QUARTERLY REPORT
AS AT 31 MARCH 2022

Karara Market Neutral Fund

BENCHMARK RBA cash rate	**OBJECTIVE** The Fund aims to outperform the RBA cash rate (after fees) over a rolling 5-year period.		
APIR	PER7802AU	**ARSN**	613 586 931
INCEPTION DATE	1 August 2016	**FUND SIZE**	$23.3m
BUY / SELL SPREAD	+0.25% / -0.25%	**EXIT PRICE**	$1.0124

Net performance and statistics (%)[1]

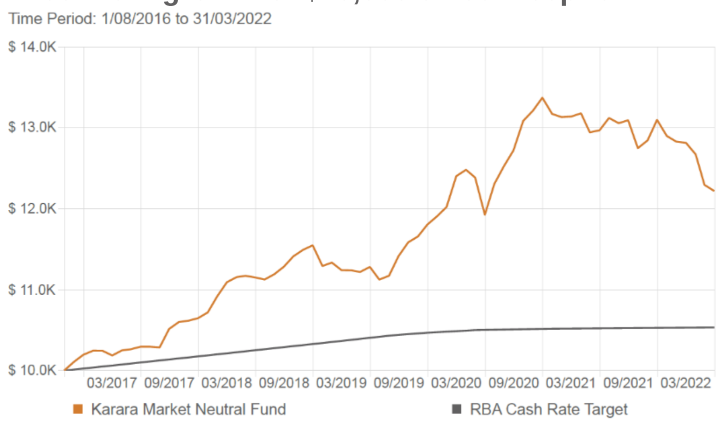
	1 month	3 months	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception p.a.
Fund	**-0.62**	**-4.65**	**-1.64**	**3.42**	**4.18**	**4.38**	**4.39**
Benchmark	0.00	0.01	0.04	0.07	0.37	0.82	0.90
Active	*-0.62*	*-4.66*	*-1.68*	*3.35*	*3.81*	*3.56*	*3.49*
[1]From 26 July 2021 the Fund's strategy was changed to allow for a higher gross exposure limit. Performance of the Karara Composite is presented below to show the track record of this higher leveraged strategy since its inception 1 June 2019.							
Karara Composite[2]	**-0.62**	**-4.65**	**-0.06**	**9.27**	**n/a**	**n/a**	**11.04**
Benchmark	0.00	0.01	0.04	0.07	n/a	n/a	0.34
Active	*-0.62*	*-4.66*	*-0.10*	*9.20*	*n/a*	*n/a*	*10.70*

1 month rolling Fund returns

CY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2022	-1.12	-2.97	-0.62										**-4.65**
2021	0.30	-1.79	0.20	1.17	-0.49	0.29	1.64	0.76	1.97	-1.52	-0.54	-0.11	**1.82**
2020	0.64	-0.77	-3.71	3.19	1.81	1.54	2.87	0.97	1.21	-1.50	-0.30	0.06	**5.95**
2019	-0.02	-0.17	0.56	-1.39	0.43	2.16	1.50	0.63	1.26	0.88	0.96	3.17	**10.34**
2018	0.57	0.14	-0.18	-0.22	0.59	0.82	1.16	0.70	0.47	-2.21	0.37	-0.83	**1.33**
2017	0.62	0.14	0.30	0.00	-0.08	2.21	0.82	0.16	0.29	0.67	1.85	1.61	**8.90**
2016								1.07	0.87	0.49	-0.02	-0.57	**2.37**

Portfolio statistics	
% of winning months[3,4]	66.18
% of losing months[3,4]	33.82
Maximum drawdown[3,4]	-8.63
Correlation to S&P/ASX 200[3,4]	0.35
Standard deviation p.a.[3]	4.25%
Beta-adjusted net exposure	8.1%
Gross exposure	169.33
No. long positions	55
No. short positions	19

Investment growth of $10,000 since inception[4]



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

[2]From 1 June 2019 to 31 July 2021, the Karara Composite reflects the Karara Market Neutral Plus Strategy, net of fees. Periods from 1 August 2021 to date reflect the actual net returns of the Karara Market Neutral Fund. Source: Karara Capital and Morningstar Direct.

[3]Figures represent the annualised performance of the Fund since inception.

[4]Source: Morningstar Direct.

CONTACT DETAILS

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Top 3 monthly contributors and detractors

Contributing stocks	Sector	Long/Short
Core Lithium	Metals & Mining	Long
Santos Limited	Energy	Long
Strandline Resources	Metals & Mining	Long

Detracting stocks	Sector	Long/Short
National Australia Bank	Financial ex-Property Trusts	Short
ASX SPI 200 (SFE) Jun 22	Futures	Short
Woodside Petroleum	Energy	Short

Top 3 quarterly contributors and detractors

Contributing stocks	Sector	Long/Short
Santos Limited	Energy	Long
Westpac Banking Corporation	Financial ex-Property Trusts	Long
Strandline Resources	Metals & Mining	Long

Detracting stocks	Sector	Long/Short
Woodside Petroleum	Energy	Short
ASX SPI 200 (SFE) Jun 22	Futures	Short
National Australia Bank	Financial ex-Property Trusts	Short

Top 5 long positions

Long positions	Sector
Santos Limited	Energy
Westpac Banking Corporation	Financial ex-Property Trusts
Abacus Property Group	Property Trusts
RAM Essential Services Property Fund	Property Trusts
Australia and New Zealand Banking Group	Financial ex-Property Trusts

Sector exposure (%)[1]

Sectors	Long	Short	Net	Gross
Communication Services	5.79	-3.49	2.30	9.28
Consumer Discretionary	4.00	0.00	4.00	4.00
Consumer Staples	2.87	-0.28	2.59	3.15
Energy	11.44	-8.41	3.03	19.85
Financial ex Property Trusts	15.97	-22.97	-7.00	38.94
Health Care	4.76	0.00	4.76	4.76
Industrials	4.04	-1.98	2.06	6.02
Information Technology	8.08	0.00	8.08	8.08
Materials ex Metals & Mining	0.00	-1.63	-1.63	1.63
Metals & Mining	3.57	0.00	3.57	3.57
Property Trusts	28.26	-15.41	12.85	43.67
Utilities	0.77	0.00	0.77	0.77
Futures	0.00	-25.61	-25.61	25.61
Total[2]	**89.55**	**-79.78**	**9.77**	**169.33**

[1] Sector Exposure is not Beta-adjusted.
[2] Totals may not equal due to rounding.

Market Review

Global stocks whipsawed, government bonds rallied, and commodities soared after Russia sent troops into Ukraine and the US Federal Reserve raised interest rates during an eventful March quarter. While most markets were rattled by events, the ASX's heavy weighting to resources and energy saw it post the largest outperformance against the S&P 500 since 2015. The broad-based S&P/ ASX 300 Index ended the quarter up 2.09% while the Small Ordinaries Index lost 4.21%.

Domestically, bond traders brought forward the timing of first projected interest rate increases from July to June, and the AUD traded above USD $0.73 in response to inflationary pressures and more hawkish central banks. A strong jobs report also helped after Australian Bureau of Statistics data showed the unemployment rate dropped to a 14-year low in February.

Still, a dovish RBA reiterated patience, wanting inflation and wages to be sustainably elevated before raising rates. Annual pay growth expanded 2.3% in December, but the central bank signalled 3% is required for inflation to be sustainably in the 2% to 3% target band.

Strong consumer spending after the delta-variant COVID-19 lockdowns in the lead-up to Christmas helped the economy rebound 3.4% in the December quarter to be up 4.2% through 2019. That result came after a 1.9% contraction in the September quarter.

Amongst commodities, West Texas Intermediate (WTI) and Brent soared 34% and 36% respectively. The nickel price (+59.1%) rocketed to a record high as fears of a Russian supply shock left buyers exposed to a short-term squeeze. The broad-based rally in commodities (copper +6.5%, aluminium +22.9%, zinc +110.8%) pushed the Bloomberg Spot Commodity Price Index to its largest monthly gain since 1960 during March. Benchmark iron ore prices rose 29.2% for the quarter and the price of gold climbed to a 19-month high $2,061 (in USD terms) as investors sought protection from war and inflation before closing +7% for the three months.

Performance review

The Karara Market Neutral Fund returned -4.65% (net) for the quarter, an underperformance of -4.66% when compared with the Reserve Bank of Australia cash rate return of 0.01% for the quarter.

Contributors

Pair: Vicinity (VCX) and Scentre Group (SCG)

Relative valuation gap closed over the month. Vicinity and Scentre Group have both started rebounding from COVID-19 low levels. Vicinity have bounced a little harder as their discount to net tangible was larger than Scentre Group's and contributed to the price movement.

Fundamental Longs:

Aussie Broadband (ABB) – Shares in Aussie Broadband gained 17%. The first half of 2022 result was pre-released, however highlights in the result commentary included continued market share gains over incumbents with an estimated market share of 5.7% at year-end, up from 5.2% in the September quarter. The company's projections indicate its cost per customer acquisition should decline in the second half. The planned rollout of 1,200km of fibre to 63 NBN Points of Interconnect is also on-track to be completed by June.

Uniti (UWL) – On March 15 Uniti announced to the ASX they have received a bid. "Uniti confirms it has entered into exclusive discussions with HRL Morrison & Co. on behalf of its managed funds and clients (Morrison & Co). However, these discussions are non-binding, preliminary, highly conditional and uncertain as to an outcome (Indicative Proposal). The latest date that the exclusivity period will end is 22 April 2022. Uniti will update the market if this date changes. Further, Uniti confirms that the non-binding, conditional Indicative Proposal is for an indicative price of $4.50 cash per share, fully diluted, which is within the value range mentioned in the media speculation."

Detractors

Pairs: Santos Limited (STO) and Woodside Petroleum (WPL)

This pair has continued moving against the investment manager. The one year standard deviation of the pair is extreme. The level of consensus target upside for Santos Limited is +13.4% while it is -5.3% for Woodside Petroleum. The relative target price differential is also extreme at 18.8%. The investment manager is sticking with the pair as the relative attractiveness remains high.

Pairs: Westpac (WBC) and NAB (NAB)

This pair was only a minor detractor for the quarter. The investment manager thinks the market is still underestimating the ability of management to deliver cost savings and manage the net interest margin appropriately. Further information should be revealed at the Westpac half year result in early May.

Fundamental Longs:

Lark Distilleries (LRK) – Lark Distilleries CEO, Geoff Bainbridge, resigned unexpectedly for personal reasons in February. Based on this development the investment manager decided to exit the position. The stock fell 26% in the days after the announcement.

Performance review (continued)

CountPlus (CUP) – A surprise announcement: CountPlus announced that a new employment agreement would not be entered into with current Chief Executive and Managing Director Matthew Rowe. The stock fell 25% on this announcement and has continued falling to $0.67 at quarter end.

East33 (E33) – East 33 released a brief quarterly update for second quarter of 2022. Overall, the group flagged and exhibited a below expectations second quarter of 2022 driven by COVID-19 affects, labour costs/shortages and changes in mix resulting from COVID-19 in NSW. The question now is whether these are transitory COVID-19 related issues or something more serious? East 33 is the largest producer of oysters within Australia and holds leading market share in the Sydney Rock Oyster space. The group at scale is likely to produce/distribute up to 40% market share across a range of wholesale, direct to consumer and export markets, generating significant profit and leverage through a vertically integrated brand. If they can replenish their workforce and keep control; of costs, it is likely that margins can be preserved and lead to strong future profitability.

Market outlook

Global markets across most asset classes have been significantly unsettled by the recent Russian invasion of Ukraine, with many commodity markets materially impacted across both the industrial metals complex and with many soft commodities (notably wheat) also hitting multi-year highs, sometimes on parabolic moves. To date, the western response has seen onerous sanctions imposed on Russia at numerous levels which have served, in part, to drive a number of commodity prices even higher, also negatively impacting western markets (notably the European energy complex). From here, a negotiated end to hostilities and a return to peace in the region is clearly the preferred outcome, but this may take time to achieve – should the sanctions fail, it is difficult to fathom what a military defeat of Russia would look like for the apparent “victor.”

The additional inflationary pressures caused by the Russia/Ukraine conflict come at a most challenging time, with inflation levels already at multi-decade highs in many countries and the “transitory” inflation narrative now long discredited. Inflationary expectations are becoming more entrenched. Heightened geo-political tensions will only serve to further drive de-globalisation and re-onshoring of manufacturing to higher cost jurisdictions – security of supply of key commodities and manufactured goods is receiving renewed focus.

Although some global central banks have either commenced raising short term interest rates (or have signalled an intention to do so), highly elevated debt levels following the COVID-19 fiscal response, will likely limit the ability of central banks to meaningfully increase interest rates to counter persistent elevated inflation levels, should they eventuate. This is the gordian knot facing many of the world’s central bankers.

As a result, markets in 2022 may be expected to be volatile, driven by both central bank rhetoric about the need to combat inflation and by the inflation-fighting measures actually implemented. The January 2019 “Powell Pivot” is a salient reminder of how quickly monetary policy can change (or even reverse course), especially if markets fall materially. The possibility of stagflation (an economic outcome that many active investors and policymakers alike have not lived through) will also be increasingly at the forefront of debates in 2022 as government stimulus measures roll off. As the world emerges from COVID 19 related lock-downs, Governments and policymakers will have little appetite for any meaningful tightening in financial conditions while the recovery is still fragile, so any transition is likely to be “managed” in an attempt to smooth outcomes.

Despite the heightened macro and geo-political uncertainty, an area of relative strength appears to be the consumer's balance sheet which is healthy, albeit dependent on elevated asset prices, particularly housing. As a result, the consumer is well placed to spend as economies re-open, particularly in Australia. Significant pent-up demand still exists, and with the opportunity to spend, COVID-19 weary consumers are expected to draw down on excess savings and drive economic growth, even though that growth is likely to be slower than the stimulus induced growth seen over the last 12-18 months. At the same time Governments are increasing other fiscal spending initiatives to support economic activity as the benefits of the prior stimulus fade. The flow on effects of such initiatives will be evident over the next 12 months and should provide some support to markets.

In an uncertain macro environment and with medium term inflation and supply chain concerns elevated, the investment manager focus remains on identifying businesses that can drive growth irrespective of the prevailing economic backdrop, and those that have a reasonable degree of pricing power

Material matters

During the month, 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.

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