MONTHLY REPORT
AS AT 31 MAY 2020

Longreach HQI – 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**	$33.6m
ARSN	631 270 276	**EXIT PRICE**	$0.8906
INCEPTION DATE	15 November 2019[1]		

Net performance (%)

	1 month	3 months	6 months	1 year	2 years p.a.	3 years p.a.	5 years p.a.	Since inception[2]
Fund	**-2.29**	**-9.60**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**-8.82**
Benchmark	0.01	0.06	n/a	n/a	n/a	n/a	n/a	0.25
Active	*-2.30*	*-9.66*	*n/a*	*n/a*	*n/a*	*n/a*	*n/a*	*-9.06*

1 month rolling returns

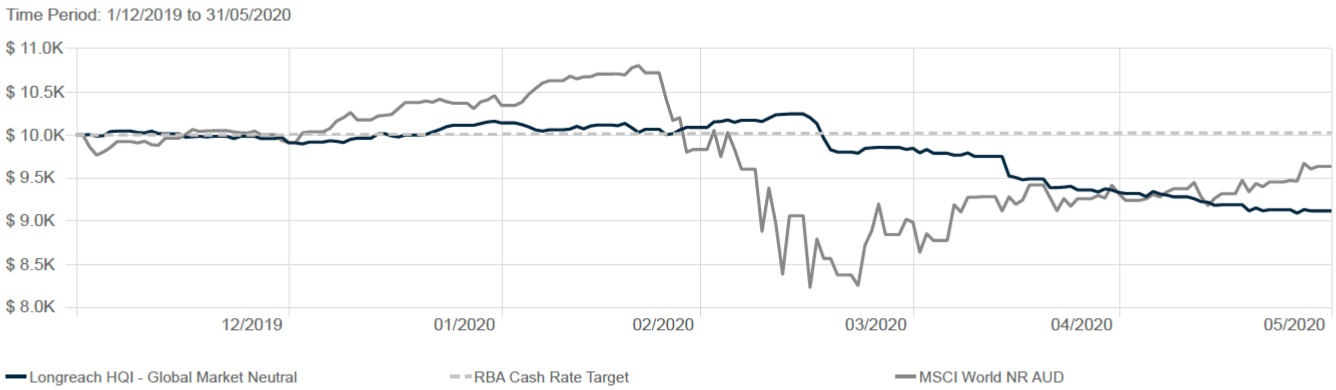
Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	CYTD
2020	2.34	-0.51	-2.41	-5.20	-2.29								**-7.97**
2019												-0.92	**-0.92**

Fund statistics

Performance metrics – from 1 December 2019[2]	
Since inception return	-8.82%
Annualised standard deviation[3]	-
Sharpe ratio[3]	-
% of positive months	17%
Correlation to the MSCI World Index[3]	-

Portfolio positioning	
Number of positions	1,611
Long positions	754
Short positions	857
Net portfolio exposure	1.85%
Gross portfolio exposure	299.62%

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.

[1] Inception date for the Fund was 15 November 2019. During its first 2 weeks the portfolio was being implemented.
[2] Performance measurement and portfolio metrics are calculated from the commencement of the Fund's first full month of operation.
[3] Timeframe insufficient to generate relevant figure.
[4] Source: Morningstar Direct.

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Top 5 monthly contributors and detractors (%)

Stock	Region/country	Total effect
Portola Pharmaceuticals	United States	0.63
L Brands	United States	0.23
Wix.com	United States	0.18
Kornit Digital	United States	0.16
Bellevue Gold	Australia	0.14

Stock	Region/country	Total effect
Norwegian Cruise Line	United States	-0.25
Front Yard Residential	United States	-0.22
Allegiant Travel	United States	-0.19
MTS Systems	United States	-0.18
Tui Ag-Di	Europe	-0.18

Region/country exposure (%)

Region/country	Long weight	Short weight	Net exposure	Gross exposure
Australia	13.50	-13.14	0.36	26.64
Canada	18.98	-18.69	0.30	37.67
Europe	17.31	-14.01	3.30	31.32
United Kingdom	16.07	-15.98	0.09	32.06
Hong Kong	17.72	-17.68	0.04	35.39
Japan	27.72	-27.54	0.18	55.26
Singapore	0.45	-0.45	0.00	0.91
United States	38.97	-38.40	0.57	77.37

Market commentary

Rising confidence in government stimulus and a continued easing of lockdown measures saw global markets rally in May. Locally, all sectors rose, with the information technology, communication services and material sectors outperforming, whilst health and consumer staples underperformed. The Australian dollar strengthened $0.09 to $0.664, partly driven by iron ore breaking through $100 per tonne (in US dollar ('USD') terms). The lower US dollar and a more optimistic growth outlook saw oil prices rise strongly. Gold prices rose $25.95 per ounce to $1,728.70 per ounce (in USD terms).

With this backdrop, global markets rallied, with the MSCI World Index up 4.63%, with Japan, US & Europe the strongest amongst developed markets. The question is whether this market recovery is sustainable. Will the real economy find a "new normal"? The protests and riots experienced in the US are adding additional instability.

There is growing social, political, and civil unrest in the US, all which may lead to further economic uncertainty. Historically, the destabilising events of 1968 including race riots, the assassinations of Martin Luther King and Robert Kennedy, North Vietnam's Tet offensive and the Hong Kong flu epidemic (which killed a million people globally including 100,000 in America) are illuminating and the investment manager can draw parallels to what is being experienced today. The US unemployment rate in 1968 rose to 11% and the market ended 10% higher that year as Richard Nixon successfully pursued – and what Donald Trump is now attempting – a "law and order" campaign to win him the presidency. Amidst all that chaos and carnage in 1968, markets sailed serenely on. However, any comfort provided by the 1968 experience, ignores what happened beyond. From December 1968 to mid-1982, the US market fell circa 60%. Equity markets will likely remain sensitive and volatile for the medium term.

Style performance

All styles typically associated with positive performance fell over May. Value, quality, momentum all had weak months. Instead, small-cap volatile stocks rallied hard as the US in particular, continued their purchasing campaign of buying credit bonds. Markets are continuing to experience a strongly 'risk on' environment for investors and fund managers. This proved particularly difficult for the strategy as it has been a very atypical response compared to historically. This has particularly hurt the strategy's allocations in Australia and the US over recent times.

The investment manager believes it may see continued volatility until some predictability returns to markets – which inevitably it will.

Economic and macro data

US economic data was substantially negative as a result of the ongoing pandemic. The recent protests may even further deepen the effects of the pandemic. Worsening news in the US is also leading to a falling US dollar. In other macro news, Donald Trump is threatening to remove Hong Kong's special trade status, continuing to worsen trade relations with China. To summarise, the macro environment is such that equity markets will likely remain sensitive and volatile for the medium term and both active and passive strategies will experience ongoing shifts over the coming months.

The investment manager continues to adhere to its process, remaining confident that eventually investment behaviour will become predictable once again.

Fund performance

The Longreach HQI – Global Market Neutral Fund (the 'Fund') returned -2.29% (net of fees), underperforming the RBA cash rate return of 0.01% by 2.30%. Calendar year to date the Fund is down -7.97% (net of fees). Over May, the MSCI World Index was up 4.63% and year to date it is down -8.90%.

The monthly result for the Fund whilst disappointing was not entirely surprising, as the scale of central bank intervention which caused huge reverberations in the global financial system, continued in April. The good news is that these reverberations changing the market trend were much less than in April. The investment strategy forecasts stocks over a 3 to 12-month period and given the Fund's turnover constraints the portfolio is adjusting as expected in a systematic manner. This return pattern was very similar to what the modelled strategy observed in 2009/2010 in the aftermath of the GFC.

The predictability across all countries on the long side has continued to be strong. However, the impact of COVID 19 and the subsequent government policies have continued to negatively impact the short side but again to a lesser extent this month than in April. The countries with the greatest government intervention to change the market trend have experienced the greatest impact on the short performance side. Returns from the US were responsible for half of the underperformance for the Fund, followed by the UK and to a lesser extent Hong Kong, Australia and Canada. Allocations to Europe continued to provide strong positive returns and Japan and Singapore were also slightly positive as well.

In general, the investment manager is still seeing some pockets on the short side globally where select stock prices are being massively inflated due to direct central bank intervention buying debt in companies that should be bankrupt. The investment manager believes that many of these companies will probably be bankrupt within the next year and this falls directly in line with the style performance commentary above.

The positive news was that towards the end of May, the investment manager has started to observe positive trends in the US portion of the Fund which is a very good sign given this is the country that has had the greatest government intervention. If history does repeat itself per 2009/2010, then this should place the Fund in good standing over the coming 12 months.

Peter Bernstein in the book "Against The Gods, The Remarkable Story of Risk" (1998), stated that "the essence of risk management lies in the maximising the areas where we have some control over the outcome while minimising the areas where we have absolutely no control over the outcome when the linkage between effect and cause is hidden from us".

As described in the 'Current research' section below, the investment manager is working hard to improve alphas in the same vein as what was done in 2009/2010, when the first major bout of global central bank intervention occurred. Given the machine learning system, alphas should improve as the strategy has now absorbed this type of new data, which could not have been predicted previously.

Innovation is at the heart of the scientific method the investment manager applies and they believe that it can continue to improve. The investment manager has been working on a feedback loop (factor 15) for the past 18 months for its alpha process. The current impact at the stock level from massive global government intervention has provided much greater clarity on why this factor is needed. Factor 15 has tested favourably to date and the investment manager is in the process of testing it globally. If the outcome is as they expect, the investment team will look to have this implemented within the next few months.

Attribution results (%)

For the month of May, attribution (gross of fees) was as follows:

Period	Industry	FX	Stock	TOTAL
May 2020	-0.68	0.03	-1.52	**-2.17**

Fund risk

Ex-ante risk at month-end has risen slightly to 5.4% by the Bloomberg Factor Model, which the investment manager believes continues to under-estimate risk. Predicted beta is -0.03, as the model has traded into lower beta names, which has negatively impacted the Fund over May.

The mix of risk is approximately 60/40 split between factor versus specific risk which is close to the long term average of 50/50. Factor risk is dominated by style risk, of which volatility, success and trading activity make up the largest component. Industry risk has reduced since last month (down to 14%). All components are within expectation, albeit the headline numbers appear understated.

Current research

Over the past 18 months, the investment manager has researched different categories of feedback loop mechanisms to improve alpha forecasts, focusing on significant turning points. A feedback loop essentially lets the machine know when forecasts are wrong, particularly short alpha forecasts which they know tend to move more than longs (due to asymmetric risk). Generalising a solution across time and across all countries remains challenging as the investment manager is careful not to 'over-fit'.

In particular, government intervention including the direct purchasing of junk bonds and stocks (indirectly), makes this important research to support the continued improvement of the machine-learning process.

The investment manager is encouraged by the early findings and more research will be conducted over the coming 12 months.

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.

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