



CAI Australian Share Fund

GENERAL INFORMATION

Investment Manager

Longreach CAI Pty Ltd ("LCAI")
ABN 33 620 086 946

Sub-Advisor

Creighton Capital Management LLC
AFSR 001286340

Key Features Summary

Benchmark	S&P / ASX 300 Accumulation Index
APIR	PAT0001AU
ARSN	114 291 299
Fund Inception Date	30 June 2005
Manager Appointed	1 April 2021
Management Costs	0.78% p.a.
Fund Size	\$11,334,222
Unit Price	\$1.7921

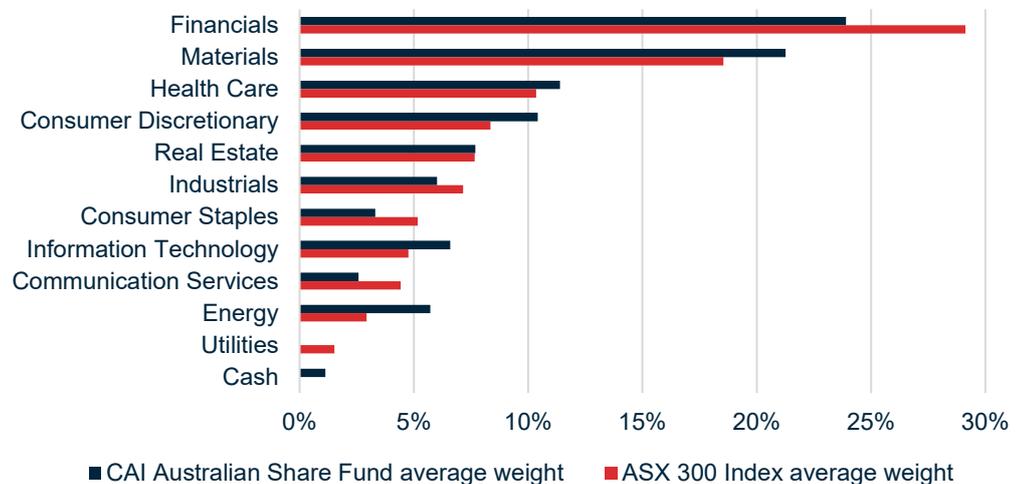
Net Performance (%)

	1 Month	3 Months	6 Months	1 Year	3 Years p.a.	10 Years p.a.	Since Inception p.a. ²
Fund (%)¹	3.47	2.13	2.54	17.75	10.88	9.17	6.75
Benchmark (%)²	2.65	2.21	4.03	17.54	13.96	10.79	7.95
Active (%)	0.82	-0.08	-1.49	0.21	-3.08	-1.62	-1.20

¹ CAI took over the management of the Fund on 1 April 2021. Returns prior to this are shaded.

² The S&P/ASX 300 Accumulation Index was adopted as the Fund's performance benchmark on 1 July 2010. Benchmark calculations prior to this date are based on the S&P/ASX All Ordinaries Index.

Sector Gross Exposures (%)



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Past performance is not indicative of future performance. Net performance figures are calculated using exit prices, net of fees and reflect the reinvestment of distributions. Returns are rounded to two decimal places. Slight variations to actual calculations may occur.



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Market Review

The ASX 200 rose 1.5% in the 4th quarter of 2021. The first two months of the quarter for the ASX 200 were negative with October and November being down -0.1% and -0.9%. In December, the ASX gained 2.7%. Markets essentially traded in line with current Covid policies across the board.

Directionally this was in line with other developed markets but underperformed Developed Markets' return of (+4.0%) in local currency terms. Materials (+6.3%), Communication Services (+5.2%), and Consumer Staples (+4.4%) outperformed in Australia. The sectors which underperformed the most were the Energy (-8.3%), Financials (-6.9%) and Information Technology (-2.9%).

There was a lot more volatility in the final two quarters of 2021 than the first half of the year. This should not be surprising as the year commenced with a degree of optimism around the ability of Australia to deliver a resilient reopening. With vaccines created and a successful suppression strategy implemented, much focus was placed on the shape and pace of the recovery. Markets reacted positively. In the second half of 2021 reality soon set in as vaccine supply issues and new COVID variants largely derailed the base case in terms of sequential economic recovery. The second half required some pause and reflection as the delta virus and its second derivatives took economic surprises to the downside. The market return result was still impressive given the first half of the year. For the strategy, rotation was a feature in the early quarters with fiscal policy locally and globally driving opportunity and greater turnover to achieve alpha based on these policy changes.

General macro consensus for 2022 is that earnings now look to have peaked and, ex Resources, there is further multiple de-rating expected as bond yields rise and monetary accommodation tapers. The expectation is that Australian main equity index returns will be muted compared to 2021. Opportunity will still exist as value tends to do better than growth at this stage of the cycle.

Best and Worst ASX Performers

This has been a quarter with significant volatility within the indices. Some of these were as follows:

Within the ASX 300, the top 5 performers were Brainchip Holdings (BRN, +69.55%), Capricorn Metals (CMM, 57.21%), Pilbara Minerals (PLS, 53.74%), Nickel Mines (NIC, 49.83%) and Lynas Rare Earths (LYC, 49.28%). The top 5 worst performers were Sezzle Inc (SZL, -48.09%), Magellan Financial Group (MFG, -40.86%), PPK Group (PPK, -40.26%), ZIP Co LTD (ZIP, -39.6%) and Clinuvel Pharmaceuticals (CUV, -37.47%).

Economic Commentary

General market consensus is that the easing of lockdown and border restrictions helped by a stimulatory Federal election will see a strong demand recovery through 2022 with GDP growth for the year predicted to be slightly north of 4.2%. It is anticipated that the labour market will tighten significantly with wages and inflation moving sustainably higher.

The big question is the approach that the RBA will take regarding QE and interest rates. Because of the current state of Omicron, there is a strong belief that the RBA will be more conservative and patient which would be supportive of housing and the Australian equity market. The first interest rate hike is estimated to be in 1Q23. Consensus is that the AUD will strengthen in 2022, first rising versus low yielders like EUR and JPY, but later versus the USD – rising to 0.79 over 2H22.

After several weaker months globally, the MSCI Value index outperformed the MSCI Growth index by 4%. The peak of Earnings per Share (EPS) expectations in 2021 occurred in August 2021 where FY22 EPS level expectations were 5% above pre-Covid levels. Price Earnings levels de-rated through CY21, 12M forward P/E in January was 19.7x and closed the year at 17.9x, due largely to resources. Industrials ex Financials 12M forward P/E rose marginally in the year to close highly elevated at 30.1x.

We will see if value continues to outperform growth in 2022. Growth has outperformed value for the past 15 years. This depends very much on central bank policies and their approach to Covid 19 and the different variants. As the US dollar is the core currency of the world, what happens in regards to the US Federal reserve will have a magnified impact globally one way or the other. Furthermore, The impact of troubled Chinese property development company Evergrande has also been a lingering shadow on the Chinese economy with government policy mixed at this time.



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Fund Performance

Over the quarter, the Fund from a gross basis performed positively, rising +2.36% (before fees), or +0.15% vs the ASX 300 return of 2.21%. Performance attribution shows that the relative return result was driven overall by a small positive from stock selection and a small negative from sector allocation.

For the quarter, performance was very much barbell like at the portfolio level. At the sector level Financials, Industrials and Healthcare provided the best positive contribution to returns whilst Materials, Real Estate and Consumer Discretionary detracted from performance.

The top 5 positive contributors to the fund were BHP (overweight 0.9%, added +50 bps), Afterpay (underweight 1.29%, added +46 bps), CSL (underweight by 3.7%, added 27bps), Reliance World Wide (overweight 1.3%, added 24bps) and Paladin Energy (overweight 0.8%, added 18 bps). The top 5 detractors to the fund were Rio Tinto (overweight 1.5%, detracted -55 bps), Goodman Group (underweight 1.8%, detracted -39bps), Domino's Pizza (overweight 0.6%, detracted -36 bps), Fortescue (underweight 1.2%, detracted -32 bps) and Resmed (overweight 3.5%, detracted -27 bps).

Outlook

We remain positive in our outlook for Fund performance given the current set of macro and micro circumstances. Following a strong period of return for our investment process in what was a difficult 2020, performance this year in 2021 has been somewhat more restrained. We will now be entering our third re-opening phase after Omicron is dealt with and so no doubt there will be changes and thus opportunity in 2022, albeit with most probably greater volatility across the board.

Top and Bottom Five Contributors

TOP 5 CONTRIBUTORS	Average Weight (%)			Total Return (%)			Return Contribution (%)		
	Port	Bench	+/-	Port	Bench	+/-	Port	Bench	+/-
BHP Group	6.06	5.14	0.92	10.39	10.34	0.05	1.03	0.53	0.50
Afterpay	0.00	1.29	-1.29	0.00	-31.58	31.58	0.00	-0.46	0.46
CSL	2.62	6.29	-3.67	-1.11	-0.91	-0.20	0.21	-0.06	0.27
Reliance Worldwide Corporation	1.54	0.22	1.32	21.07	21.04	0.03	0.28	0.04	0.24
Paladin Energy	0.87	0.09	0.78	27.49	27.54	-0.05	0.20	0.02	0.18

BOTTOM 5 CONTRIBUTORS	Average Weight (%)			Total Return (%)			Return Contribution (%)		
	Port	Bench	+/-	Port	Bench	+/-	Port	Bench	+/-
Rio Tinto	3.13	1.60	1.53	-0.04	-0.07	0.03	-0.55	0.00	-0.55
Goodman Group Units	0.00	1.83	-1.83	0.00	22.91	-22.91	0.00	0.39	-0.39
Domino's Pizza Enterprises	0.94	0.38	0.56	-21.82	-26.44	4.63	-0.49	-0.13	-0.36
Fortescue Metals Group	0.00	1.22	-1.22	0.00	28.41	-28.41	0.00	0.32	-0.32
Resmed	4.16	0.64	3.52	-3.89	-3.79	-0.09	-0.30	-0.03	-0.27

Fund Attribution (%)

	AA Alpha	SS Alpha	Interaction Alpha	Total Alpha ³
1 month	-0.01	1.04	-0.12	0.90
3 months	0.03	0.22	-0.06	0.18
Since 1 April 2021	0.12	-0.15	-1.37	-1.40

³ Total Alpha is presented on a gross basis (before management costs).



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