UGC GLOBAL ALPHA Fund

Annual Report

30 June 2023

UGC Global Alpha Fund

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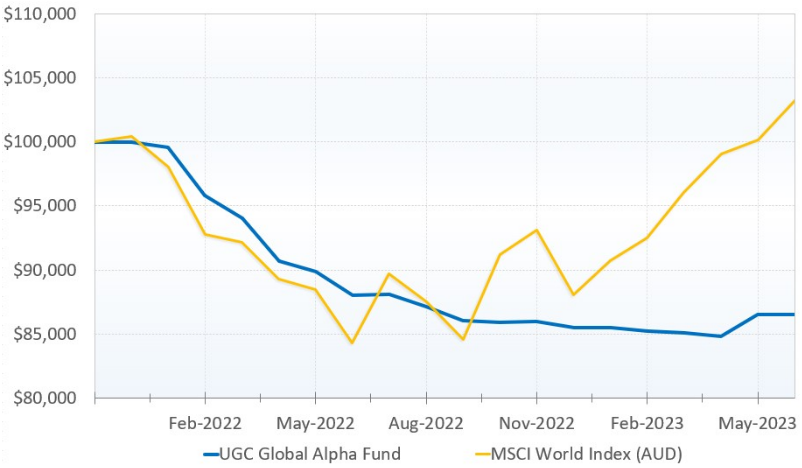
Fund Returns	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	Total Return Since Inception (%)
UGC Global Alpha Fund	**0.07%**	**1.73%**	**1.23%**	**-1.70%**	**-13.44%**
MSCI World Index (AUD)	3.10%	7.49%	17.25%	22.43%	3.33%
Versus Benchmark	-3.03%	-5.76%	-16.02%	-24.13%	-16.77%

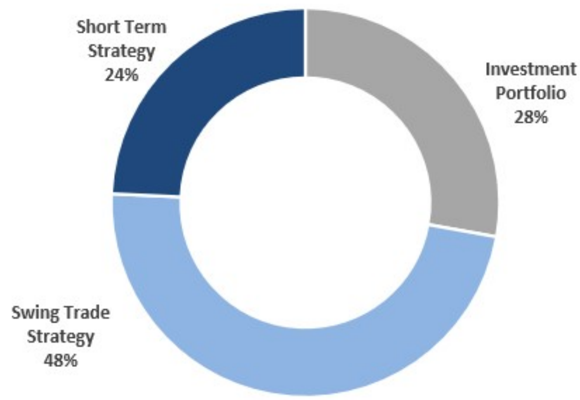
*Fund Inception 23rd December 2021

Individual Strategy Returns	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	Total Return Since Inception (%)
Short Term Strategy	-2.13%	-2.12%	-3.29%	-4.00%	-5.42%
Swing Trade Strategy	-1.04%	-0.93%	-2.52%	-4.24%	-7.85%
Investment Portfolio	4.60%	11.68%	16.84%	12.03%	-18.33%

Value of $100,000 Invested (AUD)



Fund Allocation



Monthly Portfolio Movement	*New*	*Open*	*Closed*
Short Term Strategy*	153	-	153
Swing Trade Strategy	109	16	94
Investment Portfolio	9	34	36

**Short term trades open and close intra-day only*

Monthly Portfolio Metrics	
Gross Exposure	28.76%
Net Exposure	19.95%

Key Information	
Investment Manager	UGC Asset Management Pty Ltd
Trustee	VT No.2 Pty Ltd
Fund Inception	December 2021
Min. Investment Amount	$50,000
Management Fee	2% per annum
Performance Fee	20% subject to Hurdle Rate & High Watermark
Recommended Investment time	5+ Years

Annual Report

The last 12 months has been a story of two starkly different halves. The July through December period was characterised by rapidly rising interest rates, eye wateringly high inflation and fears of an impending recession leading to significant negative investor sentiment. Markets had a decent dose of Volatility from June 30 to the end of December as measured by the CBOE Volatility Index or the VIX , which swung regularly for the highest levels in the mid 30's to lows in the high teens. For reference when the VIX is trading in the mid 30's you would expect the S&P 500 to move approximately 1.8%-2% daily (and more for high beta Nasdaq indexes) and as the VIX rises it is an indicator of uncertainty, increased risk and high volatility. Since the beginning of the year the VIX has been seen a steady decline last spiking in March around the regional banking crisis for 8 days however, it has since recommenced its steady decline into the low teens.

October delivered the lows for the year which correlated with the VIX touching 35, with broader US indexes bottoming on the 13th October. The S&P 500 and Dow Jones Industrial Average both managed to pick themselves off the canvas and put in some stronger momentum to year end while the technology heavy indexes of the Nasdaq retested October lows as we headed into the end of December 2022. Everything changed on January 6th, 2023. The appetite returned for growth stocks in 2023 as sentiment turned, initially on the back of falling energy prices and a China Re-opening story then followed by signs of an accelerating decline in headline inflation. Rate hikes remained front of mind for investors and in March the impact of this most recent steepening of hikes was laid out for all to see as we witnessed the collapse of a Silicon Valley Bank, Signature Bank and contagion (not the pandemic kind) ripped through the US regional banking sector. This crisis delivered a windfall for technology, in particularly mega cap technology as investors looked for the relative safety of Mega Cap tech balance sheets to shield them from the first and second order effects of a total regional banking collapse.

This resulted in the second best quarter for the Nasdaq Composite index in the past decade, posting a gain of 17.5%, trailing only the remarkable 30% surge in the second quarter of 2020 during the post-Covid rally. Leading the charge NVIDIA Corp (NVDA), Apple Inc. (AAPL), Microsoft Corporation (MSFT), Meta Platforms (META), and Tesla Inc. (TSLA), all major contributors to the overall performance of both the Nasdaq Composite and Nasdaq 100 Indexes. This was followed up by another stellar June quarter from the technology headliners but also highlighted the narrowness of stock participation in the year to date rally. Earnings supported moves higher in the mega caps but the same was not evident initially for the smaller and mid cap companies until the end of the June where we began to see some broadening out of stock participation, early days but the broadening of stock participation is key to this rally turning into a fully fledged Bull market.

The last 12 months delivered starkly different environments, October the yearly lows and then a total about face to ring in the new year. The Nasdaq Composite improved by 25.02% with the more concentrated Nasdaq 100 index climbing another 31.95%, all of that over the first 6 months of 2023. The S&P 500, lagged the tech heavy indexes but delivered 17.57% while the Dow Jones lagged improving by 11.8% most of which was generated in the period off the lows in October to early December before trading sideways for most of 2023. Closer to home we saw the S&P ASX 200 track much like the Dow Jones, delivering solid recovery initially off the October lows only to stall in 2023 with the 12 month returns +9.67%. The fund benchmark returned 22.43% over the last 12 months.

Central Bank Policy

Central bank policy makers have maintained their fiscal tightening stance and continued to hike rates aggressively. The US Federal Reserve which had embarked on the first rate hikes in early 2022 continued with a further 7 hikes taking the Fed Funds rate from a 1.5-1.75% range all the way to 5-5.25% range, adding 350bps to the end of May 2023 before taking a breather at its most recent meeting in June. The European Central bank followed the path set by the US with a series of aggressive hikes to take the base rate to 4% while closer to home the RBA initiated 325bps of hikes to take the RBA target cash rate from 0.85% in June 2022 to 4.1% in June 2023. The speed of which interest rate hikes have occurred has been a major contributor to asset prices coming under such significant pricing pressure during much of 2022, in particular longer duration investments such a growth equities however the aggressive hiking also hit the relative safety of bonds as the new normal forced significant Mark-to-Market repricing of existing government and corporate debt resulting in many fixed income managers having to take the decision to hold onto the lower yielding debt or accept a haircut and invest into new issued higher yielding bonds.

About the Strategy

UGC Global Alpha Fund, offers a total return focused, concentrated, long term capital growth, tactical swing trading and short term investment approach.

Investment and trading activities are conducted in global equity markets. Utilising a trend following breakout strategy, the Investment Manager will typically seek returns from share price appreciation while managing the funds down side risks through the use of hedging techniques and its allocation to cash. The strategy combines the use of several trading and investment techniques including short term trading, swing trading and longer term portfolio investments. The Investment Manager also has the ability to utilise leverage and short selling to manage risks and generate returns.

Target Return

The Investment Manager is targeting an after fee, pre-tax return of the greater of 5% per annum above the MSCI World Index (AUD) or 20% per annum on an absolute basis over a rolling 5 years period.

Asset Allocation

Alternative Investments

Benchmark

MSCI World Index (AUD)

Investment Style

Growth and Momentum

Performance Fee

20% (plus GST) of all returns
of the Fund above 10% per annum (as at 30 June, pre-tax and distributions, after fees and expenses). The 10% p.a. hurdle rate is calculated on a simple (non-compound) interest basis. Payment of the Performance Fee is subject to a high watermark.

Initially it appeared no end in site for the hiking cycle but move forward 12 months and with a hold at the most recent US Federal Open Market committee meeting points to the probabilities that rates have peaked or perhaps only 1 maybe 2 more ahead in 2023, this will largely be dictated by inflationary data and while headline inflation is falling quickly the stickiness in housing and shelter, wage growth and extremely strong jobs picture may point to a Fed willing to inflict some more pain ahead. Locally the much vaunted mortgage cliff has now commenced its rollover, that is mortgages settled 2 years ago when rates sat at 0.15bps are now rolling over into new floating rates with a target cash rate at 4.1% pointing to borrowers having to manage interest payments likely in in the 6-7% range.

Inflation Commentary

High rates of inflation continued to drive much of the narrative over the last 12 months and the key driver to interest rate policy by central banks the world over. In key regions such as the US, Australia and parts of Europe saw inflation rates begin to peak while emerging economies saw astonishing rates of inflation.

In the US the rate of inflation peaked in July 2022 when US CPI for June was reported at 9.1%, the highest level in over 40 years however over the following months we saw the headline CPI begin to cool as many of the commodities that had seen sharp spikes in price after the Russian invasion of the Ukraine begin to moderate and eventually fall, with many input commodities across the energy sector such as oil, gasoline, and heating oil experiencing double digits declines with other commodities this preceded what became a significant sell off across several commodities in particular metals such as silver, copper, steel and iron ore and the agricultural segment, such as lumber, wheat, soybeans, canola and corn.

The falls across commodity inputs is only part of the story and while the inflation rate in the US has declined significantly and last reported at 3% there are still several areas where inflation remains sticky. This stickiness remains concerning for the Federal Reserve, while much work has been done to alleviate many of the rising cost pressures there remains risks that inflation could accelerate again if areas such as unemployment remains at its current low levels and average wages rising ahead of inflation. The US has set the trend on inflation and the rest of the world is expected to follow the cooling trends in due course especially s central bank policy remains tight.

Back home in Australia our rates of inflation have lagged the US as we saw a peak in the quarterly rate of inflation at 7.8% in December 2022 while the monthly rate saw a peak at 8.4% in December, note that in Australia the quarterly rate of inflation is still viewed as a better indicator than the monthly CPI. Rates of inflation have seen a cooling in Australia with monthly CPI coming it at 5.6% and expectations that the cooling in quarterly CPI as indicated by the drop in March to 7% will reflect in the June quarter to be released at the end of July. In similar circumstances to the US the concerns of the RBA include the strong employment figures, increasing wages and housing costs are weighing on the ongoing stickiness of inflation and while we enter the end zone of the hiking cycle it remains likely that we will see higher for longer rates.

Recession Risk

Looking closer to home the risk Australia falls into recession continued to increase during the last 12 months. Australia's inflation rates and subsequent policy adjustments lagged that of the US and European economies. For instance Australia's inflation rate peaked in December last year, a significant lag to that of the US. The big risk for the Australian economy is that rising rates which we have eluded to previously crushes economic activity sending us into recession. Real household disposable income is falling and more falls are expected as large volumes of fixed rate mortgages roll into much higher variable rates through the back half of 2023 and early 2024. How this affects Australian economic activity will become clearer over the next 6-12 months however as households begin to face higher rates of mortgage stress the probabilities of the RBA navigating the pathway to a so called soft landing become narrower. In the US with inflation showing clear signs of cooling we are now entering a new phase of interest rate policy, will it be higher for longer or will we see cuts in the short term? For now the US consumer is displaying remarkable resiliency and broader economic activity remains robust despite the dire forecasts from many economists. GDP growth remains positive all be it lower than previous years and the employment backdrop is just about as good as it gets. While Americans still have jobs the economy will hum along, and this can remain the sate of play until all of a sudden it isn't, a couple of months of unemployment surprising to the upside could be the sign of problems ahead, it's at this point the much vaunted soft landing probabilities will be thrown out the window but for know this is not the case. The unemployment rates in both countries continue to show resilience with the US unemployment rate currently tracking at 3.6% and the Australian unemployment rate sitting at 3.5% this is an area we will be watching closely for signs of impending economic slowdowns.

Portfolio Activity & Positioning

The last 12 months has been a tale of two halves, initially we adopted a conservative approach to trading activities in the Short Term and Swing Trading strategies largely through smaller position sizing and a willingness to sit out periods of trading as markets whipsawed through the last 6 months of 2022, while we had periods where we sat out trading we did spend a vast amount of time studying the behaviours of potential trades, this is an important monitoring tactic in that it provides the investment team with a level of confidence to deploy or hold investment capital in cash. A key risk management tool of the shorter term trading strategies, this may result in some underperformance when short term rallies occur as we saw from the October lows however 2022 was a year where very few really compelling trading scenarios presented for the funds style. During trading lulls we carried out back testing on various stop loss levels to determine if any adjustments should be considered in managing the downside risk on the trading portion of the portfolio. These tests routinely take place and are a core part of the management and review process we conduct to ensure our parameters remain relevant for the prevailing market conditions. The results of the data to the end of December 2022 suggested the current stop loss levels are optimal and any widening of stop losses to account for volatility would have yielded worse outcomes. Markets put in new lows through October and again trended lower during December and with the fund retaining substantial reserves of cash with very low levels of exposure to the general markets, our view was that 2023 would l present better trading conditions as investors began to shift from a macro driven trading backdrop towards a fundamentally driven stock market. The fund remained invested in the long term investment portfolio however portfolio hedging activity was in full swing with the strategy spending large periods either fully hedged or partially hedged in an effort to reduce net market exposure. Throughout the July 2022 to December 2022 period we maintained that with heightened volatility to the downside paired with poor trading set-ups that the preservation of capital was of utmost importance, this stance largely dictated the ultra conservative positioning through the back half of 2022.

The commencement of 2023 brought about a new market dynamic and while initially trading activity continued in a similar volume to the previous 2 quarters. Green shoots began to emerge in January and February as tradeable set-ups began to emerge however these set-ups where often met with resistance and many basing patterns continued to show a tendency to fall apart. However, the end of the March quarter provided better trade opportunities, this also coincided with the fund materially increasing its position sizing. In addition to stepping up trade sizes in the swing trading strategy we began to incrementally increase net market exposure in the longer term Investment Strategy. In addition, the investment manager made adjustments to adapt to current market conditions and re-position the portfolios risk management strategy. From this point the long term investment portfolio benefitted from the significant moves higher in global mega cap technology names such as Nvidia, Meta Platforms, Netflix, Tesla, Microsoft, Amazon and Alphabet. The June quarter resulted in trading activity turning sharply higher across the Short Term and Swing Trading strategies, with more than double the previous quarters volume with a relatively even spread across the three months with position sizes gradually increased again through to the end of the quarter. The fund began the quarter with just one position in the swing trading strategy carrying over from the March quarter in Wisetech. The number of positions held at the close of the June quarter in the Swing Trade Strategy was 15 with the largest positions being in Lam Research (LRCX:US), On Semiconductors (ON:US), Hexcel Corp (HXL:US) GXO Logistics (GXO:US) and Zillow Group (Z:US), this was in stark contrast to any time over the last 12 months. Of the 15 open positions held at the end of the month, 13 closed out the month with an unrealised gain. The Short Term Trading strategy turned around in June when compared to April and May with trading activity gaining more traction prompting a step-up in position sizing. We continue to see many smaller and mid cap companies build out more extended bases and holding their breakout moves. While recession talk remains , if this improvement continues we anticipate that the trading opportunities in this segment of the market will accelerate over the second half of 2023.

From a performance standpoint, the Fund returned -1.7% for the FY22/23. The first half of 2023 has been good for the long term investment portfolio helped by its weighting towards mega cap tech in what is a pleasing turnaround from the drastic sell-off through 2022 in asset prices globally. As indicated by the increased trading activity, initiation of several new stocks in the long term strategy and some of the tactical positioning within the fund, the proliferation of stocks setting up in a technical sense has continued to improve over the last 6 months. This also coincides with the broader portfolio gaining traction towards the end of FY22/23. The next phase will be to more aggressively increase exposure to the market across all of our strategies, which to date, has been very conservative. We also expect that the next phase will likely take place primarily in the Mid/Large cap and then Small to Mid Cap names, which has barely participated thus far.

Despite our optimism that things are improving, many macro economic risks still remain over the short to medium term. The current portfolio positioning and cash weight is reflective of our view that we should be positioning portfolios to be ready to pounce on those next leaders as a broadening out of stock leadership gains traction. However, despite our optimism that the worst is behind us, we still have “one foot at the exit” just in case policy makers, who are treading a thin line, do make a mistake and cause a recession in Australia or the US or both.

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