BAZA HIGH CONVICTION FUND
QUARTER ENDED 31 DECEMBER 2021

BAZA CAPITAL

KEY METRICS FOR DECEMBER 2021 QUARTER

+4.4%
return for the quarter[1]

+2.4%
performance vs. S&P/ASX Small Ordinaries Accumulation Index during quarter[1]

A$1.222
unit price, 31-Dec-21[1]

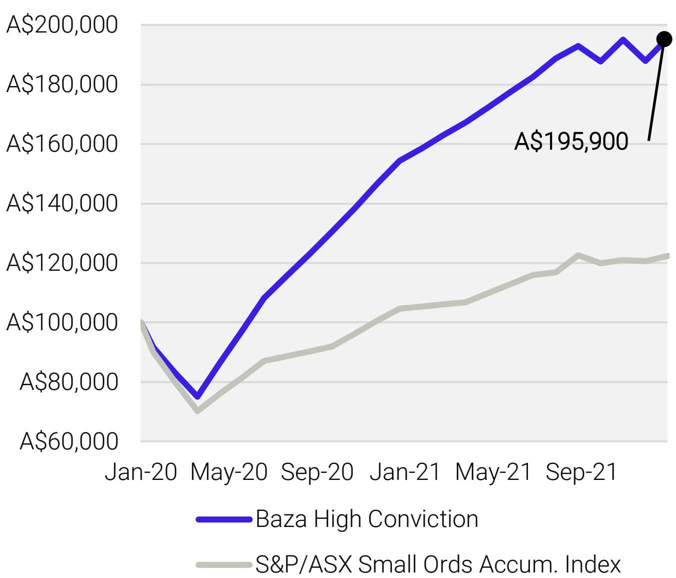
+95.9%
return since inception[1,2,3]

KEY METRICS FOR DECEMBER 2021

Unit price (pre fees, expenses & distribution)	A$1.225
Fees & expenses for month	(A$0.003)
Unit price post fees & expenses, pre distribution	A$1.222
Distribution this month	-
Unit price post distributions, fees & expenses	A$1.222
Performance in month post fees & expenses	+4.2%
S&P/ASX Small Ords Accum. (Benchmark) perf.	+1.4%
Fund performance in month vs. Benchmark	+2.8%

HISTORICAL PERFORMANCE

Value of A$100,000 invested at inception[1,2,3]



1 Post fees and expenses
2 Assumes reinvestment of distributions (A$0.023 declared 30-Jun-20 and A$0.647 declared 30-Jun-21)
3 Fund inception was 15-Jan-20

HISTORICAL RELATIVE PERFORMANCE

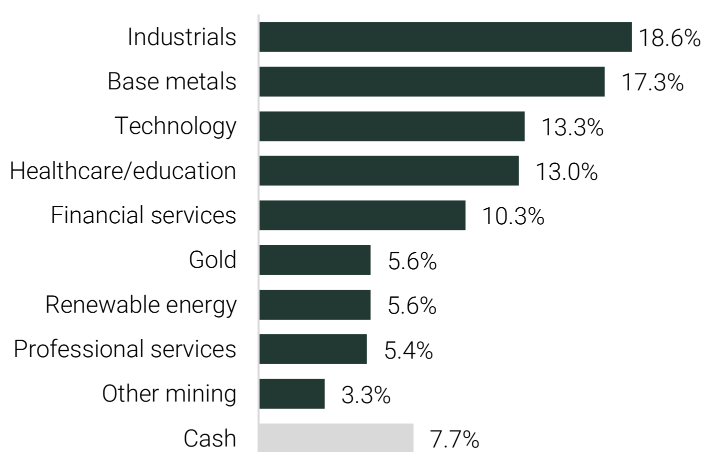
	Fund return[1,2]	S&P/ASX Small Ords Accum. Index	Fund out-performance
1 month	+4.2%	+1.4%	+2.8%
3 month	+4.4%	+2.0%	+2.4%
1 year	+26.9%	+16.9%	+10.0%
Since inception[3]	+95.9%	+22.4%	+73.5%
Since inception[3] (annualised)	+40.8%	+10.8%	+30.0%

PORTFOLIO SNAPSHOT

Top 5 holdings (as at 31 December 2021)

1	Monash IVF	MVF.ASX	7.1%
2	Genex Power	GNX.ASX	5.6%
3	Gale Pacific	GAP.ASX	5.6%
4	Money3	MNY.ASX	5.1%
5	Bell Financial Group	BFG.ASX	5.0%

Sector exposure (as at 31 December 2021)



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The Fund returned 4.4% for the December quarter and 26.9% for calendar year 2021

This return compared to the S&P/ASX Small Ordinaries Accumulation Index (Benchmark) which increased by 2.0% in the December quarter and 16.9% for the year.

There were 2 key periods in equity markets in 2021; with the first ~8 months maintaining the euphoria of 2020 (post COVID disruption), and the last ~4 months more challenging as investor fatigue, risk intolerance and several macroeconmic factors weighing on sentiment. The Fund moved with the broader market over this period, with returns of +25.0% in the first 8 months and +1.6% in the last 4 months of 2021. This compares with the Benchmark returning +17.1% in the first 8 months, and -0.1% in the last 4 months. Overall, the Fund's portfolio of emerging, fundamentally undervalued companies delivered strong performance in 2021.

The Fund's investments in lithium-focused companies helped drive outperformance over the December quarter

As companies and governments push toward decarbonisation, the demand for relevant metals is expected to increase. The main commodities we have invested in as exposure to this dynamic are:

- lithium, which is used in batteries;
- copper, used in wiring and other electrical components; and
- nickel, which has growing demand in certain lithium-ion batteries.

The Fund's top three performers over the quarter were Global Lithium (GL1, +141%), Cannon Resources (CNR, a nickel explorer, +75%) and Alvo Minerals (ALV, a copper explorer, +58%).

Investor sentiment surrounding metals can be more volatile than other industries. For example, in the September 2021 quarter, base metals (copper, nickel and zinc) did not perform well and led to our portfolio underperforming the market for that quarter.

We are attracted to the long-term structural trend toward decarbonisation, so will maintain an exposure to lithium and base metals going forward (currently 21% of the portfolio).

Our core investments in healthcare, industrials and financial companies experienced gains in the quarter

A private equity takeover offer for Virtus Health (VRT) was positive for the Fund's largest holding, Monash IVF (MVF), given VRT is a key peer.

The VRT takeover combined with a positive initiation note from a leading small-cap research analyst, saw MVF post strong gains over the quarter (+10%) despite no news from the company. Our research into the sector highlights increasing demand and long wait-lists for IVF services, particularly in Melbourne and Sydney. The key risk with large IVF providers is maintaining their cohort of specialists and building a pipeline of internal talent. At its November 2021 AGM, the Board and management of Monash IVF detailed significant improvements they have made in this area, and the recent growth in specialist numbers is evidence of this. Monash IVF has a relatively defensive growth trajectory over the coming 5-10 years backed by ongoing demogaphic shifts.

Other notable positive performers were Atturra (ATA, +20%), Bell Financial Group (BFG, +10%) and Money3 (MNY, +6%).

The Fund portfolio contains multiple defensive exposures

Other large portfolio holdings share similar defensive revenue streams to MVF. Genex Power (GNX) owns Australian renewable energy assets with contracted revenue streams. Mayfield Childcare (MFD) has government-backed revenues driven by the increase in the need for early childhood education and care services. Recent portfolio additions Atturra (ATA) and Service Stream (SSM) are both services businesses with a diverse client book dominated by larger institutions and government clients. The portfolio has shifted slightly to defensive stocks over the last 6 months, while maintaining exposure to the more volatile mining sector, that added significant value to the portfolio across 2020 and 2021.

The Fund recently established a small position in drilling contractor Swick Mining Services (SWK), which will merge with competitor DDH1 Limited (DDH) in 2022. SWK and DDH provide exposure to the exploration drilling industry, which is set for a bumper 2022 following record capital raising activity by junior miners in 2020 and 2021. Given spiking demand and the lack of rig availability, particularly in Western Australia, the price for drilling services has already increased ~20-40% over the last 6 months. We expect this dynamic to continue into 2022 as explorers progress with drilling programs they flagged to shareholders and new investors when raising equity.

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Outlook for 2022

We currently believe that 2022 will provide several challenges for equity markets and investors.

The US Federal Reserve is expected to commence the cycle of increasing interest rates and reducing its balance sheet (effectively the opposite of the stimulus that has helped to buoy equity markets since March 2020 lows). The speed at which this process occurs could have a significant impact on financial market valuations and slow economic growth in the US and beyond.

Global supply chain woes continue to generate inflation that will hinder economic recovery. The rapid spread of Omicron has added further stress to logistics, as well as reducing consumer sentiment as self-imposed lockdowns re-commence in various forms.

On a positive note for equity markets, it appears that the end of the pandemic may be in sight in 2022. Our view is that it is likely Omicron will increase the global antibody count far quicker than government-backed programs will in 2022, and COVID will become manageably endemic in time.

The key concern will be the heightened supply chain crunch that Omicron poses in the short term, however the quicker this happens the faster supply chains could return to pre-pandemic levels. There are also risks that a more deadly and/or more contagious COVID mutation emerges, or government movement restrictions persist well into 2022.

Rising geopolitical tensions – particularly between China and USA, and Russia and the EU – will also be an area to watch in 2022.

The Fund is positioning for a market rotation from 'growth' to 'value' in 2022

For each of our investments, we spend considerable time building financial models and questioning management on growth assumptions and competitive position. This investment approach has generally biased the portfolio toward businesses that generate profits today, as opposed to the promise of profits in the future. As a result, the Fund holds little exposure to high growth technology companies which rely on optimistic growth assumptions over the long term.

Our view is that in times of market euphoria, optimisitic investors can give credibility to these growth assumptions and pay higher multiples for these growth businesses.

If market sentiment turns pessimistic, investors may become sceptical of these growth assumptions and insist on the concrete value of the present. This dynamic can compound when the cost of capital is lifted (e.g. by increasing the risk-free rate) meaning that cash flows in future years are less valuable today. This is a common cycle that has played out in equity markets throughout history[1].

The reality is that we do not know when a transition in market sentiment from optimism to pessimism will occur; but can only say with reasonable confidence that it will continue to go through cycles. Given the market highs of 2020 and 2021, we believe it is prudent to take a slightly more defensive stance heading into 2022. However, it would not necessarily be surprising if equity markets continued to rally on the back of a strong US economy and the end of the pandemic and associated supply chain issues; both dynamics already appear possible judging by developments thus far in 2022.

Our core aim remains unchanged: to identify and invest in emerging ASX-listed companies to generate outperformance for unitholders in the medium to long term

Our focus through our investment process is to identify and prudently invest in undervalued, emerging companies on the ASX. The Fund only holds companies that have undergone our strict investment process, and are expected to hit milestones and grow in 2022 and beyond.

We are excited to have delivered continued outperformance for our unitholders over the last 12 months, as well as welcoming a number of new investors over this period. We look forward to the challenges of 2022 and investing thoughtfully over this period.

1 If you are interested in further reading on the cyclicality of market sentiment, we recommend a book by Howard Marks, *Mastering the Market Cycle*

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FUND SNAPSHOT

The Baza High Conviction Fund is a long only small-cap fund targeting undervalued, emerging companies on the ASX. It has a high risk, high return profile, providing exposure to high growth and/or under-appreciated companies.

The Fund utilises strict responsible investment screening parameters; both positive and negative.

Inception	15-Jan-20
Structure	Unit trust
Management fee	1.5% (incl. GST)
Performance fee	20.0% (incl. GST) above benchmark
Benchmark	S&P/ASX Small Ordinaries Accumulation Index (post management fee & expenses)
Unit pricing, applications and redemptions	Monthly
Eligible investors	Wholesale Investors, as defined in the Corporations Act 2001 (Cth)
Distributions	Annually, post 30-Jun, and at the Trustee's discretion

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RESPONSIBLE INVESTMENT OVERVIEW

Positive screens (non-exhaustive, up to 25% scale-up)	
Renewable energy	Efficient transport
Recycling	Sustainable products
Healthy foods	Healthcare & wellbeing
Education	Electrification
Direct investment	Strong diversity policies, reporting and practices

Negative screens	Threshold
Fossil fuel exploration, development or production	Zero tolerance
Provision of significant services to fossil fuel industry	25%+ of focus or revenue, no investment
Excessive carbon emissions	Zero tolerance if no transition, management or offset plans or processes
Gambling or tobacco	Zero tolerance
Old growth logging, destruction of ecosystems or animal cruelty	Zero tolerance
Military technology or armaments	Zero tolerance
Carbon intensive agriculture	25%+ of focus or revenue, no investment

The Fund investigates the diversity of Boards and senior management, and policies and reporting relating to diversity, prior to investment.

Further information on responsible investment policies can be found in the Baza High Conviction Fund Information Memorandum, available by request.