FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | DECEMBER 2020

PERFORMANCE (AFTER FEES)

	Month	Quarter	6 Months	1 Year	Fund incept (pa)[2]	3 Years (pa)	5 Years (pa)	7 Years (pa)	10 Years (pa)	Strategy incept (pa)[4]
Fund[1]	2.50%	19.17%	19.66%	3.45%	4.32%	-	-	-	-	-
Strategy composite[3]	2.50%	19.17%	19.66%	3.45%	-	6.19%	11.52%	11.22%	9.70%	9.52%
Benchmark	1.21%	13.70%	13.20%	1.40%	7.59%	9.18%	9.98%	7.81%	8.25%	6.90%
Excess Return	+1.29%	+5.47%	+6.46%	+2.05%	-3.28%	-2.99%	+1.54%	+3.41%	+1.45%	+2.61%

ABOUT FIRETRAIL

Firetrail is an investment management boutique which is majority owned by the Firetrail investment team. Additionally, the investment team is invested alongside clients in the investment strategies.

AUSTRALIAN HIGH CONVICTION FUND

The Australian High Conviction Fund ("Fund") is a concentrated portfolio (approx. 25 companies) of our most compelling equity ideas. The strategy is built on fundamental, deep dive research guided by the philosophy that 'every company has a price'.

INVESTMENT OBJECTIVE

The Fund aims to outperform the ASX200 Accumulation Index over the medium to long term.

PORTFOLIO POSITIONING 31 DECEMBER 2020

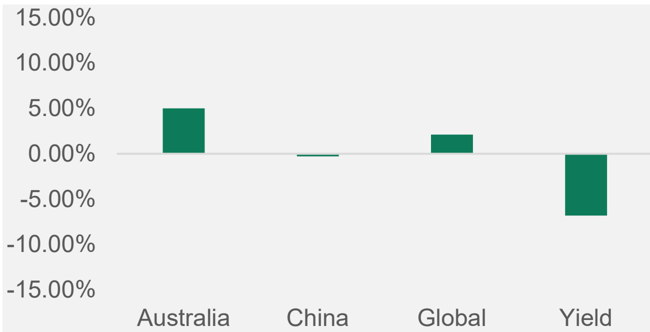
Top 3 Overweight Holdings (Alphabetical)
Newcrest Mining Ltd
OZ Minerals Ltd
Qantas Airways Ltd

FUND DETAILS

Unit Prices	31 December 2020
Application price	$ 1.0877
Redemption Price	$ 1.0823
NAV Price	$ 1.0850
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Number of Holdings	28
Fund size	$437mil

THEMATIC POSITIONING 31 DECEMBER 2020

Relative to the Benchmark



Past performance is not a reliable indicator of future performance.

1. Firetrail Australian High Conviction Fund ('Fund'). Net Fund returns are calculated based on exit price with distributions reinvested, after ongoing fees and expenses but excluding taxation. 2. Fund inception is 14 March 2018. 3. The Fund has been operating since 14 March 2018. To give a longer-term view of our performance for this asset class, we have also shown returns for the Firetrail Australian High Conviction Strategy Composite ('Strategy') which has been operating since 29 November 2005. Strategy performance has been calculated using the monthly returns (after fees) of the Fund from 14 March 2018 to current date, as well as the monthly returns of the Macquarie High Conviction Fund (after fees) between 29 November 2005 to 23 November 2017. The Fund employs the same strategy as was used by the same investment team that managed the Macquarie High Conviction Fund as at 23 November 2017. Firetrail has records that document and support the performance achieved as the Macquarie High Conviction Fund. The composite returns for the Strategy and the S&P/ASX 200 Accumulation Index (Benchmark) exclude returns between 24 November 2017 and 13 March 2018. During this period the investment team did not manage the Strategy. As such, the annualised performance periods stated are inclusive of the combined composite monthly returns, and do not include the period when the team were not managing the Strategy. For example, the annualised return over 3 years for the Strategy and benchmark are inclusive of 36 monthly performance periods available in the composite return period, excluding the period between 23 November 2017 and 13 March 2018. For additional information regarding the performance please contact us through the link on our website. Net Fund returns are in AUD terms. Net Fund returns are calculated based on exit price with distributions reinvested, after ongoing fees and expenses but excluding taxation. Past performance is for illustrative purposes only and is not indicative of future performance. 4. Strategy inception 29 November 2005.

PORTFOLIO COMMENTARY

The Fund returned 2.50% for the month ending 31 December 2020, outperforming the ASX200 Accumulation index by 1.29%.

CONTRIBUTORS TO RETURNS

Positive contributors included Oz Minerals, Nuix and Seek. Negative contributors included Qantas, Newcrest and no exposure to iron ore stocks that rose (BHP, RIO, FMG).

COMPANY & INDUSTRY NEWS

The team got back out on the road in early December, travelling interstate. Although as borders shut again in late December and early January, a full return to domestic travel for the Firetrail team may need to wait a bit longer.

In their December trading update, Qantas announced that domestic capacity was at 68% of pre-COVID levels during the month of December. Looking forward to the March quarter, Qantas was expecting 80%, although that will be too optimistic given the current border situation. During December, Leisure was back at pre-COVID levels, whilst Business was at around 30-40%. Until an effective vaccine is rolled out, there will be continued risk and disruption of borders opening and closing. Qantas also announced continued focus on lowering their costs by outsourcing all ground handling, saving $100m per year. Qantas are definitely taking advantage of the crisis by reducing costs and systematically changing the way they do business. It is entirely reasonable to expect that Qantas will be able to deliver record profits in the years ahead driven by a more rational domestic aviation market and a growing frequent flyer loyalty business.

Cyclical stocks held up reasonably well versus the increasing global COVID cases because there is increasing evidence that people are willing to travel, be social, and get back to normal as restrictions are eased. A vaccination will be critical to easing restrictions.

Newcrest

We physically visited the Newcrest Cadia mine in Orange, NSW, this month. Cadia is Newcrest's most profitable mine. In FY20, Cadia produced 843,000 ounces of gold at a cost of $160/oz vs the current gold price of around $1,900/oz. It was an impressive operation, and the key takeaway was just how much innovation is going on. It is hard to innovate as a large miner. If you innovate too much, you can begin to make mistakes, reducing production volumes that in turn will cost shareholders cashflow. However, there are significant benefits of innovating, including:

1. Extending mine life and increasing cashflow as the ore gets deeper
2. Seeing opportunities in mining operations that others cannot
    a. A prime example for Newcrest was the purchase of the underperforming Red Chris mine in Canada. Today, it is a high-cost open pit operation. In the future, it has the real potential to be a 'Cadia like' block cave. Newcrest has carved out a serious expertise in block caving technology. As we travelled 1.5km below surface, we marvelled at the technology.

Today Newcrest is a '2 trick pony' with Cadia and Lihir making up >90% of cashflow. Over the next few years, we believe there is enough in the Newcrest pipeline to make it a 4 or 5 trick pony, by adding in long-life low-cost operations in Red Chris (Canada), Haverion (Australia) and potentially Wafi Golpu (PNG). At the same time, Newcrest is well positioned in the Fruta del Norte mine (Ecuador) where they own 30% effective interest as well as a number of credit instruments that were purchased early in 2020.

If you are interested, you can see more on the Cadia mine here: watch YouTube video

Nufarm

Nufarm delivered a result that showed promise across the board. Clearly Australian operations have improved materially. But even the European operations look to have stabilised and are set for a strong rebound in FY21. Revenue for the four months to November rose 37%, led by Europe which rose 66%. It is a small time period, and investors were warned not to extrapolate. While no profit targets were given, the company highlighted lower COGs, operating leverage, and cost out as profit drivers. The Omega-3 business continues to commercialise with more and more customers taking up the product and a lot more runway to go.

And finally, a Brexit deal was done! There are always more details to be worked out but avoiding a no-deal Brexit removes a key downside risk for Virgin Money UK.

PORTFOLIO CHANGES

The key new addition to the strategy included adding Nuix to the portfolio. Nuix listed in December. The team conducted significant due diligence on Nuix including multiple management meetings as well as over 15 expert calls including clients and competitors.

What do Nuix do?

Nuix specialise in transforming massive amounts of messy data—from emails, social media, communications, and other human-generated content—into searchable, contextualized information. Nuix is a B2B business with customers including legal firms, Governments, and corporations.

Nuix is famous for their role in sifting through 11.5 million leaked electronic files in the Panama Papers, which lifted the lid of tax havens and shadow corporations. The end result of the investigation was an estimated recovery of $1.5 billion in back taxes and fines. The Panama Papers highlights that there is a clear trend of bad behaviour moving from the physical world to the digital setting and Nuix is one of the best ways to play that.

The business is split into four key areas:

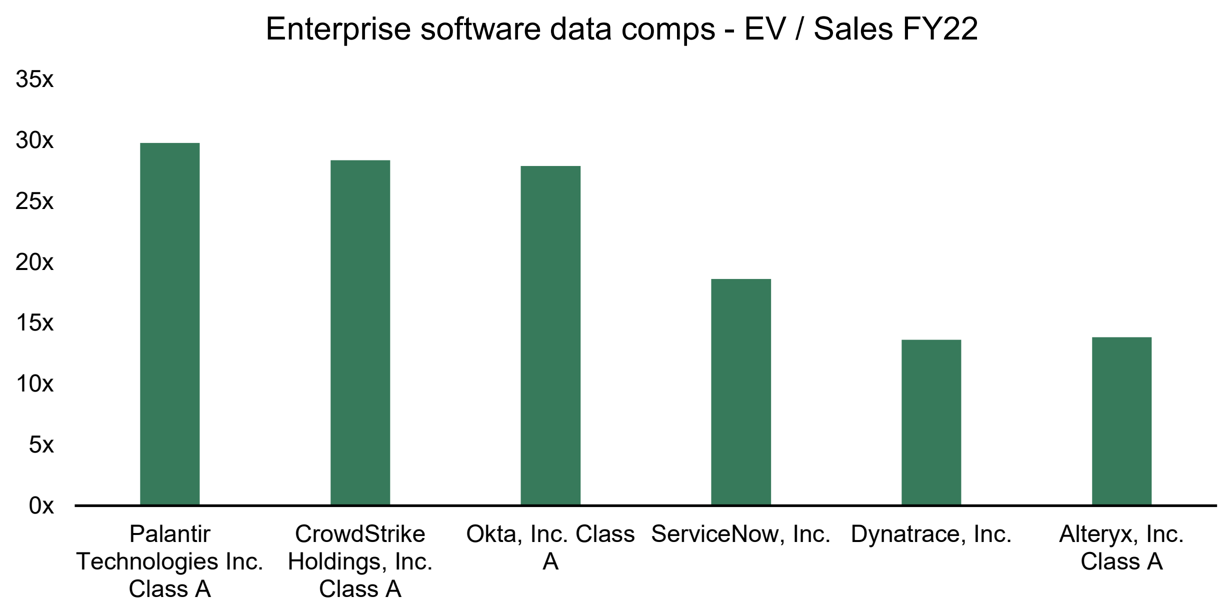
1. Workstation – forensic level analysis of large data sets
2. Discover – eDiscovery where legal firms upload case data to a system and allow fast searching of emails and other data
3. End Point – cyber security including key stroke logging of employees and proactive threat management
4. Investigate – targeting corporates, law enforcement and private investigators who are looking to find illegal / prohibited activity. Includes image analysis.

The conclusion from our research is that Nuix has the best back end processing capability in the market and their position is difficult, if not impossible, to replicate.

Nuix has 90% SaaS style revenue and very high gross margin demonstrating it is a true data and platform business. We believe the business is likely to grow the top line at around 20% for the next few years. The business is profitable and self-funding which differentiates its proposition to many hopefuls today.

On valuation, at the current price of $8.25, the stock is trading on 12x EV / Sales for the FY21 year

a. The 12x compares very favourably to the below competitor set which trades between 14x-30x EV / FY21 sales
b. The competitor set are **global** software providers
c. We have also undertaken DCFs which support our valuation



Source: Firetrail, Factset

2020 IN REVIEW

2020 was a reasonable year in the end for Firetrail investors. Unfortunately, we came into COVID poorly positioned with a cyclical bias, and Qantas as one of our largest positions. The first few months saw material underperformance. While the world was panicking and the behavioural bias was to be conservative and buy supermarkets, we chose to go the other way. That meant that strong positive absolute and relative returns were generated post COVID.

In the middle of COVID, around March, we turned over a significant part of the portfolio to increase weightings in stocks we thought had material upside in *most* scenarios. The buying included:

1. market leaders that were severely impacted by COVID. Companies like Qantas and Aristocrat.
2. growth stocks that would get a sustained benefit from COVID like Next DC and Xero
3. oversold cyclical stocks like Virgin Money UK and Oil Search
4. discounted capital raisings across the board

If 2020 was a sports league, the tagline would be 'where amazing happens'. We have lost count of the number of times that we have been left stunned by events and reactions this year. The most remarkable thing has been the collapse in volatility in the December half. While 2020 will be known for COVID, it will also be well known for Government intervention at an unbelievable scale across mobility, monetary and fiscal policy.

The best contributor to the strategy was copper producer Oz Minerals. The copper price rose sharply as OZL ramped up the Carrapateena mine seamlessly, achieving 4.25mtpa during November. Other winners included CSL (moving from overweight to no holding), Evolution, Xero, Bluescope and SEEK.

On the negative side was owned stocks like Newcrest, Downer and Qantas. Although thanks to increasing our weighting at low prices, Qantas wasn't even a top five detractor. Stocks we didn't own also detracted including Fortescue and Afterpay.

We also made some mistakes and moved on. Treasury Wine was turning around, but the China tariffs announced in the back end of the year were much larger than we even thought, and we exited the position at a loss of around 50bps to the strategy. Australia / China relations can get back on track, but it is unlikely to see a material re-rating until that happens.

We also exited long term portfolio holding Worley progressively during the COVID rebound. ESG and conscious capital mean that the energy investment cycle is unlikely to rebound quickly, meaning we believe we are better to allocate more capital to long life energy producers like Oil Search as supply rationalisation and flattish demand is likely to lead to higher prices.

We kept looking for new ideas. During the latter part of the year, we added some stocks in the financials space like Challenger and IAG. Our research program remains as intense as always as we continue to scour the market to make sure we own the right stocks.

The one thing we know from our collective investing experience is that investing is a game of emotions. And when the market panics, there can be great opportunities, particularly at a stock level. We don't get them all right, but over 15 years, we know we get more right than wrong. We would like to thank our investors who back us to invest using the philosophy of 'every company has a price' where we consider the future on a three-year horizon. It means that sometimes we will invest in 'uncomfortable opportunities' that are contrarian. Having supportive investors gives us the confidence to take risks that others can't or won't, driving higher returns through the cycle.

PORTFOLIO POSITIONING

The portfolio position is consistent with the changes we made during March 2020, where we moved more cyclically exposed.

- Overweight gold and base metals – Newcrest, Oz Minerals, Lynas
- Overweight reopening trades where the competitive dynamic has improved – Qantas, SEEK, Aristocrat Leisure
- Overweight select defensive businesses – Telstra, Amcor
- Overweight select growth businesses – Resmed, NUIX, NextDC
- Underweight expensive defensives, Short Term COVID beneficiaries and Australian banks

In terms of portfolio setting, as at year end:

- Beta 1.03
- >50% of the portfolio risk is stock specific rather than factor or thematic
    - That means we are investing into our best stock ideas while managing the big thematic risks
- Underweight mega caps

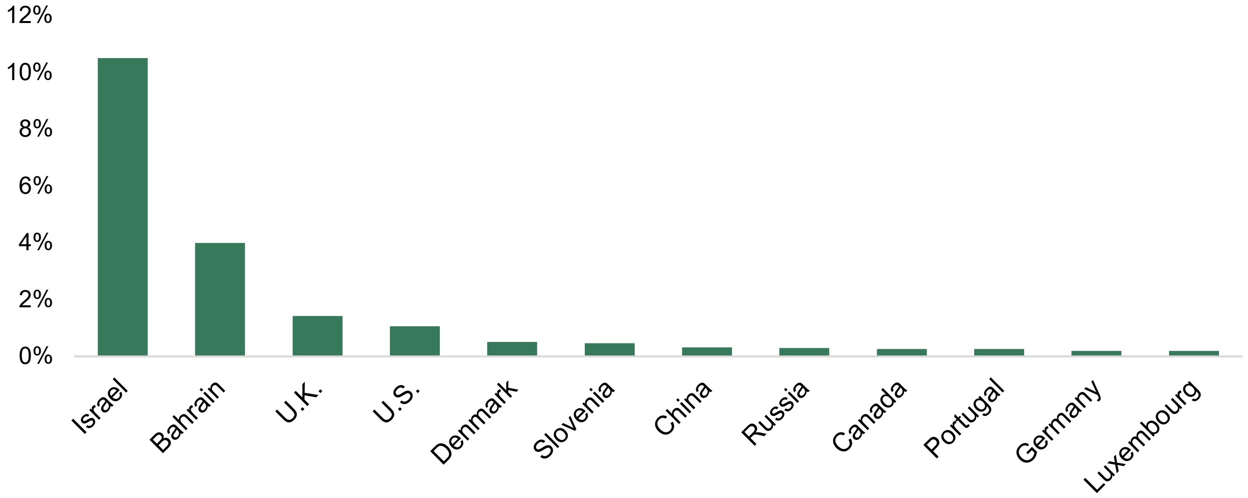
ONE INTERESTING THING THAT HAPPENED THIS MONTH…

The pace at which the vaccine is trying the be rolled out is impressive. It is a huge logistical challenge, but one that is critical to getting back to normal, and so you would not bet against the World.

The pace of current vaccination varies wildly. While Australia is yet to vaccinate anyone for COVID, Israel is vaccinating 1% of the population each day and more than 10% of the population has already received a dose.

According to Bloomberg, as of January 2, 2021, 10.8 million doses in 29 countries have been administered. 3.5 million of those doses were given in the US. The global leader in number is China with 4.5 million doses.

Vaccine doses administered as % of population *(as at 2 January 2021)*



MORE INFORMATION

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Firetrail INVESTMENTS