UGC GLOBAL ALPHA Fund

Quarterly Report

30 June 2023

UGC ASSET MANAGEMENT

UGC Global Alpha Fund

Quarterly Report - 30 June 2023

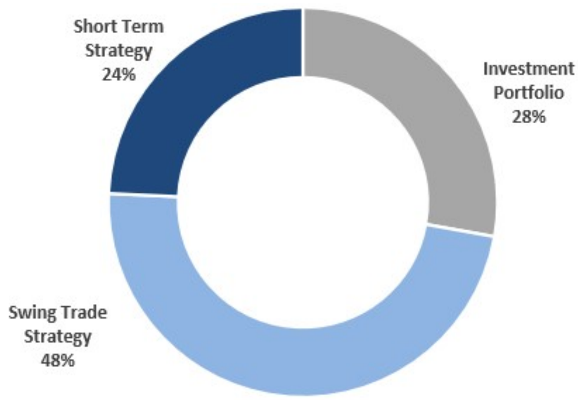
Fund Returns	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	Total Return Since Inception (%)
UGC Global Alpha Fund	**0.07%**	**1.73%**	**1.23%**	**-1.70%**	**-13.44%**
MSCI World Index (AUD)	3.10%	7.49%	17.25%	22.43%	3.33%
Versus Benchmark	-3.03%	-5.76%	-16.02%	-24.13%	-16.77%

*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



Quarterly Portfolio Movement	*New*	*Open*	*Closed*
Short Term Strategy*	49	-	49
Swing Trade Strategy	63	16	49
Investment Portfolio	7	34	2

**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

Month in Review

The June quarter was a continuation of the tech led rally of 2023 with investors continuing to pile into Mega Cap technology companies while small and mid caps tended to lag during the quarter. The quarter kicked off in April with the Q1’23 earnings season which gave investors an opportunity to take a look under the hood of US Stocks and the potential impact to earnings and guidance from the regional banking crisis experienced in March. The major risk event as a result of sharp rate hikes over the preceding 12 months was that of contagion among the vast US regional banking sector after the collapse of Silicon Valley Bank and Signature Bank. During the quarter this was largely resolved but not without one last swing with First Republic Bank reporting far greater depositor outflows as a result of the Regional Banking Crisis which amounted to US$102b during March, well over half of the US$176b in deposits it held at the end of December 2022. Management gave a lesson in how not to respond in a crisis doing little to quell investor fears as they delivered a 12 minute conference call of prepared remarks and declined to take any questions, leading to the stock price plummeting over 75%

before ultimately being taken over by JP Morgan, the biggest beneficiary of the collapse of the three banks.

Earnings where generally fairly good, S&P 500 companies delivered their best performance relative to analyst expectations since the end of 2021. While the number of companies delivering positive Earnings Per Shares (EPS) surprises and the magnitude of the surprises rose above 10 year averages albeit on much lower expectations for the quarter suggesting management are being overly cautious in their guidance. The biggest beneficiaries of the quarter lay with technology companies that have exposure to Artificial Intelligence or AI. This was a story centred around the disruptors and disrupted, it was clear during the management updates that if you are a technology company without an AI solution then you are facing a firing squad. AI really gained traction through May as user adoption accelerated and became front of mind for both investors and public company management groups. In recent (Q1) quarterly earnings, 110 S&P 500 companies mentioned AI, well above the 5-year average of 57 and the 10-year average of 34. Of note was the benefits clearly visible in the semiconductor industry and most notably by industry heavyweight Nvidia which delivered an earnings beat and raise on surging demand that caught many analysts off guard and had investors scrambling to get capital invested into what is likely one of the larger secular tailwinds for the next 5-10 years. For context, Nvidia added over US$200bn of market cap, the equivalent of nearly 2 Intel Corps. when they positively shocked the market with guidance on future demand for their chips.

Headline inflation in the US has continued to accelerate its cooling on the back of rate hikes however core inflation remains “sticky” as the US consumer remains strong due to a resilient labour market along with the significant stimulus that was pumped into the economy over the last 2-3 years. Shelter costs continue to rise along with professional services, air travel, education, and insurance. The US employment situation is a key driver for these increased costs, currently tracking around 3.5%, is hindering policy makers ability to curtail wage price demands.

In Australia we continued to see inflationary pressures as monthly data through the quarter indicated ongoing high inflation levels despite the efforts of the RBA to cool price growth through its interest rate policy settings. While the rate of inflation remains high it does appear that we have passed through the peak inflation rate and expect further cooling through the back half of 2023. The next 3-4 months we will start to see the “Mortgage Cliff” in Australia gather its most significant momentum as mortgages roll over from the low fixed rate mortgages of 2020 and 2021 into a new higher for longer interest rate regime. How this impacts the rate of household spending will have a large impact on future RBA interest rate policy, inflation, and unemployment and together these will ultimately dictate whether Australia heads into a recession or manages to navigate a soft landing.

The RBA delivered two shocks this quarter, initially by opting to hold the target cash rate in April at 3.6% before moving forward with a hike in May of 25bps, both moves caught economists off side with their forecasts. The RBA capped off the quarter with another 25bps in June taking the RBA Target Cash rate to 4.1% at the end of the quarter. Looking forward, according to a Reuters poll economists expect the RBA Target cash rate to now peak at 4.6% before cuts begin in Q1’24.

Moving offshore, the US Federal Reserve opted to hold interest rates steady at its meeting on the 13-14th June for the first time since it embarked on this most recent hiking campaign in March 2022. While this has been met with a degree of positivity by markets the Federal Reserve Chairman Jerome Powell was adamant that this is merely a pause and that more interest rate hikes remain likely at future meetings, largely in line with the Feds Dot Plot indicating rates will likely peak at 5.25-5.50%.

Treasury yields initially remained stable at the beginning of the quarter before gathering moment through the end of May into June. The

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.

long term US 10yr Treasury Bond closed out the quarter at 3.82% while the US 2yr Treasury Bond climbed back towards the highs of last year closing out the quarter at 4.875%. The US Debt Ceiling and subsequent political standoff gained plenty of attention which heightened investor anxiety around a possible US government debt default as the deadline to increase the debt limit was taken to the wire as the Democrats and Republicans pushed for their economic agendas before ultimately reaching a resolution by the end of May.

The second quarter sustained the momentum from the first quarter of 2023 that was evident across technology and in particular Mega Cap Technology. The Nasdaq Composite improved by 12.81% with the more concentrated Nasdaq 100 index climbing another 15.16%. The S&P 500 continued to improve and while its year to date or quarterly returns have lagged the Nasdaq indexes it backed up a solid Q1'23 with a Q2'23 gain of +8.3% maintaining its momentum with the Dow Jones lagging yet again improving by a meagre 3.42%. Closer to home we saw the S&P ASX 200 lagged global growth significantly for the quarter improving +0.355% in a continuation of slower growth when compared to the international landscape.

Portfolio Update

Trading activity turned sharply higher during the June quarter with a total of 112 trades across the Short Term and Swing Trading strategies, more than double the previous quarters volume with a relatively even spread across the three months. Position sizing was conservative initially however as we saw conditions improve and the number of profitable trades increase and the evidence pointed to an improving trading environment we became comfortable increasing the position sizing across the strategies and will continue to ramp up position sizing as we see continued evidence of profitable trades and the continued broadening of upside participation in stocks. The fund began the quarter with just one position in the swing trading strategy carrying over from the March quarter being a position in Wisetech. It finished the quarter with 16 open positions having traded in and out of names throughout the quarter. We added to the Wisetech trading position as the stock climbed through our entry points before taking the opportunity to exit the position in two steps, the first during May that delivered a realised gain of +15.5% and again on the 13th June as its price broke out to new all time highs, delivering a gain on the second position of approximately 14.8%. 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). Of the 15 open positions held at the end of the month, 13 closed out the month with an unrealised gain. The four largest positions all sat in positive territory with Lam Research (LRCX:US) +13.71% (unrealised), On Semiconductors (ON:US) +5.68% (unrealised), Hexcel Corp (HXL:US) +2.8% (unrealised), GXO Logistics (GXO:US) +0.12% (unrealised) and Zillow Group (Z:US) +1.65% (unrealised).

The story from the Short Term Trading strategy turned around in June when compared to April and May with trading activity gaining more traction. With the improving trade outcomes across this strategy we stepped the position sizing up again all be it the conditions still have a long way to go to improve enough before entering positions at our desired size. 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.

In the long term investment strategy we took the opportunity to strategically increase existing positions in April in Tesla (TSLA:US), Amazon.com (AMZN:US), Alphabet (GOOGL:US) and Microsoft (MSFT:US), while also incrementally adding exposure across the portfolio to achieve the desired net market exposure. After 2 years of almost no constructive stock price action in growth stocks, this quarter delivered far better technical set-ups across our watchlist of stock ideas which resulted in several new names going into the portfolio. Stocks that had been on our radar for a number of months finally presented attractive entry points through the quarter and we initiated new positions in Monster Beverages Inc. (MNST:AU), Visa (V:US), Mastercard (MA:US), ASML Holdings (ASML:US) , Shopify Inc. (SHOP:US) and AutoStore Holdings Ltd in Oslo (AUTO.OL). As we came into the close of the quarter the 2023 rally appeared extended and began to show signs that perhaps there was some steam coming off the steep rally in the first half. We took the opportunity to hedge part of the portfolio as the market responded positively to inflation data and the subsequent pause in rate hikes by the US Federal Reserve. We also reduced exposure to Nvidia (NDA:US), Tesla (TSLA:US), Amazon (AMZN:US) and Palo Alto Networks (PANW:US), four of the more extended names in the rally thus far. With the end of the quarter and first half now passed we will be looking for confirmation from the market as to whether the 2023 momentum will continue in the second half.

From a performance standpoint, the Fund returned 1.73% for the quarter vs its benchmark index MSCI World Index (AUD) which was +7.49%. 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 in the past month. 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, despite the increased activity, as position sizes have been largely contained to smaller sizing. 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 risks still remain over the next 12 months and particularly over the next 6 months. 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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CEO/Chief Investment Officer

General Disclaimer:

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