LONGREACH CAI

MONTHLY REPORT
AS AT 31 MARCH 2022

CAI Global Market Neutral Fund

BENCHMARK
RBA cash rate

OBJECTIVE
The Fund aims to provide investment returns in excess of the Reserve Bank of Australia ('RBA') cash rate over a rolling 3-year period after fees.

APIR	DAM9817AU	**FUND SIZE**	$13.3m
ARSN	631 270 276	**EXIT PRICE**	$0.8732
INCEPTION DATE	15 November 2019		

Net performance (%)[1]

	1 month	3 months	6 months	1 year	2 years p.a.	3 years p.a.	Since inception p.a.[2]
Fund	**1.78**	**-5.09**	**-0.58**	**5.08**	**-2.43**	**N/A**	**-2.74**
Benchmark	0.00	0.01	0.02	**0.04**	0.07	N/A	0.15
Active	*1.78*	*-5.10*	*-0.60*	**5.04**	*-2.50*	*N/A*	*-2.89*

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2022	-5.07	-1.77	1.78										**-5.09**
2021	-0.76	-0.68	3.19	0.28	2.56	-3.40	4.49	2.34	-0.52	3.11	1.53	0.05	**12.60**
2020	2.34	-0.51	-2.41	-5.20	-2.29	0.54	0.58	-1.47	1.92	-0.49	-6.83	2.13	**-11.50**
2019												-0.92	**-0.92**

[1] Longreach CAI took over the management of the Fund from 18 February 2021. Returns prior to this are shaded.

Performance metrics since inception p.a.[2,3]	
Standard deviation %	9.45
% of positive months	50.00
Average positive return %	1.91
% of negative months	50.00
Average negative return %	-2.33
Correlation with MSCI World Net Return	0.06

Investment growth of $10,000[3]

Top 5 monthly contributors and detractors (%)[4]

Stock	Region/Country	Total effect
Yandex	United States	0.47
Trex Company Inc	United States	0.25
Genco Shipping & Trading	United States	0.22
Intertape Polymer Group	Canada	0.21
Nvidia Corp	United States	0.20

Stock	Region/Country	Total effect
Nielsen	United States	-0.29
Plantronics Inc	United States	-0.26
Mercadolibre Inc	United States	-0.25
Invitae Corp	United States	-0.24
Geely Automobile Holdings	Hong Kong	-0.22

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.
[2] Performance is calculated from the commencement of the Fund's first full month of operation.
[3] Source: Morningstar Direct.
[4] Data is stated in USD terms and reflects the Underlying Fund.

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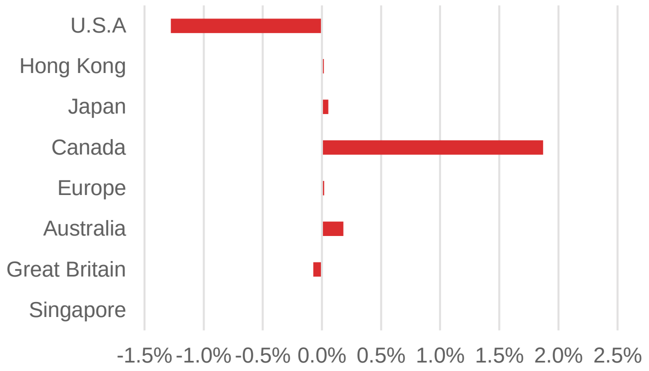
Fund positioning[4]

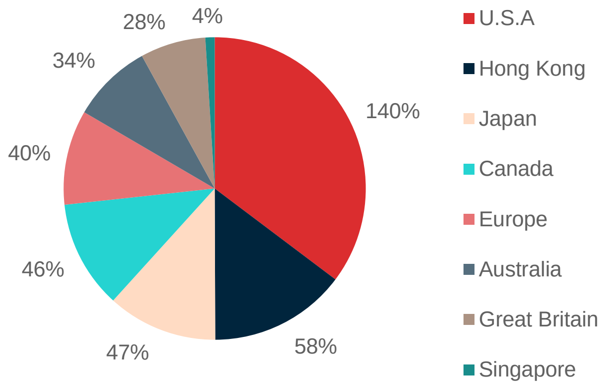
Number of positions	
Long positions	624
Short positions	624
Total	1,248

Exposure	
Net portfolio exposure %	0.80
Gross portfolio exposure %	397.24

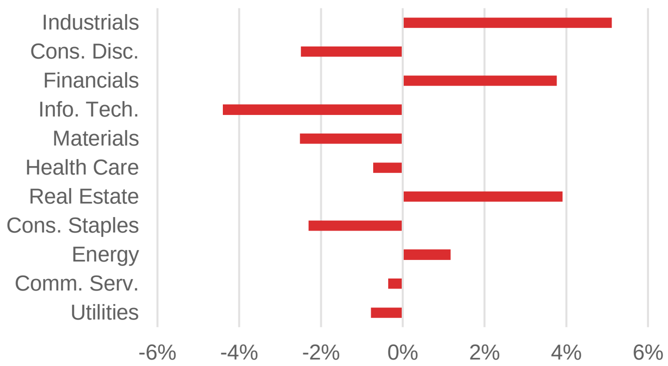
Net Country Exposure[4]



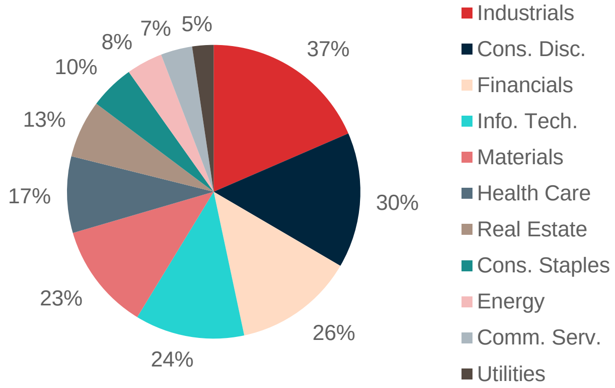
Gross Country Exposure[4]



Net Industry Exposure[4]



Gross Industry Exposure[4]



[4] Data is stated in USD terms and reflects the Underlying Fund.

Market commentary

This quarter was the worst for asset allocation since the first quarter in 1980 or forty years. The MSCI ACWI fell -5.36%, the total return for US treasuries was below -5% whilst US credit lost almost -8% in total terms. It was the first time since the first quarter of 2018 where equities, bonds and credit all gave negative return and the first time since the first quarter of 1980 that all three declined by more than -5%.

Statistically this is rare but given the macro events that have occurred in the first quarter of 2022 it is not unsurprising. Globally the world financial markets are dealing with the following:

1. Massive amounts of debt and leverage by central banks to fund wars, fight financial crises and fight pandemics.
2. Inflation caused by massive spending and geo-political events. Consumer prices in the US climbed further in March, with inflation hitting a fresh 40-year high. The consumer price index leaped 8.5% annually and inflation now has notched new 40-year highs for five straight months.
3. Governments are scrambling to do what they can to lower inflation. An example of this was on 31 March 2022 when the Biden administration in the US announced an unprecedented release of 1 million barrels a day over the next six months from the Strategic Petroleum Reserve. The objective was to make up for the loss of Russian oil from global markets amid the Ukraine conflict, thereby reducing the price of oil and gasoline.
4. Russia invading Ukraine. Other than the humanitarian atrocities, this has forced Europe to change their foreign policy, which had been founded at the end of the Cold War, by 180 degrees. Europe is now facing the largest military and nuclear threat the world has seen since the Cuban missile crises. The impact on developed countries and their economies has been significant.
5. Historically low unemployment in developed global economies combined with the disappearance of many workers from the workforce because of the pandemic.

For many economists and market practitioners, there is a strong correlation between a country's national debt and the local stock market indices. This matters more in some markets than others. While US equity markets have been massively influenced by quantitative easing and low interest rates under central bank policy, the long-term consequences of such actions on markets is still not clear. Over the last two decades the US national debt increased from 2001 to 2021 from $5.8 trillion to $28.4 trillion (in USD terms) or an increase of 390%. If we compare the S&P500 returns over the same period, the S&P500 increased from 879.82 to 4,766.18 or an increase of 442%.

The reason for the hard market sell-off globally in January 2022, which in turn created one of the largest factor reversals from Growth to Value globally in the last 25 years, was that the Federal Reserve released the December Federal Reserve Minutes at the beginning of January. The minutes signalled an expectation for future inflation and the need to increase interest rates in response, as well as the beginning of winding down quantitative easing programs. Market reaction was "shoot first and ask questions later".

Global markets were relatively sanguine in February and March versus January. In February the MSCI ACWI was down -3.1% and up 1.9% in March, but with significantly less volatility globally. The onset of the war between Russia and Ukraine moved many global equity markets lower, particularly in Europe and the UK and some higher such as Australia and Canada who have plenty of basic materials, energy, and grains to fill the void of Russia and Ukraine due to the war and sanctions. The US Equity markets went through another round of meme like volatility in February on the short side and in March with the SPX undertaking an 11% intra month rally. In addition, the Chinese monetary authorities started to selectively shore up the Hong Kong and mainland property markets.

Interest rates have increased globally in the past quarter in general to commence the inflation flight and will continue to do so for some time until inflation comes back to central bank targets of 2%-3%. Simply put, central banks are well behind the curve of where they should be policy wise to combat inflation.

Performance commentary

The Fund was down -5.09% for the first quarter of 2022. January was down -5.07%, February was down -1.77% and March was up +1.78%. Over the past six months the Fund is flat after fees and over the past year the Fund is up 5.08% net of fees.

Over the quarter the US, Hong Kong, Canada and Australia produced negative returns and Europe, Japan, Singapore and the UK produced positive returns. The US was by far the worst performing country over the quarter (-4.9% at 1x1 leverage). However, if we look at 1x1 US returns for quarter one of 2022 of -4.9% and US return quarter four of 2021 of 5.6% this is still positive for the last six months and for the last year strongly positive.

Performance commentary (continued)

The underlying reason for the negative returns in the CAI Strategies in January was not the drop in markets itself but the magnitude of the underlying rotation event within markets as described above. As the US has 35% of the of the global portfolio this was the greatest driver of negative performance for the quarter. Similarly, the US book was the biggest driver of positive performance in the fourth quarter of 2021. Over the past two quarters the Fund is flat at the gross level.

Using historical analysis, January 2022 was the fourth worst month for the Machine Learning algorithm in the back test and live period starting in 2006, a total of 193 months.

The four worst months using the CAI 2x Strategy. Month Strategy Return (2x2) MSCI ACWI Return CAI:

Month	Strategy Return (2X)	MSCI ACWI Return	CAI Rank	Comment
Nov-08	-5.50%	-6.80%	3	Rotation in Response to Lehman Collapse
May-09	-7.21%	9.52%	1	Rotation response to QE1 and start of bull market
Nov-20	-5.90%	12.21%	2	Rotation due to Pfizer Vaccine Announcement
Jan-22	-5.07%	-4.96%	4	Rotation response to Fed Minutes on interest Rates

Over 193 months (16 years and one month), only four months or 2.07% of months have a return of less than - 5.0%. A monthly result like January 2022 is expected to be very rare but is still within expectations for the Strategy. Furthermore, the drawdown over the quarter, whilst rare, was well within expected bounds and in line with historical simulations.

One feature of such events is that they will tend to occur in periods of significant market events that are not anticipated in the data. Therefore, the investment manager sees returns of less than -5% cluster in the Global Financial Crisis (GFC) and Covid Pandemic with no such events outside such periods. January 2022 was the fourth worst month with the worst being in May 2009 during the GFC.

What all four months have in common is a very strong reversal in sector / factor leadership. The underlying details of the rotation event for each are different. Another feature all four months have in common is that there was very little to no warning in the data such an extreme reversal event was about to occur. When these events do occur, historical correlational relationships amongst countries ex Japan vanish for 1-3 weeks as they tend to trade together and in the same way.

With every major rotation event, the investment manager examined the event and the algorithm's response in detail to determine if there is something on the alpha or risk model side that can reduce tail risk and improve alpha. This event is no different. The investment manager reviewed the calibration of the parameters and adjusted some bounds to reduce tail risk. This is part of the investment manager's bigger research project of continuously improving the risk and return models to reduce noise. Secondly, the investment manager has also been researching for some time how we can improve their alphas by statistically incorporating this information before the "event" breaks. In complex systems these things take time, but they are making progress. In any Machine Learning algorithm, the engine has now seen this data so this will assist in the alpha and risk management processes going forward.

The investment manager has always said that things are most challenging for the Strategy when huge global rotation events occur. The algorithm responds quickly to such shifts, as is the case for the January 2022 event which is what we have seen in February and March. At optimal turnover levels, historically the adaption of the Machine Learning algorithm to the types of events described above have led to periods of outperformance.

Material matters

There have been no material changes to the Fund in terms of key service providers, the risk profile, investment strategy or changes to individuals in the investment team who play a key role in the investment decisions of the Fund.

The Fund is classified as a hedge fund in accordance with the Australian Securities and Investments Commission, Regulatory Guide 240 'Hedge funds: Improving disclosure'. This classification is based on the fact that the Fund currently exhibits two or more characteristics of a hedge fund, being:

- complexity of investment strategy or structure;
- use of leverage;
- use of derivatives;
- use of short selling;
- charges a performance fee.

This information contains general information only and is not intended to represent specific investment or professional advice. The information does not take into account an individual's personal financial circumstances, objectives or needs. Before making an investment decision, you should consider obtaining professional investment advice that takes into account your personal circumstances and should read the current target market determination and offer document before making an investment decision to acquire or to continue to hold units in the Fund.