LONGREACH CAI

Quarterly Report

June 2022

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

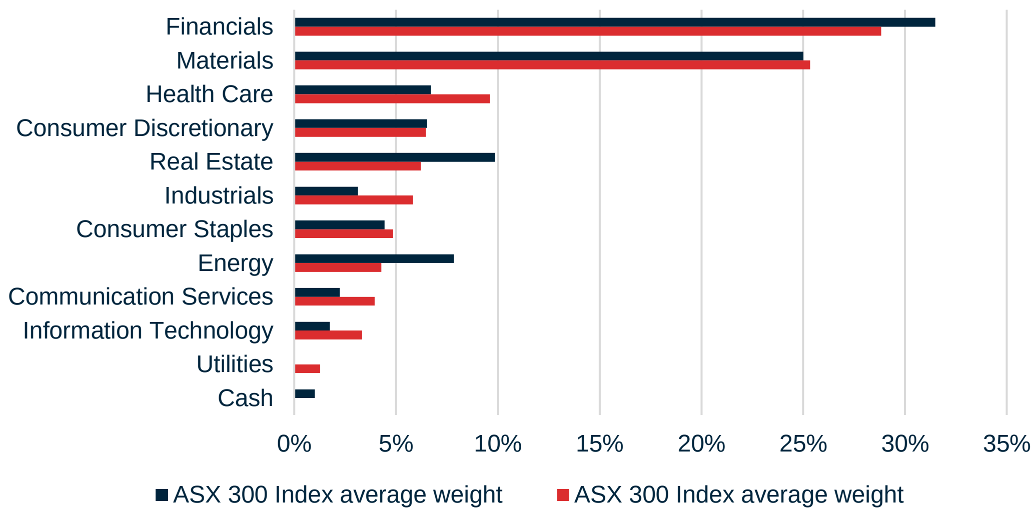
Benchmark	S&P / ASX 300 Accumulation Index
APIR	PAT0001AU
ARSN	114 291 299
Fund Inception Date	30 June 2005
Manager Appointed	1 April 2021
Management Costs	0.78% p.a.
Fund Size	$7,464,186
Unit Price (Ex Distribution)	$1.42
Distribution (CPU)	11.72

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]	-10.02	-13.61	-14.41	-12.24	0.39	7.22	5.57
Benchmark (%)[2]	-8.97	-12.22	-10.39	-6.78	3.44	9.24	7.02
Active (%)	-1.05	-1.39	-4.02	-5.46	-3.05	-2.02	-1.45

[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 (%)



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

Q2 was another very challenging quarter for global equities. Investors continued to price in concerns over rising inflation levels and the chance of an economic recession coupled with the backdrop of the Ukraine conflict. The MSCI Developed Market Index fell -14.2%, driven by the S&P 500 declining -16.1% (-20.8% YTD). The S&P/ASX 200 did not escape, falling -12.0% over the June quarter.

Responding aggressively to inflationary pressures, the RBA pushed through two larger than expected rate hikes totalling 0.85%, adding increased pressure to a decelerating economy. Only two sectors rose over the June Quarter, Utilities (+1.7%) and Energy (+1.2%), with the next best being Health Care (-2.2%). The worst performing sectors were IT (-26.3%), REITs (-17.5%) and Materials (-16.6%).

Fundamentally, a derating of P/E multiples across the market was a key driver of the weakness observed. The 12-month forward P/E is now at 12.6x, meaningfully lower than the highs of last year. This is predominantly price driven as EPS levels are actually higher and markets are therefore factoring in significant negative revisions over the next twelve months.

Best and Worst ASX Performers

The best performing largest 100 stocks were Atlas Arteria (+23.1%), Amcor (+18.9%) and Whitehaven Coal (+16.6%). The worst performers were Block Inc (-51.2%), Evolution Mining (-45.9%), and Nine Entertainment (-38.6%). Amongst the Small Ords, the best performers were Tassal Group (+33.4%), Australian Agricultural (+32.5%) and Polynovo (+23.7%). The worst performers were Zip (-70.4%), Tyro Payments (-65.9%) and Electro Optic Systems (-63.8%).

Style Commentary

The theme for the June Quarter was 'lower risk' when observing style returns. Large-Caps, Low-Beta and Change-in-Quality were strongest, followed by Dividend Yield. Reversal & Earnings Revisions were weakest. Value & Growth showed mixed performance. Pairwise stock correlations rose, though are still below observed historical norms.

Our process shows a small positive exposure to higher beta names, which hurt the Fund at the margin. However, factor-based attribution shows only small contribution from style effects with stock specific overwhelmingly the driver. Style did not appear to be the driver of returns in June, but rather that our alpha forecasts tended to favour higher beta names.

Economic Commentary

The RBA meetings saw the cash rate lifted by 85 bp (more than expected). The RBA is clearly in a hawkish mood, sending a strong negative signal into an already struggling market. Markets are expecting a further 50bps rate rise in both July and August, easing back to 25bps monthly with an expected peak of 2.6% by year-end. Any more than that will further deflate markets and any better than that may see markets relax a little, all other things equal.

Clearly, the gamble here is to 'nip inflation in the bud' now and thwart far worse pain down the track. We shall have to wait and see whether these cash rate moves do not end up causing more pain than good.

In the month of May, Australian Retail sales were above consensus (+0.9% vs +0.4% m/m) and the y/y accelerated to +10.4%, the strongest in fourteen months. Australian consumers remain surprisingly resilient and housing renovation projects even increased. Whilst this is some good news, one cannot help but think should things deteriorate further, the resilience may quickly turn to delusion and ultimately another downturn.

Fund Performance

The Fund underperformed over the June Quarter, falling -13.61% (after fees), or -1.39% vs the S&P/ASX300 index.
The Brinson-based attribution shows this was driven by both Asset Allocation (AA) and Stock Selection (SS).

The CAI process has faced periods like this before, where markets continue to be dampened with no obvious go-forward consensus (yet) forming. Our process somewhat relies on this as making forecasts based on past behaviour is central. Our overall process remains strong however, these environments can and do happen, but they typically do not last, and we expect recovery over the coming months.

Top and Bottom Five Contributors

TOP 5 CONTRIBUTORS	Average Weight (%)			Total Return (%)			Return Contribution (%)		
	Port	Bench	+/-	Port	Bench	+/-	Port	Bench	+/-
Commonwealth Bank of Australia	6.01	8.19	-2.18	-14.55	-14.55	0.00	-0.85	-1.19	0.34
Goodman Group Units	0.00	1.49	-1.49	0.00	-21.42	21.42	0.00	-0.33	0.33
Westpac Banking Corporation	1.94	3.81	-1.87	-17.46	-17.46	0.00	-0.39	-0.67	0.28
Fortescue Metals Group	0.00	1.66	-1.66	0.00	-15.15	15.15	0.00	-0.27	0.27
South32	0.00	1.04	-1.04	0.00	-21.51	21.51	0.00	-0.24	0.24

BOTTOM 5 CONTRIBUTORS	Average Weight (%)			Total Return (%)			Return Contribution (%)		
	Port	Bench	+/-	Port	Bench	+/-	Port	Bench	+/-
Northern Star Resources	3.19	0.51	2.67	-18.81	-36.31	17.50	-0.91	-0.21	-0.71
Macquarie Group	6.34	3.40	2.94	-17.50	-17.49	-0.01	-1.10	-0.61	-0.49
Liontown Resources	0.69	0.12	0.57	-34.84	-43.88	9.04	-0.48	-0.07	-0.41
Nine Entertainment	1.05	0.15	0.90	-38.55	-38.55	0.00	-0.47	-0.07	-0.40
Corporate Travel Management	1.13	0.11	1.01	-22.02	-22.02	0.00	-0.26	-0.03	-0.23

Fund Attribution (%)

	AA Alpha	SS Alpha	Interaction Alpha	Total Alpha[3]
1 month	-0.03	-0.79	-0.16	**-0.98**
3 months	-0.25	-1.70	0.77	**-1.18**
Since 1 April 2021	-0.37	-4.96	1.10	**-4.23**

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

From an AA perspective, Energy had the best contribution over the June Quarter, with the o/w position to this outperforming sector contributing strongly (+42bps). The u/w position to IT which under-performed also contributed (+17bps). This was offset by a series of smaller average negatives which together contributed to an overall loss due to AA. The worst of these came about due to being u/w the outperforming Industrials and Health Care sectors. Our o/w position to REITs also detracted.

At the SS level, the position within REITs contributed positively (+47bps), more than offsetting the AA loss from that sector. SS within the Financial sector also contributed well (+12bps). However, most other sectors showed weak SS, particularly within Communication Services (-84bps) and Materials (-72bps).

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Fund Attribution (%) continued

The following tables show the largest AA and SS contributors and detractors over the June Quarter.

TOP AA	Weight vs Index	Sector return	+/-	BOTTOM AA	Weight vs Index	Sector return	+/-
Energy	3.56%	-1.09%	0.42%	**Industrials**	-2.70%	-4.14%	-0.23%
Information Technology	-1.58%	-26.99%	0.17%	**Health Care**	-2.90%	-2.10%	-0.22%
Consumer Discretionary	0.06%	-15.67%	0.00%	**Utilities**	-1.28%	1.79%	-0.16%

TOP SS	Weight vs Index	Sector return	+/-	BOTTOM SS	Weight vs Index	Sector return	+/-
Real Estate	3.65%	-17.72%	0.47%	**Communication Services**	-1.72%	-10.05%	-0.84%
Financials	2.65%	-14.01%	0.12%	**Materials**	-0.33%	-16.47%	-0.72%
Energy	3.56%	-1.09%	0.08%	**Consumer Discretionary**	0.06%	-15.67%	-0.37%

Outlook and Risk

On the risk front, predicted tracking error risk for the Fund is 3.9% at month-end, with 75% of that being stock specific and the remainder being factor based., The largest being Style (with higher beta and smaller size being the largest components). Risk numbers are well within long-term norms.

CAI continues to maintain a positive, albeit cautious, outlook given the current set of market-based circumstances facing most investors. As uncertainties begin to unwind and consensus views form more broadly, our process is expected to see improved long-side prediction rates return to their strong longer-term positive levels, as we have already started to see in early July.