

Surrey Australian Equities Fund

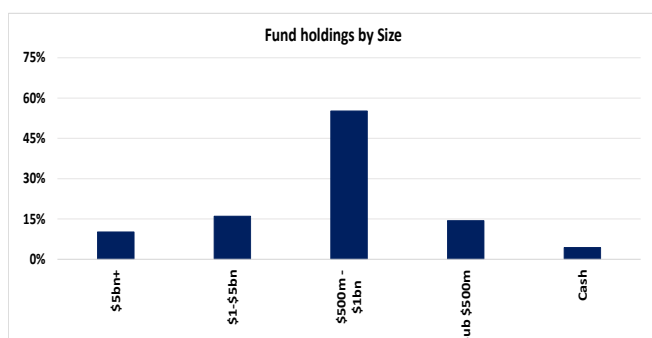
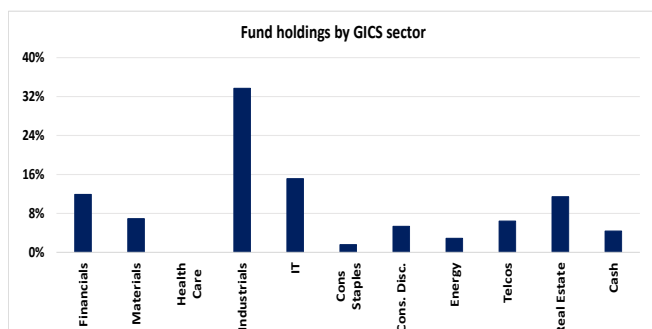
PORTFOLIO UPDATE

The Surrey Australian Equities Fund (SAEF) posted a return of -6.13% in February after all fees, relative to the Small Ordinaries Accumulation Index (XSOAI) return of -0.01%. Much of the month's macro market moves were driven by perceptions on interest rates and Russia's invasion of the Ukraine.

As such the transition toward resource companies away from industrials continued, creating a headwind for the Fund given our lower relative weighting toward resources.

For context, the small Industrials Index (XSI) declined by 2.3% in February relative to the Small Resources index (XSR) which rose 7.6%. This takes the XSI return to -3.7% over the last rolling 12 months relative to the XSR return of 28.8% over the same period. We do not believe this disconnect will continue and in fact, has opened up some buying opportunities.

In addition to macro-economic events, February included corporate reporting season. Despite share price movements we were pleased with all but 4 of our holdings with our investment thesis remaining in place or becoming stronger on the other 28 companies we own that reported. This combined with our high liquidity reinforces our confidence in the outlook for the Fund.



FUND OUTLOOK

Despite the volatility in share prices during reporting season, we were pleased with the progress demonstrated by the majority of our holdings.

Some stand out results came from Kelsian Group (KLS), PSC Insurance Group (PSI) and Eagers Automotive (APE) all of which beat our and market consensus expectations with regard to earnings. On the negative side we were disappointed by the cost and in particular wage cost inflation from Praemium (PPS) and Bravura Solutions (BVS). We have retained our position in PPS for now as its top line continues to grow very strongly while we have lightened our holding in BVS.

We hope for a speedy and as peaceful as possible resolution to the conflict in the Ukraine while also watching the situation from a portfolio management perspective. With regard to interest rates, following the 7% jump in the US 10-year bond yield in February we note in March as of the time of writing it has fallen back 7%.

Performance (to February 28th 2022)	Fund Return	Benchmark Return*	Fund Relative Performance
1 mth	-6.13%	-0.01%	-6.12%
3 mth	-10.91%	-7.73%	-3.19%
1 yr	-3.53%	5.00%	-8.53%
2 yr pa	13.29%	10.92%	2.37%
3 yr pa	10.07%	7.74%	2.33%
since incep pa	6.90%	5.98%	0.92%
since incep	28.43%	24.34%	4.10%

[^] After all fees and expenses

* S&P/ASX Small Ordinaries Accumulation Index (XSOAI)

Inception date June 1, 2018

FUND TOP HOLDINGS (in alphabetical order)

Auckland International Airports (AIA)

Lifestyle Communities (LIC)

Kelsian Group (KLS)

National Storage REIT (NSR)

Uniti Group (UWL)

FUND PERFORMANCE

Reporting Season

The Fund is very focused on investing in high quality companies where we see latent upside value that we believe are not fully reflected in the present share price. This value can and usually does, take time to realise. As such we are not concerned by short term share price volatility, rather we focus on the underlying business fundamentals and how our holdings are progressing relative to our investment proposition.

In this regard, February was a positive reporting season for the Fund. As mentioned of the 33 companies we own 28 delivered in line or ahead of our expectations, 4 underperformed and 1 does not have a June year end and as such did not report.

However, in terms of share price movements, these did not necessarily reflect underlying earnings with very sharp swings seen during the month. In certain situations, we used this as an opportunity to add to our portfolio.

Following reporting season company announced dividends will be paid over the coming months with attached franking credits.

Interest Rates

In past reports we have spoken at length about the impact of a higher risk-free rate (typically the US 10-year bond yield is used) on valuations – a higher risk-free rate all things being equal, should equate to lower asset valuations. In addition, economics 101 says a key tool of lifting interest rates is to manage/lower inflation with spending decreasing as borrowing costs rise.

While our portfolio holds a portion of high growth names which have suffered from a market repricing, our holdings typically all have strong pricing power meaning as inflation flows through the system, management teams have the power to pass on any cost base increases, protecting earnings.

With predictions of rising interest rates has come the rotation away from cyclicals towards materials and with the Russian/Ukraine crisis a surge in oil and gas prices. We are well aware of the impacts of both scenarios and have exposure to these spaces through a number of holdings such as Mineral Resources (MIN) and Seven Group (SVW) and look forward to sharing further details with you in next month's report.

A final point on interest rates is that rising rates are often a sign that improving economic activity is leading to the rising inflation/pricing environment. Therefore, not all rate rises are bad for markets. The table below demonstrates this over various periods:

Dates	Fed Funds Rate		S&P 500
	Starting Rate	Ending Rate	
1971-1974	3.75%	13.00%	-7.52%
1976-1981	5.50%	20.00%	68.38%
1983-1984	9.50%	11.50%	8.05%
1985-1988	6.00%	9.75%	52.42%
1994-1995	3.25%	6.00%	4.45%
1999-2000	5.00%	6.50%	10.48%
2004-2006	1.25%	5.25%	17.74%
2015-2018	0.00%	2.50%	28.37%

Source: FRED

While February was disappointing in terms of Fund returns, negative short-term performance from time to time is an inevitable feature of investing. Since inception, over the last 45 months, the Fund has only had 5 months where it has declined by 5% or more (2 of these 5 months being the last 2 months!). In each case, the Fund made positive returns shortly thereafter.

As always, we thank all Unitholders, staff, and service providers for your support in entrusting us with your capital and welcome any queries you may have.

SURREY ASSET MANAGEMENT

Surrey Asset Management is an investment management company established in 2017 to manage the Surrey Australian Equities Fund. It is wholly owned and managed by Nicholas Maclean & Michael Woolhouse who have in excess of thirty years of combined financial markets experience. Both Fund Managers have significant personal investments in the fund.

The Fund offers investors exposure to ASX listed companies with the objective of earning returns in excess of the S&P/ASX Small Ordinaries Accumulation Index over rolling 5-year periods. This is done by following a defined investment process within the construct of our core values of fact-based investing, transparency, authenticity, accountability and humility.

Surrey Australian Equities Fund	APIR Code SPC2070AU
Managers	Nicholas Maclean (B.Com, B.Arts, Grad. Dip. Applied Finance & Investment) Michael Woolhouse (B.Com, Accounting & Finance)
Investment Benchmark	S&P/ASX Small Ordinaries Accumulation Index. (XSOAI)
Fund Objective	To provide investors exposure to ASX listed companies with the objective of earning returns in excess of the S&P/ASX Small Ordinaries Accumulation Index over rolling 5-year periods, with a strict focus on capital preservation.
Typical Portfolio / Active stock limit	20-40 active stock holdings. No one individual stock can represent more than 15% of the portfolio
Debt / Derivatives / Shorting	Nil
Fund administrator	Mainstream Fund Services
Fund Trustee	Specialised Investment & Lending Corporation Pty Ltd
Unit Pricing / Applications / Redemptions/ Performance Reports	Monthly 28 Feb 2022: Redemption Price \$1.1986 Entry Price \$1.2058
Surrey Asset Management contact information	Email: info@surreyassetmanagement.com Ph: +61 3 9691 5490
Mainstream Fund Services contact information	Email: registry@mainstreamgroup.com Ph: 1300 133 451

APPLICATIONS

Further information on the Surrey Australian Equities Fund and how to invest can be found by downloading an Information Memorandum and applying online via our website, and/or contacting the investor services team on the details below:

Surrey Online Applications: www.surreyassetmanagement.com/how-to-invest/

Surrey Asset Management Website: www.surreyassetmanagement.com

Surrey Asset Management Phone: +61 3 9691 5490

Mainstream Fund Services Phone: 1300 133 451

Disclaimer

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