Quarterly Report

December 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

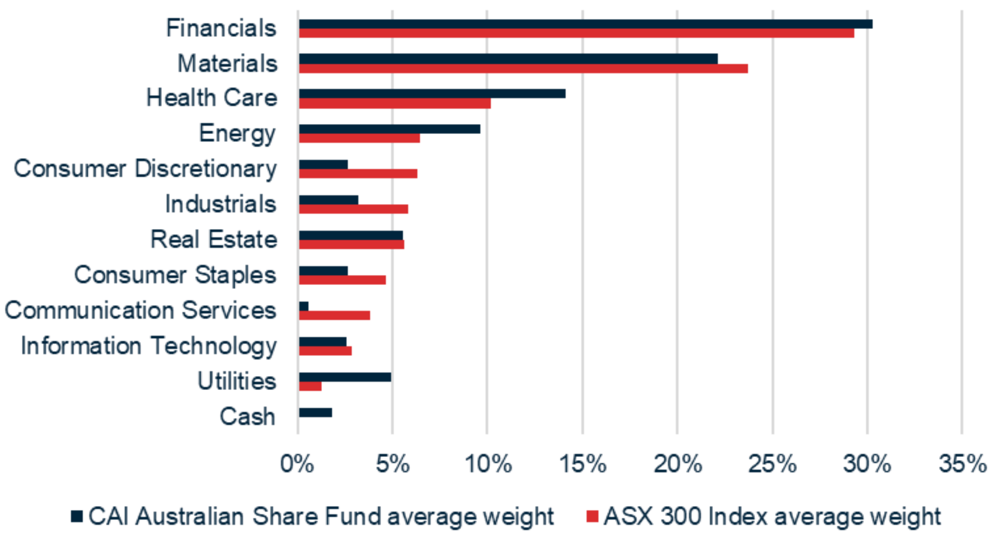
Benchmark	S&P / ASX 300 Accumulation Index
APIR	PAT0001AU
ARSN	114 291 299
Fund Inception Date	30 June 2005
Manager Appointed	1 April 2021
Management Costs	0.78% p.a.
Fund Size	$7,054,449
Unit Price (Ex)	$1.5208
Distribution (CPU)	3.8535

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]	-3.51	7.29	10.06	-5.81	1.89	6.62	5.99
Benchmark (%)[2]	-3.29	9.13	9.62	-1.77	5.51	8.61	7.37
Active (%)	-0.22	-1.84	0.44	-4.04	-3.62	-1.99	-1.38

[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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CAI Australian Share Fund

Market Review

The ASX 300 finished strongly over the quarter, up +9.13%, despite a sizable fall in December (-3.3%). It outperformed the MSCI Developed World Index's return of +7.4% in local currency terms. The 2022 calendar year saw the ASX300 returning -1.8% vs the MSCI Developed World Index -16.0% (local currency terms).

Locally, all sectors saw healthy gains over the quarter with Utilities (+27.8%), Materials (+14.8%), and Financials (+10.9%) the top performers. Sectors which underperformed the most were Consumer Staples (+1.5%), Health Care (+2.0%), and Information Technology (+2.8%).

The weakness of global equities has been driven by inflationary fears (largest for 3 decades), plus the threat of an expanding war in Europe contributing to the increased likelihood of a global economic recession. Locally, the speed and size of the RBA's interest rate rises helped our market not fall as much as those overseas however this aggressive posture may drive the Australian consumer into recession.

Over the quarter, the Australian 10-year bond yield sold off by 16bps to 4.05% following rate hikes by the RBA. Meanwhile US yields also sold off, moving another 8bps to 3.88% on expectations that inflation has peaked and the US could be going into a potential recession in 2023. Commodity prices increased across the board. Brent Oil prices slightly weakened by US$2.05 to US$86/bbl as US inventories only slightly decreased. Iron Ore prices gained US$20 to US$118/Mt on news of stabilisation in the China property market and government infrastructure stimulus. Gold prices rose by US$142 to US$1,813, following a positive reaction to the slower US PPI reading and safe haven flows after renewed geopolitical tensions.

Best and Worst ASX Performers

Over the period, the best performing Top 100 stocks were Virgin Money (+56.9%), Origin Energy (+49.3%) and Evolution Mining(+45.4%). The worst Top 100 performers were Allkem (-18.8%), Pilbara Minerals (-17.8%) and Medibank Private (-15.0%). Amongst the Ex 100 names, the best performers were Chalice Mining (+60.3%), Weebit Nano (+56.3%) and Polynovo (+55.4%). The worst Ex100 performers were City Chic Collective (-63.7%), Jervois Global (-45.2%) and 5E Advanced Materials (-41.9%).

Style Commentary

2022 has been a year of large, risky factor reversals with Value affecting the market in January/February and more recently Quality (& Momentum) in November 2022. The move to Delta-Quality names (names where the change in Quality were strongest) underperformed (-12.3%) as did the move to overall-lower-Quality names (-6.6%) on a long-only basis. Low-beta also under-performed (-2.7%); unsurprising given the large gains in the ASX300. The best performing styles moved with far less vigour, with Fundamental Growth (+2.6%), Price Momentum (+2.2%) and Trailing Free Cash Flow Yield (+1.8%) the best of those (on a long-only basis).

On a historical basis, Price Momentum and Growth names are beginning to look cheap vs history. No single style looks historically expensive today. Pairwise stock correlations have continued to rise all year and did so once again over the December Quarter. This has been a headwind for active managers over 2022 as the ability to diversify risk reduces.

The Fund lightened its exposure to Momentum over the quarter, which impacted performance over November and exposure to Growth and Larger Cap names slightly increased. Overall, the observed style exposures are not particularly large.

Economic Commentary

The earlier and faster than expected COVID easing in China drove UBS to lift its 2023 China GDP forecast to 4.9% (was 4.5%). However, this followed an even weaker starting point in 2022 of 2.7% y/y (was 3.1%). Importantly, China is Australia's largest trading partner. In 21/22, exports to China were a large 7.7% share of GDP, and a 30% share of total exports. This comprised $168.7bn in good exports to China and ~$8.6bn in services exports. So how cyclically exposed is Australia to China? In 2019, the RBA estimated a 5% drop in Chinese GDP lowered Australian GDP by ~1.3% (relative to its baseline) over 3 years.

Employment in November boomed by 64k m/m (or 0.5% m/m), much stronger than expected with large upward revisions to prior months which now show the trend has not materially slowed. The 4-month average is well above trend at +42k. The y/y eased to 4.2% (after being6.8%),albeit October was boosted by lockdown base effects). The m/m was driven by full-time employment booming (34k, 5.8% y/y), while part-time employment rebounded (30k, albeit only 0.6% y/y).

CAI Australian Share Fund

Economic Commentary (continued)

Looking forward, aside from the re-opening of China, a continuing theme of “risk on” looks set. Wars, climate policies, inflation, energy issues and strong potential for a housing crash in Australia will set the theme on whether we go into recession, and if so for how long. Strategy wise, sector allocation looks to be critical given the economic headwinds, though stock selection will once again dictate how performance will manifest over the coming year.

Fund Performance

The Fund underperformed by 184bps over the quarter. This result was almost entirely attributable to factor reversals observed over the month of November and the CAI long-alphas underperforming vs short-alphas. FYTD, the Fund outperformed by +44bps, which is pleasing, notwithstanding the last quarter.

Performance continues to be driven by the alpha-process, and specifically stock-selection. Our prediction rates overall look flat-to-positive over recent months; however more detailed analysis shows the short alphas strongly outperforming, whilst the long alphas under-performed. Such periods can and do happen, but they are not the norm. More typically we see long alphas outperform and given that history is a good guide, we anticipate this will soon rebound. On a positive note, the overall prediction rates are within historical norms.

Top and Bottom Five Contributors

At the stock level, the table below shows the Fund’s five best/worst performers. As stated, Materials and Financial names dominate the list of under-performers. Commenting briefly on Medibank Private – unfortunately the Fund had a moderate o/w to the stock (+2%) at the time of the criminal hack on the company’s client records. We well know the stock fell sharply on the day of the press release and given the ‘event risk’, we reduced the position size and consequently reduced risk due to this unfortunate stock specific event.

TOP 5 CONTRIBUTORS	Average Weight (%)			Total Return (%)			Return Contribution (%)		
	Port	Bench	+/-	Port	Bench	+/-	Port	Bench	+/-
APA Group	2.95	0.53	2.42	14.91	14.91	0.00	0.44	0.08	0.36
Vicinity Centres	2.71	0.32	2.39	15.28	15.27	0.01	0.40	0.05	0.35
National Australia Bank	9.23	4.74	4.50	7.01	7.01	0.00	0.66	0.35	0.31
AGL Energy	1.97	0.22	1.76	17.99	17.98	0.01	0.34	0.04	0.30
QBE Insurance Group	2.30	0.84	1.46	16.48	16.48	0.00	0.42	0.13	0.28

BOTTOM 5 CONTRIBUTORS	Average Weight (%)			Total Return (%)			Return Contribution (%)		
	Port	Bench	+/-	Port	Bench	+/-	Port	Bench	+/-
Pilbara Minerals	1.68	0.57	1.11	-26.61	-17.76	-8.85	-0.75	-0.09	-0.65
Medibank Private	1.42	0.41	1.01	-14.99	-14.99	0.00	-0.66	-0.08	-0.58
Commonwealth Bank Of Australia	5.73	8.47	-2.74	13.12	13.12	0.00	0.71	1.08	-0.38
Rio Tinto	0.53	1.82	-1.29	24.59	24.65	-0.06	0.12	0.42	-0.30
Fortescue Metals	0.22	1.34	-1.12	-2.89	21.94	-24.83	-0.03	0.27	-0.30

Analysing the universe of stock contributions over the quarter, we see a low 33% hit rate of winners vs losers achieved. Long-term, this hit rate is typically over 60% on a quarterly basis. However, the average winner/loser ratio was a heathy 1.3x, meaning that the average stock winner had 1.3x the performance of the average loser – which is a particularly good risk/reward outcome. We therefore note that it was the breadth of the losses that hurt the Fund over the quarter, which is typically a strong point of the CAI process over the long term.

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Fund Attribution (%)

	AA Alpha	SS Alpha	Interaction Alpha	Total Alpha[3]
1 month	0.22	-0.55	0.20	**-0.14**
3 months	1.13	-1.97	-0.74	**-1.57**
Since 1 April 2021	-0.07	-5.96	3.36	**-2.67**

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

Asset Allocation (AA) over the quarter was 1.13%, a good result which arose predominantly due to the Fund's o/w to Utilities, adding +64bps due to the sector outperforming. Stock Selection (SS) dominated the period's underperformance, particularly within Materials and Financials names.

The table below summarises the best/worst AA and SS contributors.

TOP AA	Weight vs Index	Sector return	+/-	BOTTOM AA	Weight vs Index	Sector return	+/-
Utilities	3.68	27.83	0.64	**Health Care**	3.94	2.03	-0.23
Consumer Staples	-2.00	1.48	0.20	**Real Estate**	-0.12	10.29	-0.01
Consumer Discretionary	-3.67	4.12	0.19	**Information Technology**	-0.29	-2.79	0.02

TOP SS	Weight vs Index	Sector return	+/-	BOTTOM SS	Weight vs Index	Sector return	+/-
Real Estate	-0.12	10.29	0.31	**Materials**	-1.58	14.77	-1.87
Communication Services	-3.28	4.28	0.28	**Financials**	0.92	10.90	-0.63
Consumer Discretionary	-3.67	4.12	0.19	**Information Technology**	-0.29	2.79	-0.16

Outlook and Risk

On the risk front, predicted tracking error (or active risk) for the Fund was 3.5% at month-end, with 80% of that being stock specific and the remainder being systematic (or factor-based). The largest systematic source of risk continues to be Style (13% of active risk), of which momentum is the largest component (11% of active risk). These figures are all within our expected long-term norms.

CAI continues to maintain a positive, albeit cautious, outlook given the challenging set of market-based headwinds facing investors.