BAZA HIGH CONVICTION FUND
QUARTER ENDED 30 JUNE 2022

BAZA CAPITAL

KEY METRICS FOR JUNE 2022 QUARTER

-25.2% return for the quarter[1]	**-4.8%** performance vs. S&P/ASX Small Ordinaries Accumulation Index during quarter[1]	**A$0.889** unit price, 30-Jun-22[1]	**+15.5%** annualised return since inception[1,2,3]

KEY METRICS FOR MONTH OF JUNE 2022

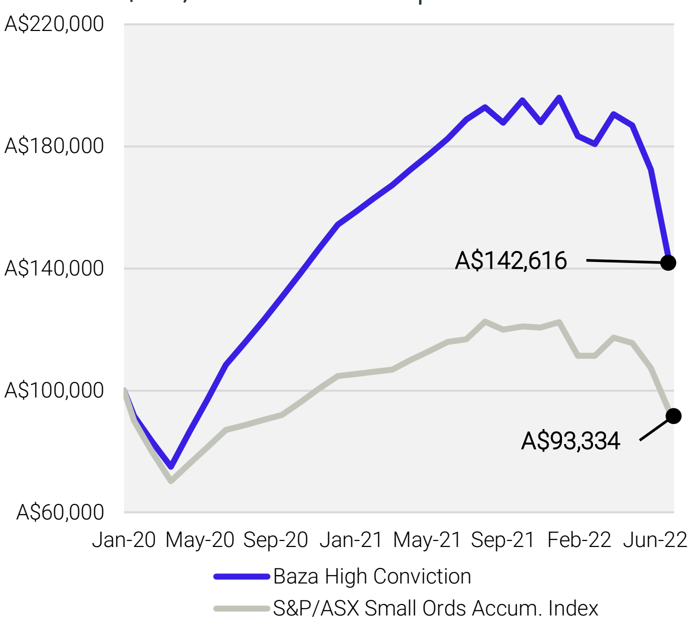
Unit price (pre fees, expenses & distribution)	0.8922
Fees & expenses for month	(0.0028)
Unit price post fees & expenses, pre distribution	0.8894
Distribution this month[4]	-
Unit price post distributions, fees & expenses	0.8894
Performance in month post fees & expenses	-17.2%
S&P/ASX Small Ords Accum. (Benchmark) perf.	-13.1%
Fund performance in month vs. Benchmark	-4.2%
Cash as at 30-Jun-22	8.1%

HISTORICAL RELATIVE PERFORMANCE

	Fund return[1,2]	S&P/ASX Small Ords Accum. Index	Fund out-performance
1 month	-17.2%	-13.1%	-4.2%
3 month	-25.2%	-20.4%	-4.8%
6 months	-27.2%	-23.7%	-3.5%
1 year	-21.8%	-19.5%	-2.3%
2 year	+31.7%	+7.2%	+24.4%
Since inception[3]	+42.6%	-6.7%	+49.3%
Since inception[3], annualised	+15.5%	-2.8%	+18.3%

HISTORICAL PERFORMANCE

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

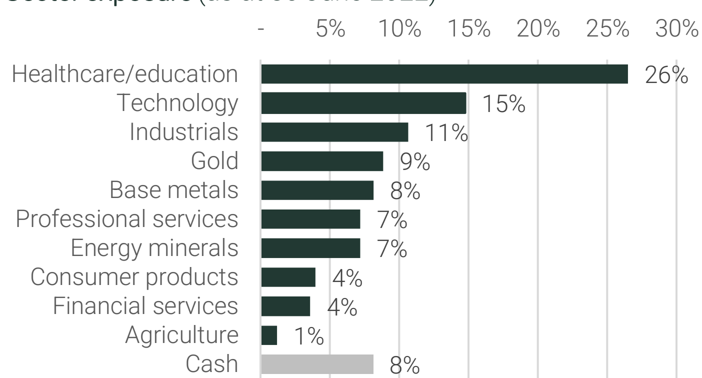


PORTFOLIO SNAPSHOT

Top 5 holdings (as at 30 June 2022)

1	Monash IVF	MVF	6.4%
2	Gale Pacific	GAP	5.4%
3	Mayfield Childcare	MFD	5.1%
4	Atturra	ATA	5.1%
5	Global Data Centre	GDC	4.9%

Sector exposure (as at 30 June 2022)



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
4 There will be no end of financial year distribution for FY22

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A difficult month, quarter and financial year for equities as a bear market emerged

The Fund returned -17.2% for the month, -25.2% for the quarter and -21.8% for the financial year. This compared to the S&P/ASX Small Ordinaries Accumulation Index (Benchmark) which returned -13.1%, -20.4% and -19.5% respectively. In the Jun-22 quarter there was a severe sell-down in equities, particularly those of smaller, emerging companies.

Global and Australian markets were rocked by the ongoing Ukraine/Russia conflict, China's COVID-driven economic slowdown, continued supply chain disruption, confirmation that inflation may remain high for some time, monetary tightening, and softening commodity prices. Small cap stocks particularly felt the impacts of general risk-off sentiment. While the Fund's defensive and mining exposures performed relatively well during the unwinding of the growth/tech stock trade from post Oct-21, share price falls in the last 3 months were broad-based and the Fund's constituent's share prices suffered commensurately. Commodity price decreases in June accentuated weakness in junior mining stocks.

Our thesis is that the Fund will ultimately benefit from a long term, fundamentals-based approach to investment, which we will not compromise. Hence, while we are not immune to the psychological wrenches of short-term volatility, we look to sustain a disciplined approach to blocking out the noise and maintaining a portfolio which will outperform in the medium to longer term. For example, 10 out of our top 12 holdings (~60% of FUM) are profitable and forecast to grow earnings per share (EPS) at an average of 21% in FY23. The average FY23 forecast price-to-earnings ratio (PER) for these investments is currently an unchallenging 10.7x (just one example of valuation metrics that we cover), and we have been adding to these profitable investments over the last quarter at depressed prices (more on this overleaf).

Since inception in January 2020, the S&P/ASX Small Ordinaries Accumulation Index (Benchmark) has returned -2.8% on an annualised basis, well below its average return since 1990 of c. +7%[1]. 2 of the 3 worst ASX-listed small-cap bear markets in over 30 years have occurred in the last 2.5 years. We do not know when the current pessimism will abate, but we retain the view that the long-term upward trend will return, it always has.

Further, it is often the case that share prices rebound rapidly after steep bear markets. The table below shows the 3, 6 and 12 month performances from the bottom of each >25% S&P 500 bear market since 1950. We use S&P 500 data as our Benchmark did not exist prior to 1990.

S&P crashes >25% and returns from lowest point

		Returns from lowest point		
Date	Lowest point	+3 months	+6 months	+12 months
Jun-70	-29%	+9%	+19%	+32%
Dec-74	-43%	+25%	+38%	+32%
Oct-87	-36%	+21%	+26%	+31%
Oct-02	-51%	+22%	+20%	+37%
Mar-09	-58%	+43%	+62%	+77%
Mar-20	-35%	+48%	+64%	+82%
Jun-22	-25%(?)	TBC	TBC	TBC

Our experience of managing the Fund through the sharp COVID disruption bear market confirmed that in such situations:

1. hold on to portfolio stalwarts;
2. add to portfolio stocks that reach attractive price levels in the sell-off while carefully factoring any structural shifts in fundamentals and prevailing external conditions;
3. cut any stocks where the thesis has been materially negatively impacted by structural shifts – better opportunities to deploy capital elsewhere; and
4. add a selection of new stocks to the portfolio – a rare chance to enter new investments at attractive prices.

Our healthy cash balance has supported our machinations in relation to these 4 points as pertains to the current bear market (further detail overleaf). Our 15.8% cash balance as at 31-Mar-22 was drawn down to 8.1% as at 30-Jun-22.

Our ASX-listed small-cap fund manager peers have also had a difficult FY22. While we are not comfortable with our FY22 performance on an absolute basis we do feel it is important to provide relativities for context. The Fund's returns were above our peer average for FY22 and the Jun-22 quarter[2]. Further, the Fund has achieved first quartile returns since inception (2.5 years) and over the last 2 years[2].

1 Calculated for as long as data has been generated for the S&P/ASX Small Ordinaries Index (since 31-Dec-1990)
2 25 ASX-listed small-cap fund manager peers included in analysis; we are happy to provide further detail – please let us know if of interest

1. Hold on to portfolio stalwarts

We carried out limited selling among our top 10 investments during the quarter, preferring to top-up opportunistically. These investments represent the culmination of extensive research, financial analysis, sector assessment, and meetings with Boards and management over an extended period. Ceteris paribus, our conviction should strengthen with lower prices. The Fund's top 10 investments now make up 5.5% more of the portfolio than they did at the end of the Mar-22 quarter.

2. Add to portfolio stocks that reach attractive price levels in the sell-off while carefully factoring any structural shifts in fundamentals and prevailing external conditions

Throughout the quarter we met with portfolio company management teams to check their management of supply chain issues, inflation and the risk of recession. A key concern was how readily they would be able to pass on cost increases, and whether revenue growth is slowing in the current macroeconomic environment. We then updated our valuation assumptions, financial modelling and investment cases. Where justified, we continued to add to some of our largest positions, including 7 out of our current top 10 holdings. The largest additional investments were made in Frontier Digital Ventures (FDV) and Gale Pacific (GAP).

Top 10 investments	Sector	Fund weight	Movement in June quarter	Inflation risk	Recession risk assessment
Monash IVF	Healthcare	6.4%	No change	Low	Low, government funding underwrites growth
Gale Pacific	Industrials	5.4%	Increased position	Moderate	Low, diversified and growing consumer base
Atturra	IT services	5.1%	Minor profit realisation	Low	Low, cybersecurity expenditure to increase
Mayfield Childcare	Childcare	5.1%	Minor profit realisation	Low	Low, government funding underwrites growth
Service Stream	Industrials	4.9%	Increased position	Low	Low, government spending underwrites growth
Global Data Centres	Real estate	4.9%	Increased position	Low	Low, push to cloud continues
Frontier Digital Ventures	Software	4.9%	Increased position	Low	Moderate, lower advertising revenue expected
Genetic Signatures	Healthcare	4.5%	Increased position	Low	Low, demand for healthcare is robust
Probiotec	Healthcare	3.9%	New position	Low	Low, demand for healthcare is robust
Money3	Financials	3.6%	Increased position	Moderate	Moderate, loan book and growth could be impacted

3. Cut any stocks where the thesis has been materially negatively impacted by structural shifts

We are monitoring several major structural shifts in the economy and geopolitics. High inflation, tighter monetary policy, difficult funding conditions (non-exhaustive) are all factors that could impact ASX-listed equity investment in the medium term. These structural shifts may outlast the current weakness in equities; hence we are comfortable to divest exposures if we think the longer-term thesis has been adversely impacted and/or the prices of other potential investments have become relatively attractive.

In 2021 we invested in DDH1 (DDH), a leading mining drilling operator. DDH is well managed with a decent industry reputation, it also traded at unchallenging valuation multiples. We expected that record fundraising levels in 2021 for mining exploration would support a strong 2-3 year operational runway for DDH. This has been playing out; however, staff shortages and cost inflation has impacted cash flow and profitability. Further, the funding environment for junior miners has softened and DDH's pipeline may not be as robust 2023/24+. We divested DDH during the quarter and re-deployed proceeds.

4. Add a selection of new stocks to the portfolio – a rare chance to enter new investments at attractive prices

The team has been working with great fervour to identify new opportunities, recognising that bear markets can provide attractive entry prices into outstanding companies. We met with 55 companies during the quarter, including 27 in June alone. The Fund has added cash flow generating businesses with strong growth prospects such as Probiotec (PBP), Capitol Health (CAJ), Symbio (SYM) and Kogan (KGN).

We are conscious that not all unitholders have experienced the strong returns that the Fund has achieved since inception. Indeed, some are currently experiencing drawdowns on their investment of up to ~25%. We are far from comfortable with this, and neither are we comfortable with the FY22 returns of the Fund. The commentary and analysis in this report does not set out to disavow the Fund's FY22 performance, but to point out the context in which those negative returns have been achieved. As Baza Capital founders, fellow unitholders, and appreciative recipients of your support, we have a steely determination to generate attractive medium to longer term appreciation on an absolute basis, as well as relative outperformance, for all unitholders.

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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.

Disclaimer: This report has been prepared by Baza High Conviction Pty Ltd ACN 637 476 423 and as the fund manager of the Baza High Conviction Fund ABN 75 493 908 548. True Oak Investments Ltd ACN 002 558 956 AFSL 238 184 acts as the trustee of the Fund. The Trustee has authorised Baza Capital under its Australian Financial Services Licence (Authorised Representative No. 001288970) to provide general advice and deal in the investments of the Fund. The Fund is an unregistered managed investment scheme. This document contains information about the performance of the Fund and is intended only for investors that are wholesale clients as defined in s761G of the Corporations Act 2001 (Cth). It is not intended to be used by any other persons in any other jurisdiction if and to the extent that to do so would be in breach of Australian laws, or the laws of any foreign jurisdiction. This report contains general information only and is not intended to provide any person with financial advice. It does not take into account any person's (or class of persons) investment objectives, financial situation or particular needs, and should not be used as the basis for making an investment in the Fund. Neither Baza Capital nor True Oak Investments make any representation as to the accuracy, completeness, relevance or suitability of the information, conclusions, recommendations or opinions contained in this report (including, but not limited to any forecasts made). No liability is accepted by any of these entities or their respective directors, officers, employees, agents or advisors for any such information, conclusions, recommendations or opinions to the fullest extent possible under applicable laws. This publication may contain forward looking statements regarding our intent, belief or current expectations with respect to market conditions. Readers are cautioned not to place undue reliance on these forward-looking statements. The Investment Manager does not undertake any obligation to revise any forward-looking statements to reflect events and circumstances after the date of this publication. Neither Baza Capital nor True Oak Investments guarantee the repayment of capital, the performance of any investment or the rate of return for the Fund. Past performance is not necessarily indicative of future performance. This document is not an Information Memorandum for the purposes of the Act. Accordingly, it does not purport to contain all information that potential investors may need to make an informed assessment as to whether or not to invest in the Fund. Numerical figures in this publication have been subject to rounding.
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