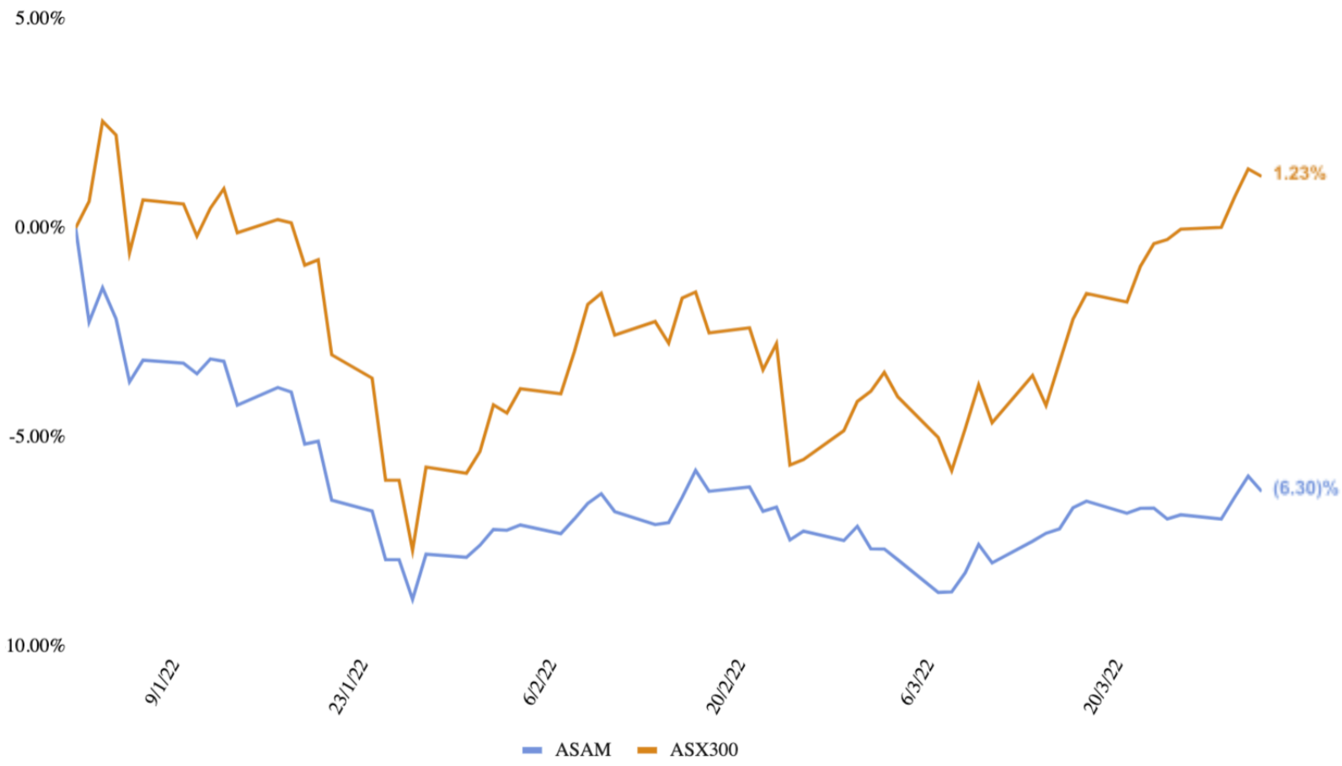
Q3 Report FY22

ASAM

LONG-ONLY AUSTRALIAN EQUITIES FUND

Q3 REPORT FY22



Portfolio Performance

	January	February	March	Q3FY22
ASAM	-5.75%	0.12%	0.90%	-4.14%
ASX300	-6.46%	0.53%	5.61%	0.60%
Outperformance	+0.70%	-0.41%	-4.72%	-4.74%

Note: The above figures are estimated numbers sourced by ASAM.

Q3 FY22 Fund Overview

The third quarter of FY2022 presented a catalogue of headwinds for investors across all asset classes across the globe. Local markets finished slightly higher, returning 0.6% in March to erase most of the damage done in January where the ASX300 fell 11% (January 27) from its open on January 3. Compared to global markets however, domestic equities performed relatively strongly when compared against a 5% decline in the S&P 500 and 10% across Europe.

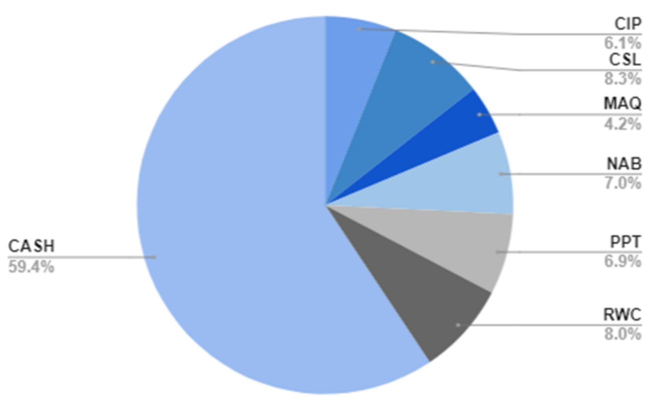
In response to challenging a macroeconomic environment for technology and consumer discretionary sectors the decision was taken to exit positions in Temple-Webster (ASX:TPW) and Tyro Payments (ASX:TYR). With COVID-19 “stay-at-home” tailwinds softening, both companies were challenged in the Q3 and increasing headwinds from a rising interest rate environment.

In March we saw all markets shift focus towards macro-economic trends. During the first quarter of the calendar year, all eyes were on the rising concerns in inflation and the reaction of Governments and their respective central banks to what were already concerning numbers. Additionally, we witnessed the Russian invasion of Ukraine and observed Crude Oil top out at $119 USD/Barrel which added further constraints to already crippled global supply chains. We saw an incongruity of returns amongst an array of sectors whereby areas such as Utilities and Materials rode the wave of increasing commodity prices. Inversely, Consumer Discretionary, Technology and Healthcare companies saw compounded losses as markets began to price in rising inflation and interest rate hikes.

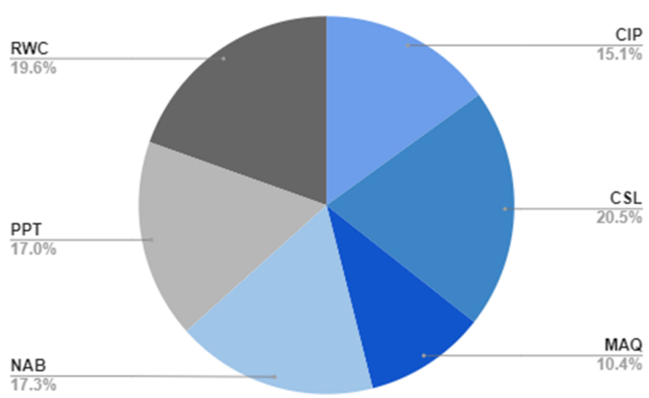
In March the portfolio exited BHP Group (ASX:BHP) and increased holdings of Reliance Worldwide (ASX:RWC) and Macquarie Telecom (ASX:MAQ). Our position in BHP Group produced a positive return despite increasing headwinds originating from a Chinese economic slowdown. The portfolio increased holdings in Reliance Worldwide to 7.95% in response to share price weakness. Reliance Worldwide remains a strong industrials business with the brand loyalty and market share to pass-on costs.

Given that we had majority exposure to the Financials (34.4%), Industrials (19.6%) and Healthcare (20.5%) sectors, although the ASAM portfolio underperformed the benchmark for the first two months, we managed to avoid some of the exacerbated losses that some of the sectors felt. Looking forward, if we zoom out, the next quarter will likely present excellent buying opportunities as we take advantage of quality, profitable Australian companies, likely trading at multiples well below fair value.

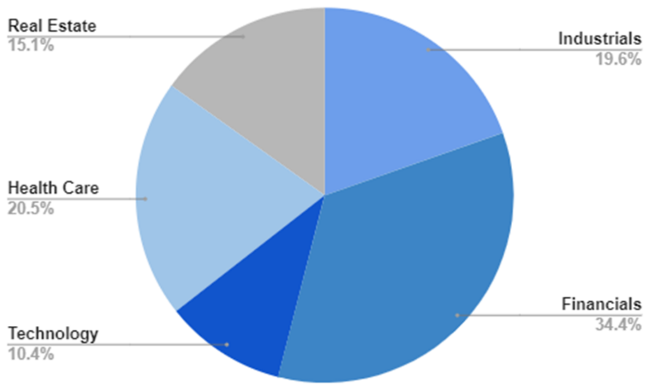
Total Portfolio Allocation



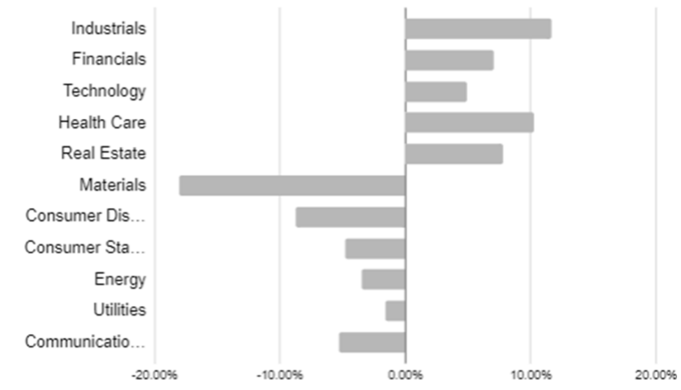
Breakdown of Investments



Allocation by Sector Benchmark



ASAM Exposure vs ASX300



Portfolio Characteristics

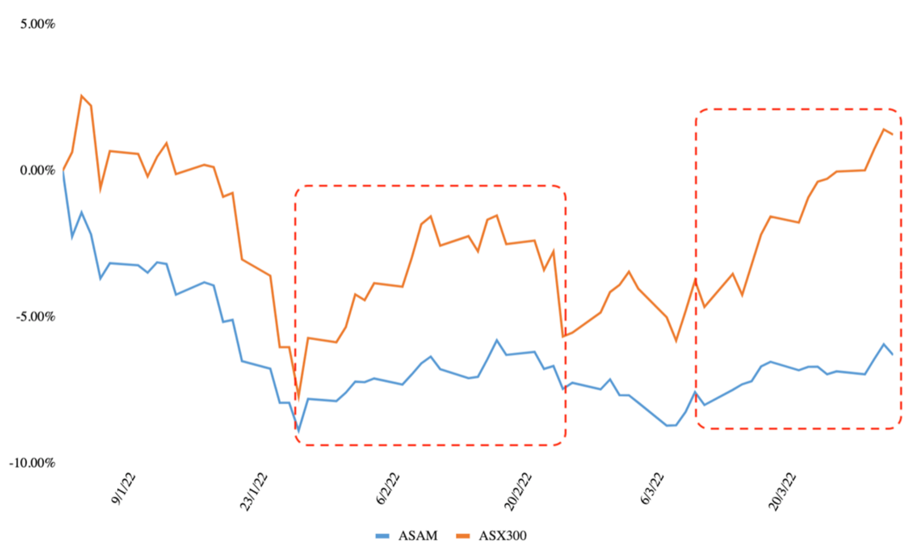
	January	February	March	Q3FY22
ASAM	-5.75%	0.12%	0.90%	-4.14%
ASX300	-6.46%	0.53%	5.61%	0.60%
Outperformance	+0.70%	-0.41%	-4.72%	-4.74%

Note: The above figures are estimated numbers sourced by ASAM.

Portfolio Commentary

In turning more attention to the ASAM holdings, the portfolio has missed a number of key market rallies that has ultimately led to its underperformance of the benchmark over the quarter. Whilst in late April, at the time of writing, we have observed our first three consecutive weeks of generating Alpha, the third quarter of the financial year was relatively disappointing.

If we consider below, the main disparities are clearly the early February and mid-March rallies witnessed by the local market (marked in red). The benchmarks performance in February can duly be traced to the commodity rally to which we had no exposure to, with S&P/ASX300 Metals and Mining index lifting 8% alone in the early weeks of February.



Similarly, utilities and energy companies benefited in March off the back of surging oil prices as a result of the Ukrainian conflict, to which we had little to no exposure to.

Our biggest gains came from our significant allocation to the Financials sector with our selection of the **National Australia Bank (ASX:NAB)**. With an expectation of significant interest rate rises in the near future, the big four banks are an easy pick for Australian equity funds, however NAB presented favourable Price to Book and forward looking earning multiples over its competitors.

Similarly, the purchase of Macquarie Telecom (ASX:MAQ) reflects our position that there is still value available in cloud based technology, but only company's are able to secure large scale contracts for government and large private entities, as we have outlined below.

Ultimately, the third quarter results are largely a reflection of the relatively new ASAM portfolio holdings as we continue to increase both our fund size and diversification. Our negative information ratio of -3.39% (since inception) was largely due to our small number of holdings and asset allocation not providing exposure to commodity price movements. Whilst our quarterly Alpha was -5.8% was unsatisfying, there was positivity found in the funds outperformance of the benchmark in January (0.7%) and slight underperformance in February (-0.4%), it was the underperformance of -4.74% in March that ultimately hurt our returns. To achieve this whilst maintaining a relatively small Beta of 0.49 was also promising.

The short term outlook for the portfolio rests on a number of key factors, those being: to what degree with Central Banks begin interest rate hikes, will the Ukrainian conflict continue to affect confidence in both bond and equity markets, and how will the global economy deal with the excruciating supply-side constraints we are currently witnessing. Resultantly, we will take a fairly active approach to the portfolios asset allocation over the next three months as we progress into what will likely become an exciting buying opportunity across all sectors.

ASAM Holdings as of 31 March 2022

	Weighting	Sector	Q3 Return	Q3 Return Contribution
Centuria Industrial REIT	6.12%	Real Estate	-8.35%	-0.51%
CSL Limited	8.34%	Health Care	-7.76%	-0.65%
Macquarie Telecom	4.24%	Technology	9.24%	0.39%
National Australia Bank Ltd.	7.05%	Financials	12.17%	0.86%
Perpetual Limited	6.92%	Financials	-3.39%	-0.23%
Reliance Worldwide Corporation Ltd	7.95%	Industrials	-32.06%	-2.55%
Cash	59.38%	-	-	-

Note: The above figures are estimated numbers sourced by ASAM.

Position Commentary

As the fund continues its transition to live trading, ASAM is looking to expand the fund's holdings and diversify the portfolio to reduce volatility and downside risk. As such, ASAM has taken up a new position in Macquarie Telecom (MAQ).

Macquarie Telecom (ASX: MAQ)

Macquarie Telecom Group Limited (MAQ) is engaged in provision of telecommunication, cloud computing, cybersecurity and data centre services to corporate and government customers within Australia.

Performance

Macquarie Telecom's market update in February 2022 reported a 4% increase in revenue from 1HFY21 to 1HFY22 and an 11% increase in EBITDA. While these signs suggest strong performance for the company, NPAT dropped by 48% reflecting the increase in depreciation & amortisation flowing from increased levels of capital expenditure.

Growth in depreciation and amortisation and reduction in NPAT is driven by significant ramp up in Intellicentre 3 (IC3) expenditure in FY21 and the commencement of the IC3 East lease.

Share price

Rationale

MAQ was included in the ASAM Portfolio in March 2022 due to the strong growth prospects given the continued demand for cybersecurity and cloud services. With guidance for profitability for the full FY22 expected at $85 to $88 million EBITDA, MAQ has a proven history of consistent profit growth. MAQ has effectively grown their operations from a telecommunications company, to a supplier of critical technology and data centre capability to Australian businesses and the Government.

Further, Covid-19 has accelerated swift technology uptake through the work-from-home revolution. MAQ is in a prime situation to capitalise on these structural changes, and being one of Australia's largest data centre operators it has an advantage over the smaller players through its large physical footprint and high storage centre capabilities.

Looking ahead, the continued demand from Federal Government Agencies for cybersecurity and secure cloud has given the business great confidence in its future. The outlook is positive as the company looks to capitalise on the burgeoning demand for Cloud delivered Technology by broadening its investment into Sydney data centre assets, taking its data centre footprint capacity in the region to over 50MW, which should drive growth and provide world class infrastructure to support the digital economy.

The long-term outlook for MAQ remains strong on the back of favourable COVID tailwinds and strong demand. MAQ delivered a 9.3% to the ASAM portfolio over Q3 and should continue to deliver healthy returns as the business sees its profits rise in conjunction with the conclusion of more projects.

National Australia Bank Ltd. (ASX: NAB)

NAB provides financial services to individuals and businesses in Australia, New Zealand, and internationally. It operates through Business and Private Banking, Personal Banking, Corporate and Institutional Banking, and New Zealand Banking segments.

Performance

NAB's market update detailed a 4.1% improvement in half year cash profit to $3.48 billion, in accordance with analyst expectations. Statutory net profit for the 6 months to March 31 also rose 10.7% to $3.55 billion, which was driven by stronger volumes, especially in its business and institutional segments.

Share price

Rationale

ASAM made the decision in March 2022 to exit our position in NAB, having triggered our target price and outperforming internal valuations. NAB was the best performing holding over Q3, delivering a return of 12.17% over the period.

At the time of sale, NAB was overvalued based on its Price to Book ratio (1.7x) compared to the AU banks industry average (1.1x). WBC is our favoured sector exposure and was preferred over NAB due to its favourable PB ratio (1.16) as well as its higher than expected loan growth of 1% during 1H22.

Furthermore, given the high inflationary environment and inversion of the yield curve, Q4 2022 is likely to see several rises on the underlying cash rate. In a cycle of increased interest rates, exposure to the banks is beneficial, given their higher spreads for lenders and therefore higher profits. Historically this has led to outperformance in the group.

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