

Letter to Unitholders – Update on Fund Performance

Dear Investors,

In light of the significant volatility experienced across global capital markets, it is of great importance to us that our Regal Investment Fund (RF1) investors are kept updated of fund performance and how the team are navigating current market conditions.

As most investors would be acutely aware, recent market movements across global equities, bonds, commodities and corporate credit markets has been largely unprecedented. The combination of a rapidly spreading global virus pandemic, aggressive global economic shutdown and a significant crude oil price shock resulted in capital markets across all regions engaging in an aggressive period of price discovery.

March saw the first time since 1929 that the American share market experienced daily moves greater than 4% on every day of a trading week. On the ASX, six of the top 20 worst daily percentage declines in the last forty years are now attributed to March 2020 (contributing the same amount of days to the tally as the entirety of 2008). In the US, the CBOE Volatility Index “fear gauge” reached a new all-time high during the month, eclipsing its previous high-water mark reached during the height of the Global Financial Crisis. Quite incredibly, the price of one barrel of West Texas Crude oil is lower today than it was 20 years ago.

The staggering retracement in economic activity levels and subsequent rise in global unemployment rates has been equally extraordinary, fuelled by widespread government shutdowns and mass employee redundancies, furloughs and lay-offs. The world’s largest economy, the United States, created 22 million new jobs from the end of the 2009 recession and will shortly (using Deutsche Bank forecasts for initial jobless claims at the end of this week) report a loss of 25 million jobs over the last month alone. A decade of US job gains have essentially evaporated in under four weeks.

While not intended to be a mea culpa by any means, one might propose that some degree of perspective is warranted when reviewing investment returns over the immediate short term. As reported in our weekly NAV updates released to the ASX through the month of March, the underlying investment strategies that comprise the Regal Investment Fund experienced a very challenging period of performance over the month. As a result, the Fund experienced a decline in NAV of -22.97% for March.

Understandably, this is an obviously disappointing outcome for us – both as managers of your capital and as personal investors ourselves within the Fund. As a general comment on our performance, it is obvious that the wider market – including ourselves – greatly underestimated the initial speed and scale in which the COVID-19 pandemic would take hold and the impact this would have on asset prices globally. While we had positioned portfolios to expect some degree of impact across China-facing businesses and companies overly reliant on Asia-based supply chains, we didn't anticipate the virus to ultimately serve as the underlying catalyst for such a significant re-pricing of risk globally.

Given this initial view, the majority of the investment strategies comprising the Regal Investment Fund entered the March sell-off carrying relatively elevated levels of net exposure to the market and a tilt toward more growth-focused smaller and mid-cap companies. While these exposures have subsequently been aggressively repositioned to better reflect the current market environment, the initial positioning of the Fund coming into March impacted our performance in the immediate short term. While still early days in the current market cycle, we have been pleased to see a subsequent increase in NAV for April month to date.

It is important to note that while we are immensely proud of the long history and strong track record developed over the last 16 years of managing client capital at Regal, we don't get every call right and there will inevitably be periods of underperformance. I have always considered the opportunity to manage capital on behalf of others as an extreme privilege, albeit it never is an easy one. We certainly appreciate the recent performance of the Fund will be frustrating for unitholders, however given Regal staff, founders and associated entities represent ~14% of the issued capital RF1, I can assure investors that we share this frustration.

This isn't the first period of significant market dislocation that the Regal team have navigated and we remain highly motivated to provide strong performance for our newest investors that have joined us in the Regal Investment Fund.

While the investment team remains focused on managing the portfolios, we also want investors to be aware of measures that are being undertaken in RF1 more broadly:

- The Fund's Responsible Entity, Equity Trustees, continues to be active in the market each day with its **buyback program**. While the buyback provides some price support by providing additional daily liquidity in the market each day, given the current unit price of 16 April trades at a ~10% discount to NAV, it is also highly accretive for existing unitholders. Since the IPO of the Fund in July 2019 through to 16 April 2020, a total of \$8.85m of units have been purchased on market and there is still the capacity to purchase an addition 7.6m units under the current buyback program;
 - Given recommendations from health authorities regarding gatherings of people, we will be organising a '**virtual investor update**' **toward the end of April** to provide investors with an update on portfolio positioning and overall market commentary. These will take the form of webinars affording all investors the opportunity for an update from the portfolio management team.
- We look forward to providing details shortly.**

Finally, we do take some comfort that, during periods of severe market distress, the structure of closed-ended investment vehicles will provide benefits for investors with a longer term mindset. Where open-ended unit trust structures often need to navigate the additional pressures of meeting investor redemption requests during periods of market weakness, the closed-ended structure of a listed investment trust ensures the underlying capital pool remains relatively stable. This essentially insulates the vehicle from having to sell assets cheaply to fund redemption requests (penalising existing unitholders) and provides investment managers with the ability to deploy capital into the market when valuations are the most attractive.

Again, we appreciate that recent fund performance has been disappointing. Such acute moves are often difficult to navigate and our positioning leading into the sell-off has resulted in a less than optimal outcome in the short term. However, we feel the track record of the business, strength of the investment team and diversity of strategies should provide investors with a vehicle that will navigate the current crisis well and give investors exposure to the recovery. We are seeing terrific opportunities across the market and look forward to providing a detailed update on these in the coming weeks.

Above all else, please stay safe and well. Thank you for your patience, support and opportunity to manage your capital alongside our own.

Best regards,

A handwritten signature in black ink, appearing to read "Philip King".

Philip King

Chief Investment Officer
Regal Funds Management