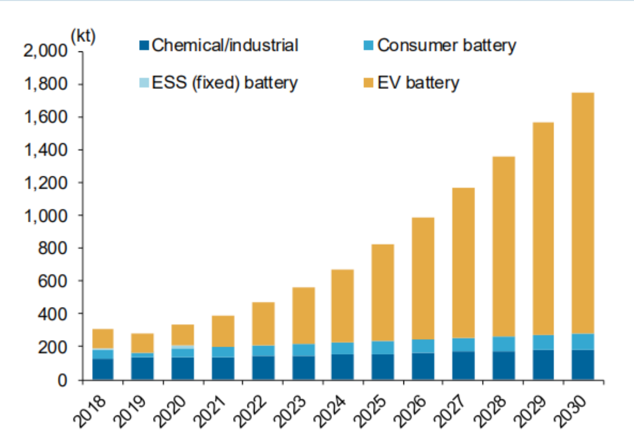
Where to next for the Electric Vehicle theme?

WRITTEN BY HARRY HEANEY

Electric Vehicles & Renewable Energy

One of the themes we have been covering extensively for the last 18 months is electric vehicle/renewable energy mass adoption, and its impact on the battery metal market. Currently 90% of the global grid battery storage market is comprised of lithium-ion batteries, whose inputs include lithium, nickel, graphite and cobalt.

Lithium-ion batteries are also used in electric vehicles, a market that grew to 5% of new car sales in 2020 and is forecasted to grow to 7% of new car sales this year – a 66% year-on-year rate of growth (Canalys). The same research indicates that by 2030 electric vehicles will represent nearly half of all passenger cars sold, making EV batteries a key driver of lithium prices.



Source: LMC Automotive, Autodata, CAAM, Macquarie Research, April 2021

This article will provide another update on the battery metal theme and how it continues to mature.

Policies

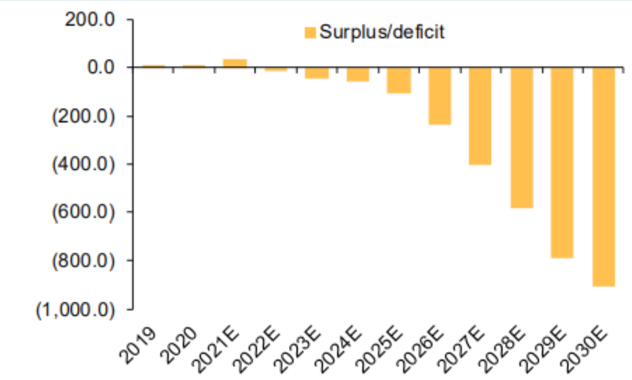
Global government policies continue to be largely supportive of the renewable energy and EV market, primarily lead by European nations and China. China recently launched a new green energy vehicle industry plan for the next 15 years that aims to develop the electric vehicle market nationally. It also aims to facilitate the shift to greener technologies. This includes guarantees for battery raw materials across the whole supply chain. China is projected to have 47 new giga factories manufacturing lithium-ion batteries by 2030, a growth of approximately 51%.

In our article *'Battery Material & Rare Earth Update'* released in December last year, we noted the strong European Union policy stance on electric vehicles and the transition to renewable energy. The EU is targeting 30 million electric cars on the road by 2030 and has imposed stricter emissions standards on new car sales. The United Kingdom has also banned the sale of new internal combustion powered vehicles by 2030.

Across the Atlantic, the election of President Biden in November 2020 inspired confidence that the United States would once again return to the renewable energy table. In his recently announced infrastructure bill, he prioritised clean energy technologies, renewable power and electric vehicles, while stripping subsidies for fossil fuels. The investment bank Raymond James estimates $628 billion of the $2 trillion package is linked to climate. The bill also allocates $174 billion to "win the electric vehicle market" by encouraging the development of domestic supply chains, as well as offering consumers rebates for EV purchases. These policies, if passed, should continue to support the growing market for battery metals.

Analyst Forecasts

The aforementioned government policies in combination with surging demand have begun to have a material impact on lithium prices and price forecasts. Research from Macquarie suggests demand will outstrip supply from 2022, with material shortages continuing until 2025. This anticipated demand shortage has resulted in 30-100% price forecast upgrades from CY21-CY25. The increase in EV demand and limitations of supply response due to quality requirements have been cited as the key drivers of the upgrades.



Source: Bloomberg, Macquarie Research, April 2021

Company Forecasts

Galaxy Resources (ASX:GXY) are forecasting a "significant growth in lithium demand in the mid-long term" due to current supply-side tightness and a looming structural deficit. They have already ramped up production at their Mt Cattlin mine in response.

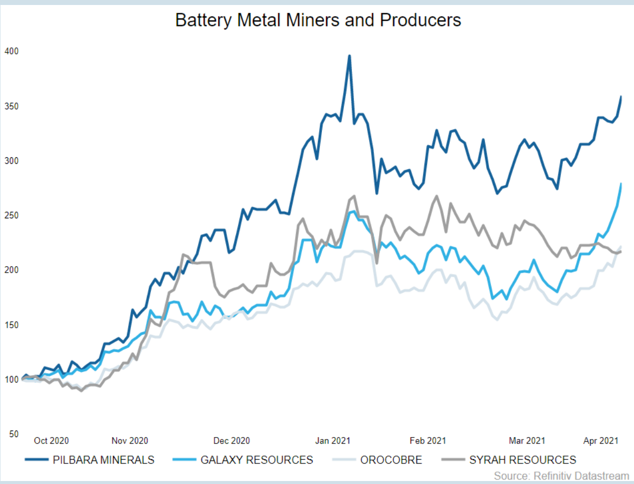
Pilbara Minerals (ASX:PLS) have also noticed strengthening customer demand and began increasing mining volumes and plant production in the December quarter last year. They experienced a 62% increase in sales of spodumene concentrate for the September Quarter last year.

Syrah Resources (ASX:SYR), who have a Battery Anode Material Project in the United States should be direct beneficiaries of President Biden's policies that aim to "encourage domestic supply chains". They remain on track to be the first vertically integrated, natural graphite active anode material producer outside of China and are well placed to profit from the increase in natural graphite demand.

Company Updates

In our EV update, mentioned above, we mentioned we were looking for prices to pullback and consolidate to let moving averages 'catch up'. This type of price action is very constructive for future price increases.

During March, we saw the prices of GXY, ORE, PLS and SYR all decline by approximately 25% and consolidated near their 100 daily moving averages. Since this consolidation, prices of these companies have swiftly headed back toward their 52-week highs.* ORE & GXY have recently announced a merger, which is another step toward this investment theme being widely accepted as an integral theme moving forward.



We believe this theme continues to be in play and has plenty of room for further growth, however as always, timing is crucial.

time of writing 14/04/21

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 -6.48%. The core strategy detracted -5.65% to performance, whilst the trading strategy detracted -0.83%.

Our equity investments detracted -4.94%. Currency, Fixed Income and Commodity investments also declined by -0.55%, -0.32% and -0.51% respectively.

March could only be described as the month of rotation. Investors rotated out of companies and themes that had performed well over the last 12-months (which therefore may have become extended), and into companies and themes that were relatively cheaper (and who may benefit from rising interest rates). This was illustrated by the divergence in performance between the Dow Jones and the Nasdaq. The Dow finished up 6.62%, whilst at one stage the Nasdaq was down 4.42%.

Our investments in renewable energy, battery materials, technology, cannabis businesses and blockchain technology, were sold off heavily as they were included in this rotation. During March, these investments experienced a period of profit taking and consolidation which detracted from performance by -5.18%. Thankfully, at the time of writing the majority of these names have already rebounded and have surpassed levels seen in February.

Largest contributors to the performance were our investments in the Euro Stoxx 50 future (+0.57%), S&P/ASX 200 future trading (+0.40%) and the US Dollar Index future (+0.33%). Largest detractors to performance, were our investments in China A50 equity markets (-0.67%), blockchain technology companies, as well as battery material/rare earth element producers and explorers.

In terms of fund activity, we took part in the initial public offering (IPO) of Kincora Copper (KCC.AX). This IPO allowed us to gain exposure to promising copper assets in NSW.

At the conclusion of the month, the Fund held 45 investments.

FUND PERFORMANCE as at 31st March 2021

	1 month	3 months	6 months	1 year
Frame Futures Fund	**-6.48%**	**-5.21%**	**12.28%**	**33.76%**
RBA Cash Rate + 3%	0.26%	0.77%	1.57%	3.23%
Excess Return	**-6.74%**	**-5.98%**	**10.71%**	**30.53%**

HUE FRAME
Portfolio Manager

HARRY HEANEY
Research Analyst

Australian Equities

WRITTEN BY HUE FRAME

Frame Long Short Australian Equity Fund

Units of the Frame Long Short Australian Equity Fund rose +0.1% in March. Comparatively, the XJO rose +1.76% for the period.

March was a challenging month for the strategy, as the share market continued to be range bound. The strategy performs best in conditions where markets are trending as opposed to ranging. Rising yields continued to be at the forefront of investors' minds as economic data across the globe continued to strengthen. Investors rotated out of high growth, unprofitable businesses as yields rose, transitioning into value names who traded on more reasonable multiples. Given the ASX 200's higher weighting of financials, our market enjoyed this rotation with assistance from the big four banks.

Upon conclusion of the month, the five largest holdings within the portfolio were Harvey Norman (HVN), Fletcher Building (FBU), Oz Minerals (OZL), Reece (REH) and Sims Metal Management (SGM). The top sector weighting was again Materials at 37.49% down from 57% in February. Our view is that materials and cyclical businesses should continue to outperform as the global economy recovers from the pandemic.

The top three performers and their approximate contributions were Premier Investments (PMV), Bank of Queensland (BOQ) and Bluescope Steel (BSL). These investments contributed +0.96%, +0.72% and +0.71% respectively.

The bottom three performers and their approximate detractions were Corporate Travel (CTD), Iluka Resources (ILU) and Rio Tinto (RIO). These investments detracted -0.62%, -0.55% and -0.48% respectively.

There was a significant amount of Fund activity at the beginning of the month. We initiated investments in Blackmores (BKL), Boral (BLD) and Nine Entertainment (NEC) among others. We took part in the BOQ placement at a substantial discount. The Fund also exited a number of positions including Fortescue Metals (FMG), RIO and Seek (SEK).

At the end of March, the Fund held 19 investments.

FUND PERFORMANCE as at 28th February 2021

	1 month	3 months	6 months	1 year
Frame Long Short Australian Equity Fund	**0.10%**	**5.53%**	**15.40%**	-
RBA Cash Rate + 3%	0.26%	0.77%	1.57%	-
Excess Return	**-0.16%**	**4.76%**	**13.83%**	-

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.

EDWARD HAWKE
Equities Dealer

Stocks in Play

WRITTEN BY EDWARD HAWKE

Battery stocks in play

Electric vehicles (EV), renewables and the battery supply chain have been a dominant market theme over the last 12 months. Although Tesla is not listed on the ASX, there are a number of listed companies which provide exposure to EV's and the battery supply chain.

In this article we will explore several ASX companies who we believe are at the forefront of this investment theme.

As the name suggests, lithium is one of the key components required to create lithium-ion batteries, the driving force behind all things electrical. Fortunately for domestic investors, the resource heavy ASX offers a number of quality Lithium explorers and producers to choose from. Companies like Galaxy Resources (ASX:GXY) & Orocobre (ASX:ORE) have had extraordinary share price runs over the last 12 months. As demand for electric vehicles globally has increased, focus on the battery supply chain has grown. Interestingly, the recovery in the underlying lithium price happened after the Galaxy's and Orocobre share prices began to move.

Source: Trading Economics

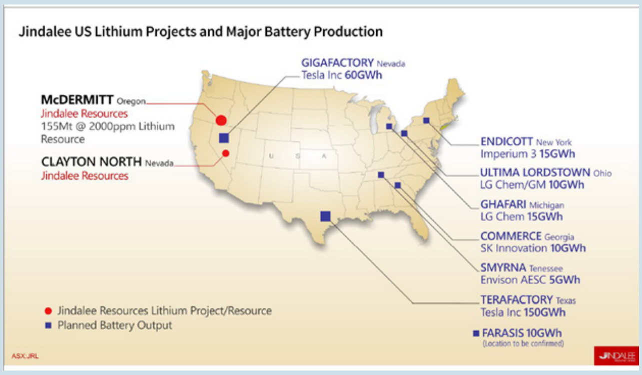
This week ORE released an announcement to the market stating that for the June quarter they are expecting prices of $7400 a tonne. The highest price received since June 2019. Over the last couple of weeks both ORE and GXY have broken out of their recent bases and have been heading higher.

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.

One lithium explorer we are watching closely is Jindalee Resources (**ASX:JRL**). JRL released its mineral resource statement this week which confirmed it's lithium deposit, McDermitt, as the largest lithium deposit in the USA.

The market's reaction was overwhelmingly positive, closing up 86% on the news, a move which demonstrates investors' enthusiasm towards quality lithium discoveries. The resource hosts an inventory of 1.43 billion tonnes at 1,320ppm Li for total of 10.1 million tonnes Lithium Carbonate Equivalent (LCE) at 1,000 ppm cut-off grade (COG). Still early in the project development lifecycle, we see significant exploration upside through further drilling as the resource remains open.

Our main attraction to JRL is not only the size and scale of its resource, but also JRL's strategic location. As the US attempts to secure its battery supply chain away from China, we view a large-scale lithium resource on US soil as extremely strategic. For reference, the extract from JRL's 2020 AGM presentation illustrates JRL's proximity to US battery giga factories. We look forward to further drilling results and a potential scoping study in the June Quarter to further de-risk the project.



Another company worth noting is Vmoto (**ASX:VMT**). VMT is an ASX small cap focused on the production and distribution of electric scooters. VMT is about as close as you can get to owning a pureplay EV producer on the ASX. With revenue of $61 million in FY19 it doesn't quite stack up to Tesla's numbers but the top line year on year growth of 34% is still impressive.

VMT has three key sales strategies, business to consumer (B2C), business to business (B2B) and rideshare solutions. For its B2C category, VMT has its own brand EMAX and the exclusive distribution rights of the Super Soco branded bikes (outside of China). The B2B focuses primarily on electric scooters used for delivery, the bikes they are producing are certainly no vespas but with two batteries and a range of 100kms they can deliver a few pizzas.

VMT has a global sales strategy with 46 international distributors and a key distribution centre in the Netherlands. VMT has also recently entered an MOU with an Indian company, 'Bird Group'. If the MOU is executed, it would provide revenue of over $13mn for the first year of production. We view India as an important market for VMT to penetrate as it is the world's largest two-wheel vehicle market.

We are keeping a close eye on the upcoming quarterly report for commentary on order growth and any developments with the 'Bird Group' MOU.

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