Frame Funds.

In the Frame

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

May 2021 // Issue 4

Inescapable Technology

WHAT NEXT

REBOUND & CONSOLIDATION

How our strategies performed during April

TECHNOLOGY ADOPTION RATES

Which companies have experienced structural shifts

What I saw in April 2021

REBOUND & CONSOLIDATION, RAMPANT SPECULATION

April saw global equity markets rebound strongly. Fixed income markets consolidated, which alleviated some investor anxiety surrounding interest rates. This consolidation allowed investors to focus on how well the global economy is recovering from the pandemic. The Australian share market also continued its accent. Supported by the weightings of financials and materials, it rose +3.46%. The biggest investment theme for the month continued to be the reflation trade and the subsequent commodity super cycle. Copper and iron ore hit fresh 52-week highs during the month while Oil closed in on $70usd.

Rebound & Consolidation

The long short Australian equity strategy finished the month up +2.34%, which was a very good result considering the mixed performance from many of the constituents of the ASX 200. The strategies top sector weighting continues to be materials at 42.88%. The strategies second largest weighting being Industrials at 10.34%.

The Global Macro strategy had a positive month, it rose +5.86%. Most of the businesses that consolidated and rebased during March made solid contributions in April. Investments in Cryptocurrency businesses, Battery Material producers & explorers and situational trading opportunities added +1.29%, +1.94% and +1.63% respectively.

The 3 & 6-month performance figures for the Frame Long Short Australian Equity Fund continue to be a solid +11.18% and +14.95% respectively. With the commodity super cycle under way, I expect this strategy to continue to perform well. The Frame Futures Fund rebounded solidly and is continuing to have very good medium-term performance, 6 & 12-month performance is +13.80% & +33.49% respectively.

Rampant cryptocurrency speculation

Dogecoin. A crypto currency created as a joke, saw their market cap rise to ~$38bn by the end of April. Their price jumped from $0.053 to $0.738 by the 8th of May, however has subsequently dropped to $0.481. This speculation is not healthy for global financial markets, because when the bubble bursts, the emotional and financial loss is felt across the whole financial system.

ARK Innovation ETF

Most investors have heard of the remarkable story of ARK and their exchange traded fund ARKK. They generated >100% in 2020 and subsequently grew their funds under management from US$10bn to over US$70bn. Recently, as the tech sector rotation has occurred, they have struggled. Their share price rose to highs of $160 however since January, has declined by -34.68%. Importantly ~$8.5bn flowed into this fund at a median price of $139. The reason why this is significant is because as their share price continues to drop, investor redemptions will continue to rise. To fund these redemptions, ARK must sell the individual holdings, which in turn drives the share prices of these companies lower. This cycle is self-perpetuating.

Outlook

May is where we enter the quieter time of the year for the US markets as they enter their summer holidays. The adage "Sell in May and go away" has generated -0.708% for the S&P500 over the last 10yrs. Domestically, we will have most companies either providing trading updates or issuing guidance to the market for the upcoming reporting season. I look forward to the reporting season as we have historically performed very during these periods.

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

Tech adoption, structural or temporary?

WRITTEN BY HARRY HEANEY

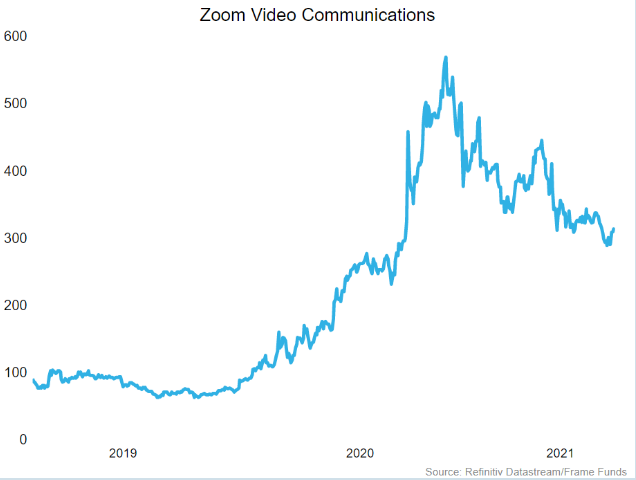
Pandemic driven technology adoption

The COVID-19 pandemic bought on an onslaught of panic selling in financial markets, followed by an aggressive recovery that was predominantly led by technology focused companies. Almost anything that could be transitioned online was, businesses that led the charge in adapting to the new socially distanced way of living thrived. Years of technological development and adoption was crammed into months as we saw a variety of temporary and structural shifts to society and the economy. This article will discuss if we believe these changes were temporary or were structural shifts. We also attempt and uncover which segments of the technology market will continue to benefit in a post-pandemic world.

Temporary changes

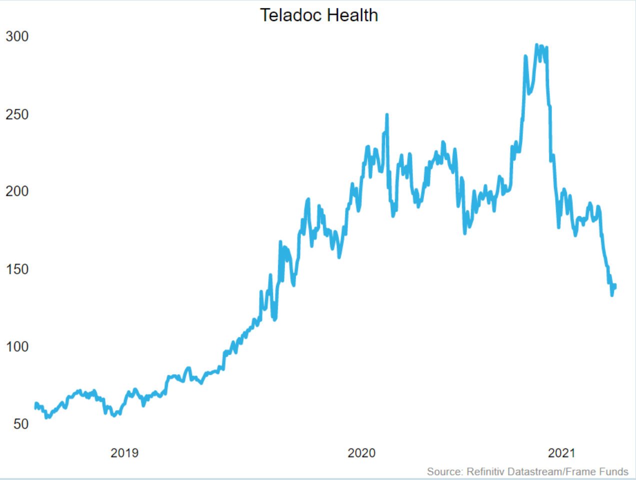
The video communications space was a massive beneficiary of the COVID-19 pandemic. As meetings around the world moved online, we saw a variety of competitors in the space, most notably Zoom Video Communications (Nasdaq: ZM), Microsoft Teams (Nasdaq: MSFT) and Skype for Business (owned by Microsoft). Zoom in particular saw its share price boom as the coronavirus swept across the globe, increasing ~730% from the start of the year to its high in October.

The transition to solely online meetings has not been permanent however and the value of Zoom's shares has suffered as a result. As positive vaccine developments occurred in the final quarter of 2020, Zoom has seen the value of its stock decline by ~45%. While many small interstate business meetings will now be conducted online instead of in-person, we think that the reopening of the economy will see Zoom struggling to recapture its pandemic heights.



Another sector that seems to have benefitted from the temporary shift to isolated living is telehealth. Teladoc Health Inc (NYSE: TDOC) is a multi-national telemedicine and virtual healthcare company. For the 2020 calendar year, its share price increased ~250% .Business boomed throughout the pandemic with people preferring to consult a doctor online rather than risk exposure to COVID-19 in public.

After reporting disappointing half yearly then quarterly results, some analysts have downgraded expected growth rates and called into question the businesses ability to continue its momentum as society reopens. Shares in Teladoc Health have fallen more than 50% since February 12th and it remains to be seen if it and the telehealth sector more broadly can regain its momentum.

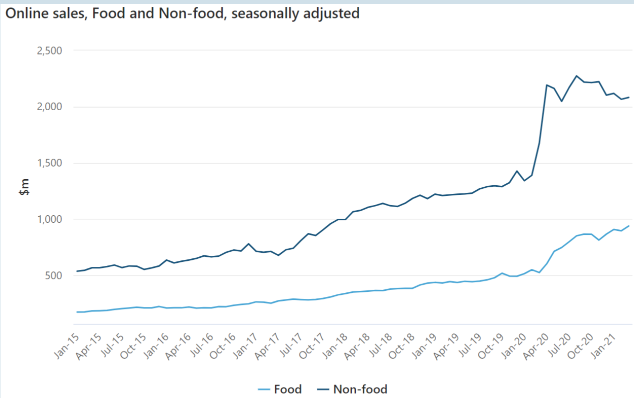


Structural changes

COVID-19 decimated brick and mortar retailers as stores were closed and customers were forced to stay at home. Online retailers flourished as traditional vendors rushed to develop online sales channels. Online retail trade reached all-time highs, with 1.36 million Australians shopping online for the first time in 2020. We believe the forced introduction of the world of online retail has opened eyes to the convenience of sitting at home and having goods delivered straight to your front door.

It is evident from seasonally adjusted online retail data that the move to web-based trade has held pandemic highs, even as the economy has reopened. We continue to favour businesses that expanded into the online market in 2020, servicing their existing customer base and picking up new customers along the way. Adairs Limited (ASX: ADH) is an example of one such company.

Another sector we believe has taken advantage of the pandemic and will be able to maintain pandemic performance is video games. With most game developers, publishers and operators able to work from home, the quality and development of games was not hindered during the pandemic. As the population remained housebound in 2020, online gaming saw record numbers of participants - Australia's gaming industry grew to $3.4 billion in 2020, a 6% year-on-year jump. Globally, game sales increased 20% to $180 billion, making video games a larger industry than global film and North American sports combined. The Australian Government has introduced a $1.2 billion plan to boost domestic video game development in their latest budget, aiming to capitalise on recent growth in the industry.



While levels of overall gameplay will inevitably decline as restrictions relax and people begin to eat out and return to the office, Michael Patcher (Wedbush Securities) believes people who starting 'gaming' during COVID will be long term customers. In the United States, companies like Activision Blizzard (Nasdaq: ATVI) have seen the value of their stock rise ~60% from the start of 2020 to present* where it continues to hold 10% from highs.

*18th May 2020

Global Macro

HUE FRAME
Portfolio Manager

HARRY HEANEY
Research Analyst

WRITTEN BY HUE FRAME

Frame Futures Fund

Units of the Frame Futures Fund increased by 5.86%. The core strategy contributed 5.16% to performance, whilst the trading strategy added 0.84%.

Our investments in listed Equities contributed 5.69%. Currency, Fixed Income and Commodity investments also rose by 0.10%, 0.22% and 0.37% respectively.

In April, major equity markets stormed higher. With Dow Jones Industrial Average and S&P 500 leading the way. After two months where fixed income markets sold off sharply, we saw a consolidation, which eased concerns that interest rates were going to increase imminently. The Australian share market also rose 3.46% during the month, however most of these gains were generated within the first two weeks of the month. Iron ore and Copper continued to move higher, whilst Gold attempted to break back above $1800. A weaker US Dollar Index supported commodity markets through-out the month.

Largest contributors to the performance were our investments in listed Cryptocurrency businesses (+1.29%), Battery Material producers & explorers (+1.94%) and situational trading opportunities (+1.63%).

The largest detractor to performance was our investment in the US Dollar Index (-0.36%).

In terms of fund activity, we continued to build positions in a selection of Copper explorers. Like prior months, we also took advantage of some erratic price action in some of our small cap investments (OEL, DCC, KCC).

At the conclusion of the month, the Fund held 48 investments.

FUND PERFORMANCE as at 30th April 2021

	1 month	3 months	6 months	1 year
Frame Futures Fund	**+5.86%**	**+1.19%**	**+13.80%**	**+33.49%**
RBA Cash Rate + 3%	+0.25%	+0.76%	+1.55%	+3.22%
Excess Return	**+5.61%**	**+0.43%**	**+12.25%**	**+30.27%**

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

HUE FRAME
Portfolio Manager

HARRY HEANEY
Research Analyst

WRITTEN BY HUE FRAME

Frame Long Short Australian Equity Fund

The Frame Long Short Australian Equity Fund rose 2.34% in April. Comparatively, the XJO rose 3.46% for the period.

The Australian share market started April strongly, with the ASX200 rising almost 4% in the first 2 weeks of the month. There was no follow through however and the market yet again became range bound as quarterly reporting approached. Investors became reluctant to take large positions with valuations already stretched and without a catalyst to spark a move either way, equity markets consolidated on light volume. Commodity markets and the homebuilder sector continued their hot streak, aided and abetted by the ongoing effects of stimulus and reopening economies. This assisted our investments in Mineral Resources (MIN), Reece Group (REH) and Boral Limited (BLD) which contributed +1.22%, +0.96% and +0.63% respectively.

The bottom three performers and their approximate detractions were Challenger Ltd (CGF), Harvey Norman Holdings Ltd (HVN) and Blackmores Limited (BKL). These investments detracted -0.60%, -0.46% and -0.46% respectively. Selling pressure in both Challenger and Blackmores came after disappointing quarterly reports, while Harvey Norman saw some profit taking after a significant move in March.

Fund activity over the month was light. We initiated investments in Brickworks Limited (BKW) and Codan Limited (CDA). We took part in the Seven Group Holdings Ltd (SVW) placement at a 2.5% discount. The Fund exited its investment in Vocus Group Ltd (VOC) as the takeover with Consortium of Macquarie Infrastructure and Real Assets (MIRA) and Aware Super entered the scheme implementation deed phase.

The top sector weighting remains materials at 42.88%, with industrials our next largest investment at 10.34%. We continue to believe companies oriented around the production and distribution of materials and capital goods will be the main beneficiaries of the economic recovery. This is as a result of the increased money supply in the economy created by multiple rounds of fiscal stimulus and accommodative monetary policy.

At the end of April, the Fund held 23 investments.

FUND PERFORMANCE as at 30th April 2021

	1 month	3 months	6 months	1 year
Frame Long Short Australian Equity Fund	**+2.34%**	**+11.18%**	**+14.95%**	-
RBA Cash Rate + 3%	+0.25%	+0.76%	+1.55%	-
Excess Return	**+2.09%**	**+10.42%**	**+13.40%**	-

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

Post COVID tech winners

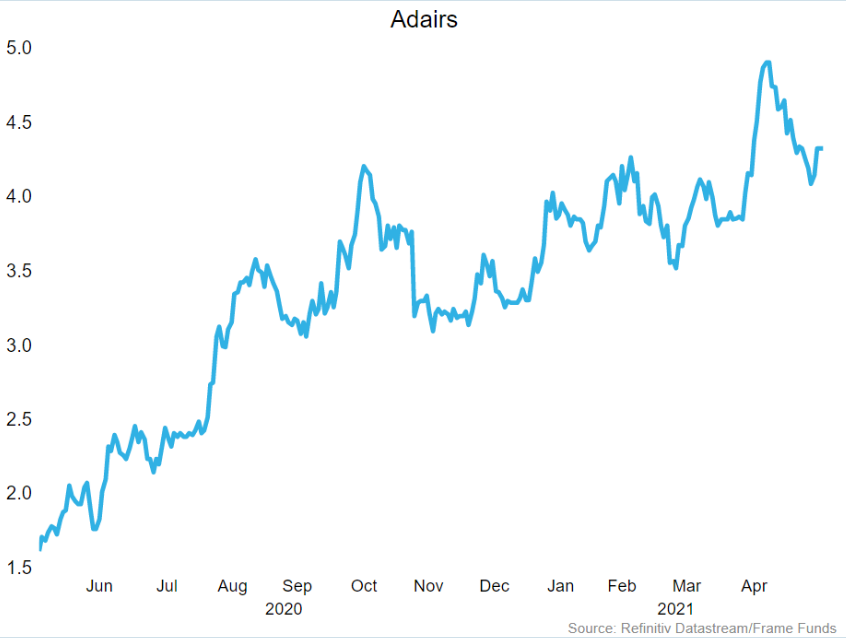
The advent of COVID-19 proved to the world that to maintain any semblance of normal living, technology was inescapable. The big tech winners of the pandemic have been widely documented with the likes of Kogan (**ASX: KGN**), Zoom (**US: ZM**) & Afterpay (**ASX: APT**) leading the way.

As the world begins to emerge from the pandemic these companies have begun to experience changes in sentiment as investors question whether their growth will continue.

In this article, we will explore companies that are not traditionally associated as big COVID winners but whose investment in technology has allowed them to navigate the COVID-induced recession, and in our opinion has set them up to become leaders in a post-pandemic world.

Adairs Limited (ASX: ADH)

The first company we have spoken about previously and we think is worth keeping an eye on is Adairs Limited (**ASX: ADH**). Adairs is a homewares and furniture retailer with over 160 stores nationwide.



You may be wondering why we are talking about a homeware store selling bedsheets in a piece on technology. The reason is that Adairs online sales

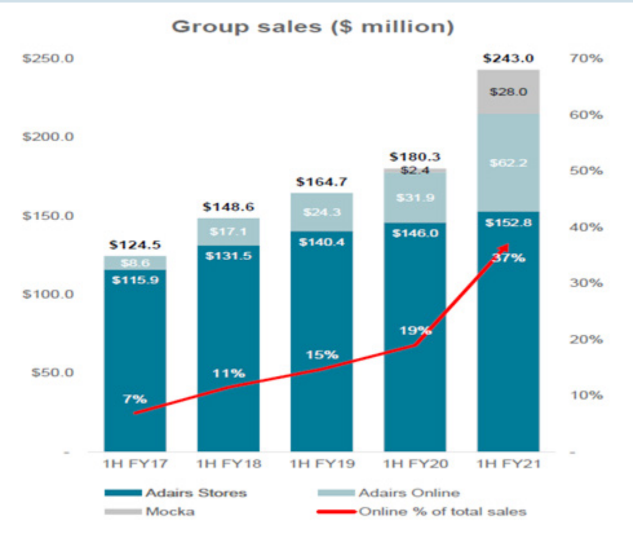
Past performance is not an indicator for future performance. This is not intended to be financial advice and does not take into account any particular person's circumstances. Before relying on this information, please speak to an independent financial adviser.

have been skyrocketing in part due to COVID but mainly due to some savvy investment in its online presence and online sales channel. Through this investment, ADH was able to stay afloat during the COVID lockdowns and even take market share away from its competitors, who were not able to offer the same level of service to their clients online. Adairs now runs a compelling omnichannel strategy which we believe is defensible and offers good prospects for growth.

Adairs is separated into two vertically integrated business units, Adairs & Mocka. Adair's bought Mocka, a New Zealand-based online pure-play retailer in 2019. In our view, it was this investment into Mocka, and the capital spent developing its online store that allowed Adairs to survive the 2020 COVID lockdowns, which shut many of its brick-and-mortar stores nationwide.

By developing a robust omnichannel strategy Adairs was able to cater to its existing 'in store' clients online and gain new market share by servicing their competitors' clients, who were unable to provide the same polished online experience.

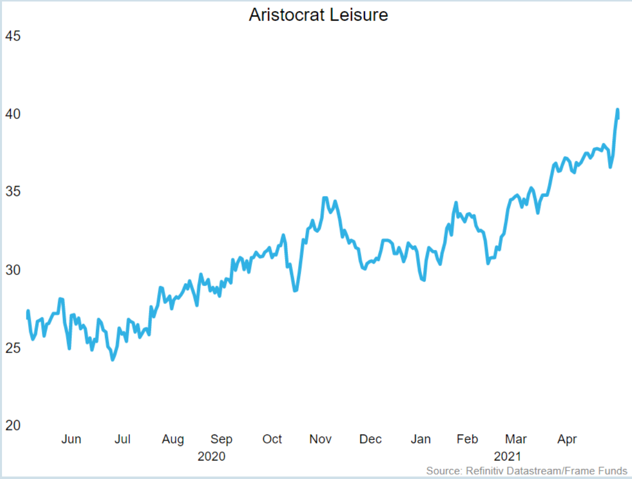
The chart below taken from Adair's 1H FY21 results presentation shows the transformation of the sales mix for the Adairs group over the last 4 years.



Aristocrat Leisure Limited (ASX: ALL)

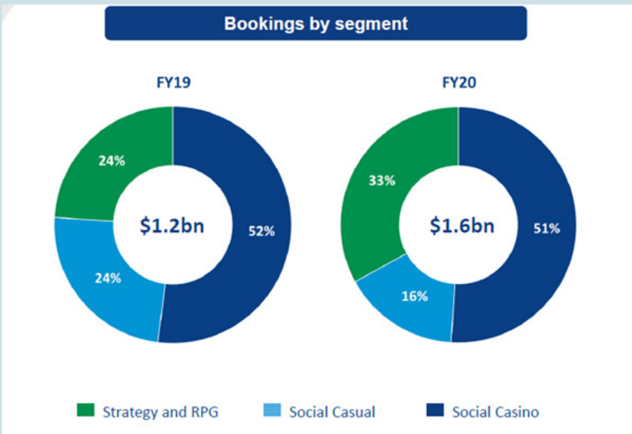
Aristocrat Leisure (**ASX: ALL**) is a company that's business would have been annihilated by the COVID pandemic if it had not invested heavily in technology to diversify its revenue streams. Aristocrats' primary business is selling poker machines.

What many people may not know is that to diversify its revenue streams Aristocrat invested heavily in online gaming. Around half of these games are related to social casinos, but a large portion of Aristocrat's digital profits arises from mobile phone games, like its widely popular role-playing game Raid - Shadow Legends. An extract below from Aristocrat's most recent results illustrates Aristocrat's digital portfolio.



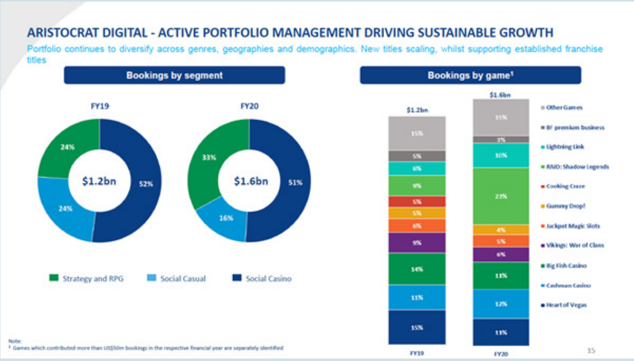
This week, ALL announced a 1H21 results preview, with numbers that blew most analysts' expectations away. Although the results are unaudited, Aristocrat guided to half-yearly EBITDA of $750mn, which represents growth of 6% on the previous corresponding period.

Although the growth is not massive, the fact that they were able to generate any at all is to be commended, given that the large portion of Aristocrat's revenue comes from the North American market. COVID 19 was rampant throughout North America which resulted in the closure of casinos nationwide. ALL managed to grow their digital business significantly through the pandemic, which now makes up over 50% of Group revenue. Without this investment and innovation in technology. Aristocrat would have reported markedly different numbers this week.



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.

An extract below from Aristocrat's most recent results illustrates Aristocrat's digital portfolio.



We expect Aristocrat to continue to perform over the long term given its ongoing investment in technology and product innovations.

In addition, we anticipate that Aristocrat will soon hold a net cash balance, which will present a real opportunity for Aristocrat to expand through acquisition or a return of funds to investors.

Despite the excellent fundamentals, we do view Aristocrat as a high-risk investment given its exposure to an ever-changing regulatory environment. It is also not an investment for everyone as the nature of the business may conflict with the view of some individuals.

Summary

As evidenced by the Aristocrat and Adairs business model's, technological investment is imperative and inescapable for business. It provides both innovation and defensibility to corporate revenues.

Although the benefits of technology investment are clear, there are some risks. Perhaps the greatest to online technologies, is that they are susceptible to malicious behaviour, such as cyber-attacks.

Although we are currently dealing with the worst pandemic in living memory, a destructive virus targeting critical tech infrastructure globally could have terrible consequences, that match or even exceed the economic turmoil caused by the pandemic.

We saw a glimpse of this over the last few weeks where hacker's shutdown the Colonial pipeline. This pipeline provides nearly half of the United States' east coast fuel supply.

Despite this, we firmly believe that the benefits of technological investment firmly outweigh the risks.

Frame Funds.

Contact

Frame Funds Management Pty Ltd

Ph:	+61 2 8668 4877
Email:	investors@framefunds.com.au
Address:	S25, L6, 58 Pitt Street Sydney, NSW, 2000
Website:	www.framefunds.com.au

This information is prepared by Frame Funds Management Pty Ltd (ABN 51 608 862 442, CAR No. 123 9068) (Frame Funds, we or us) for general information purposes and must not be construed as investment advice. These materials are not to be distributed and must not be copied, reproduced, published, disclosed or passed to any other person at any time without the prior written consent of Frame Funds. Primary Securities Ltd (ABN 089 812 635, AFSL No. 224 107) (Primary) is the Trustee of, and issuer of units in, the Frame Futures Fund and Frame Long Short Australian Equity Fund (Fund).

This material does not constitute an offer or inducement to engage in an investment activity nor does it form part of any offer or invitation to purchase, sell or subscribe for in interests in any type of investment product or service. This material does not take into account your investment objectives, financial situation or particular needs. You should read and consider any relevant offer documentation applicable to any investment product or service and consider obtaining professional investment advice tailored to your specific circumstances before making any investment decision. Any trademarks, logos, and service marks contained herein may be the registered and unregistered trademarks of their respective owners. Nothing contained herein should be construed as granting by implication, or otherwise, any licence or right to use any trademark displayed without the written permission of the owner. Statements contained in this material that are not historical facts are based on current expectations, estimates, projections, opinions and beliefs of Frame Funds. Such statements involve known and unknown risks, uncertainties and other factors, and undue reliance should not be placed thereon. Additionally, this material may contain "forward-looking statements". Actual events or results or the actual performance of a Frame Funds financial product or service may differ materially from those reflected or contemplated in such forward-looking statements. Certain economic, market or company information contained herein has been obtained from published sources prepared by third parties. While such sources are believed to be reliable, neither Frame Funds or any of its respective officers or employees assumes any responsibility for the accuracy or completeness of such information.

No person, including Frame Funds, has any responsibility to update any of the information provided in this material. The information in this document is current as at the date specified and is subject to change.