UGC GLOBAL ALPHA Fund

Monthly Report

31 December 2023

UGC Global Alpha Fund

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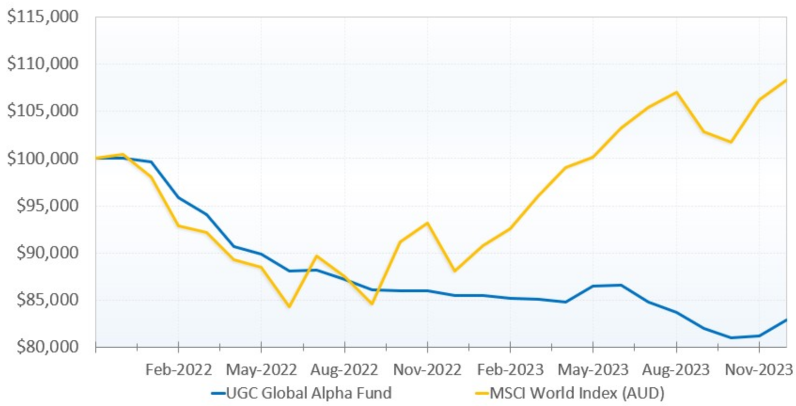
Fund Returns	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	Annualised Return Since Inception (%)
UGC Global Alpha Fund	**2.07%**	**1.04%**	**-4.29%**	**-3.11%**	**-8.92%**
MSCI World Index (AUD)	1.94%	5.38%	4.93%	23.03%	4.10%
Versus Benchmark	0.13%	-4.35%	-9.21%	-26.14%	-13.02%

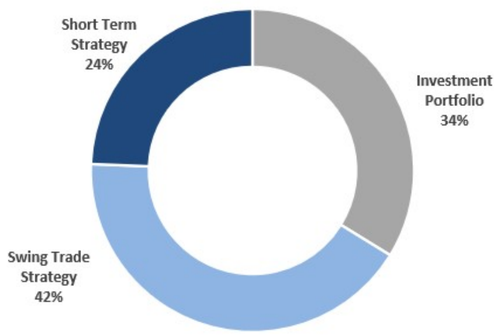
*Fund Inception 23rd December 2021

Individual Strategy Returns	1 Month (%)	3 Month (%)	6 Month (%)	1 Year (%)	Total Return Since Inception (%)
Short Term Strategy	2.15%	1.81%	-2.81%	-6.00%	-8.08%
Swing Trade Strategy	3.51%	2.92%	-4.81%	-8.23%	-13.25%
Investment Portfolio	2.18%	0.56%	-1.27%	15.35%	-19.37%

Value of $100,000 Invested (AUD)



Fund Allocation



Monthly Portfolio Movement	*New*	*Open*	*Closed*
Short Term Strategy*	39	-	39
Swing Trade Strategy	30	8	29
Investment Portfolio	1	30	4

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

Monthly Portfolio Metrics	
Gross Exposure	50.57%
Net Exposure	50.57%

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

Stocks continued their rally off the October lows into the end of 2023. In little over 2 months the S&P 500 and Dow Jones Industrial Average gained just under 17% while the Nasdaq 100 and Nasdaq Composite improved by just under 21%. These are astonishing moves in such a short space of time off October's lows pushing markets into new recovery high territory to end 2023.

In further positive news, we also saw constructive participation in this rally as more stocks joined the recovery in the past two months than in any prior period in 2023. This is highlighted by the performance of the Russell 2000 index which put in a stellar 2 month gaining of nearly 28%. This broadening out of stock participation is crucial to the emergence of the next phase of the bull market and key to delivering a sustainable longer term bull market.

Right now the current narrative supporting stocks is that the US Federal Reserve is going to be able to engineer a soft landing for the US economy and this will coincide with several interest rate cuts in 2024 and the end of the tightening cycle that commenced in 2022. Many investors had expected that 2023

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would have seen the commencement of a US recession given the aggressive interest rate tightening that the US Federal Reserve embarked on, however US economic activity remained remarkably resilient through 2023 despite the more than 500 basis points of rate hikes across 2022 and 2023. Consumer behaviour also remained strong while headline inflation has slowed to a more palatable 3.1% (November data) and looks to be continuing its trend lower. The current pace of the decline in headline US inflation is faster than what many economists and central bankers had expected and expectations for corporate earnings into 2024 have been improving as the earnings declines experienced in early 2023 appear to now be over and companies are once again growing profits.

With such large increases in global stock markets in recent months, one might easily take the view that the opportunity to benefit from this recovery is behind us, however, many small and mid cap companies are yet to participate in the current recovery and there remains a tremendous opportunity to profit from these faster growing more innovative companies that got beaten up badly in 2022 and currently have valuations below US$50 billion, as investors focused mainly on investing in a very small and select group of stocks for much of 2023.

On the economic front we saw the Australian economy expand by just 0.2% quarter-over-quarter in the September quarter, 2.1% year-over-year, weighed down by a sluggish consumer as interest rate increases in Australia hurt mortgage holders and discretionary spending. Providing some relief into Christmas, the Reserve Bank of Australia (RBA) decided to hold interest rates steady in December and until the board meets again in February. At the time of writing investors see little chance of another rate hike at the February meeting with interest rate futures suggesting that there is just a 1% chance the RBA hikes.

A key difference between Australian monetary policy versus that of the US right now is that the RBA is still looking at an inflation rate that is above 5% despite pushing the cash rate up to 4.35% from 0.15% 18 months earlier. Those of you who travelled over the New Year can probably attest, especially if driving – the cost of almost everything is still exceptionally high. Let's hope Prime Minister Anthony Albanese puts the likes of Woolworths and Coles under the blow torch on their pricing practices as part of the Food and Grocery Conduct Review.

For several weeks now more and more evidence has been building that suggests 2024 should be a reasonable year for equity markets globally. Especially encouraging has been the fact that small and mid cap stocks have started to participate in the recovery for the first time. This can be seen by looking at the S&P Small-Cap 600 Index which hit a new 52 week high in December supported by a sharp spike in its Advance-Decline line, which shows that the number of stocks in the index moving higher is increasing. This breadth improvement can also be seen in indicators such as the percentage of S&P 500 companies and Nasdaq Composite companies trading above their 200 Day Moving Averages (DMA). At the end of December approximately 78% of companies in the S&P 500 (Nov. 65%) and 50% of companies in the Nasdaq Composite (Nov. 40%) were now trading above their 200 DMA.

This improvement in equity market conditions has been supported by a reduction in US Treasury bond yields as they continued to trade lower through much of December as traders continued to bet that the US Federal Reserve will be cutting rates sooner rather than later. The US 2-Year Treasury yield declined 36bps from 4.65% to 4.29% and the US 10-year Treasury yield declined 49bps from 4.35% to 3.86%. These moves are also now starting to flow into the US Mortgage market. As US Mortgage rates retreated lower through December, the 15 year average mortgage rate fell below 6% for the first time since May and the 30 year average mortgage rate ended below 7% for the first time since mid August.

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.

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Portfolio Update

December saw the fund ramp up trading activity materially in to conjunction increases in both position sizing and the number of trades taken. December saw the best trading conditions we've seen since the strategy launched two years earlier as market conditions deteriorated rapidly in January 2022 and the recovery was tepid at best for much of 2023.

The Swing trading and Short Term trading strategies maintained much of the velocity we saw in the back end of November as the broadening out of stock price participation gathered real momentum. This provided an environment whereby the number of trading ideas increased significantly. After such a tumultuous 2 years we remained cognisant of being too aggressive in our position sizing too early. December saw the Short Term trading strategy improve by 2.15% and the Swing trading strategy improve by 3.51%. The volume of trades is some of the highest activity the fund has seen and is a clear sign of the improving trading landscape in Smaller and Mid Cap stocks. The Short Term Strategy entered 39 trades while the Swing Trading strategy entered 32 new positions. In addition to the long positioning we also took some tactical short index positions into the end of the year as markets became extended in the short term.

Turning our attention to the Investment Portfolio, the improved performance of the major indexes saw us remove the remaining hedges holding the portfolio back from being fully exposed to the market as the Nasdaq 100, Nasdaq Composite and S&P 500 all traded through their previous 2023 recovery highs. In addition, the strategy exited 3 portfolio holdings - Jumbo Interactive Ltd., Corporate Travel Management Ltd and Tenable Holdings Inc as their stock prices remained anchored below their respective 200 DMA and as all three stocks displayed persistent weak relative price strength versus the broader portfolio and market.

For the month of December the Nasdaq Composite closed the month up +5.52%, the Nasdaq 100 +5.51%, the S&P 500 +4.42% and the Dow Jones Industrial Average +4.84%. The S&P ASX 200 outpaced its global peers closing December up +7.10%. The UGC Global Alpha Fund delivered a return of +2.07%, while the strategy's benchmark index the MSCI World Net Index (AUD) returned +1.94%.

With the rapidly improving market outlook and trading conditions we are taking comfort in increasing our position sizing further. With portfolios now completely unhedged and fully exposed to market movements, the portfolio is well positioned to capitalise on a broadening out of stock participation in 2024 along with the strong seasonality trends that tend to occur from November through to May. While we still expect some bumps and surprises along the way, the chances of a recession occurring in 2024 appear to be much less than what most investors feared 6 months ago. While we are optimistic on the outlook for stocks into 2024, we are still aware that macroeconomic risks remain unaddressed and could still create problems later in the year. But for now, the trends remain favourable, equity market conditions continue to show signs of improvement and we believe that being fully invested is the appropriate portfolio stance to be taking for the months ahead.

Key Takeaways:

- Two month rally pushes major indexes into new recovery highs.
- Small and mid capitalisation companies finally joined the recovery outperforming large and mega cap companies in December.
- Stock participation is improving as stock market breadth finally drifts away from just the "Magnificent 7" companies.
- Investors now expect the US to avoid a recession in 2024.
- Approximately 78% of S&P 500 companies and 50% of Nasdaq companies are now trading above their 200 Day Moving Averages as more stocks join the recovery.
- Mortgage rates are falling in the US and US Treasury yields continued their sharp declines which is supportive of higher stock market valuations.
- Opportunities are beginning to present in some of the most beaten up growth stocks from 2022. We expect to be rotating portfolios into a number of these stocks in 2024.

As always, we look forward to providing you with further updates next month

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CEO/Chief Investment Officer

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Some numerical figures in this publication have been subject to rounding adjustments.

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