

## FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | APRIL 2021

### PERFORMANCE (AFTER FEES)

	Month	Quarter	6 Months	1 Year	3 Years p.a.	Fund inception p.a. <sup>2</sup>	5 Years p.a.	Strategy inception p.a. <sup>4</sup>
Fund <sup>1</sup>	0.86%	6.31%	15.08%	28.42%	9.57%	9.41%	-	-
Strategy composite <sup>3</sup>	0.86%	6.31%	15.08%	28.42%	9.57%	-	10.18%	14.48%
Benchmark	0.01%	0.02%	0.05%	0.18%	0.84%	0.87%	1.13%	1.22%
Excess Return	<b>+0.85%</b>	<b>+6.28%</b>	<b>+15.03%</b>	<b>+28.25%</b>	<b>+8.72%</b>	<b>+8.54%</b>	<b>+9.05%</b>	<b>+13.26%</b>

### 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.

### ABSOLUTE RETURN FUND

The Absolute Return Fund ("Fund") is a market neutral strategy with minimal correlation to equity market direction. It aims to generate positive returns in all market environments. 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 RBA Cash Rate over the medium to long term.

### PORTFOLIO POSITIONING

#### 30 APRIL 2021

Top 3 Overweight Holdings (Alphabetical)
Newcrest Mining Ltd
Crown Resorts Ltd
OZ Minerals Ltd

### FUND DETAILS

Unit Prices	30 April 2021
Application price	\$ 1.3259
Redemption Price	\$ 1.3166
NAV Price	\$ 1.3212
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception date	14 March 2018
Fund size	\$334mil
Management fee*	1.50% p.a.
Performance fee*	20% of outperformance above an annual Hurdle

\*Please read the Product Disclosure Statement for more details.

### FUND EXPOSURE AT 30 APRIL 2021

	Portfolio Exposure
Long Equity	180.0%
Short Equity	(177.7%)
Net Equity Exposure	2.3%

Past performance is not a reliable indicator of future performance.

1. Firetrail Absolute Return 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 Absolute Return Strategy Composite ('Strategy') which has been operating since 30 June 2015. 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 Pure Alpha Fund (after fees) between 30 June 2015 to 23 November 2017. The Fund employs the same strategy as was used by the same investment team that managed the Macquarie Pure Alpha Fund as at 23 November 2017. Firetrail has records that document and support the performance achieved as the Macquarie Pure Alpha Fund. The composite returns for the Strategy and the RBA Cash Rate (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 30 June 2015.

## PORTFOLIO COMMENTARY

The Firetrail Absolute Return fund returned 0.86% for the month of April, outperforming the RBA Cash Rate benchmark by 0.85%. Positive contributors to performance included long positions in Independence, Airtasker, and Megaport. Detractors included an overweight position in Lynas, Challenger and Incitec.

## WHAT'S DRIVING MARKETS?

It was another solid month for the Australian equity market with the S&P200 benchmark adding 3.5% through April, building on the gains seen in the March quarter. Bond yields reversed course after rising sharply through the first three months of the year, alleviating some of the recent pressure on rate sensitive sectors such as technology. As such, Information Technology was the best performing sector up 9.7% through April. A weaker US dollar also buoyed commodities, with broad based strength across most indexes, building on the gains seen as part of the vaccine led recovery trade over the past year. Iron ore was the standout rising 15%. This saw BHP, Fortescue and Rio Tinto as major contributors to the index's performance last month.

### Portfolio changes

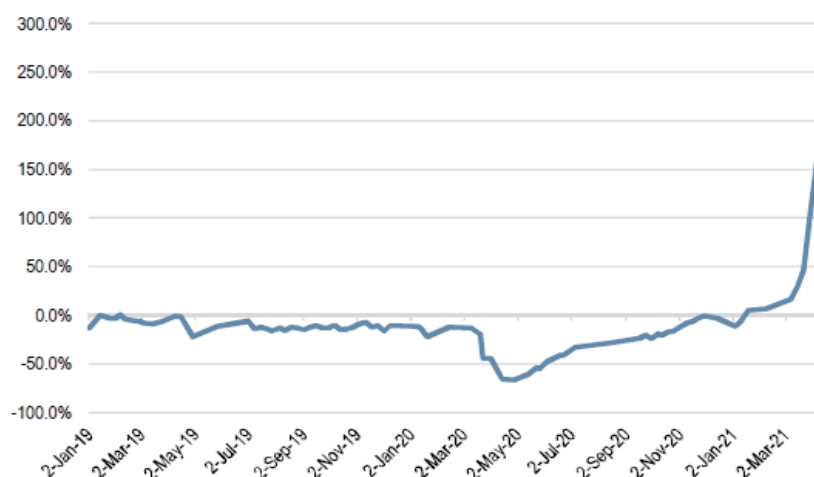
The Portfolio is currently slightly tilted towards value or cyclically exposed names. We continue to hold key positions in growth names such as Xero, SEEK, Megaport, and Fineos, which have large applicable market opportunities and secular long-term tailwinds. This is balanced by our cyclically exposed names, such as Qantas, Bluescope Steel, GWA Group and Incitec Pivot, which should benefit from rising bond yields, as well as our overweight holding in Gold.

Our thematic positioning was broadly unchanged last month, however we did reduce our holdings in a number of commodity driven names after strong recent outperformance. These included IGO, Bluescope Steel, and Lynas.

We also added a few domestically orientated names, which we believe stand to benefit from cyclical recovery, while maintaining strong pricing power despite a rising cost inflation backdrop. These comprised:

1. **SEEK** – We added to our position in the name following continued strength in local labour employment data. SEEK ANZ job adds have recovered to multi-year highs, while average applicants per job ad has declined to the lowest level since 2012. We believe the latter provides pricing and yield support and therefore significant margin expansion that consensus is not yet incorporating in estimates.

Figure 1. Seek listings YTD (% Chg. Y/Y)



Source: Seek, J.P. Morgan Calculations.

2. **Ampol** – We initiated a new position in Ampol through April. We believe the outlook remains favourable for the business over the near term following a multi-year downgrade cycle. Our thesis is based on Ampol benefiting from a continued re-opening of the economy through its Fuels and Infrastructure division, ongoing rational retail fuel margin backdrop given the stronger economic environment, and a favourable outcome with regards to refining (shutdown or significant incentives that will reduce earnings volatility). Subsequently, Ampol reported a solid March quarter update, which was broad based and has seen consensus earnings upgrades.

## PORTFOLIO CONTRIBUTORS

The performance through April was primarily driven by our **Additional Small Companies** and **Short book**. Key contributors last month included:

1. **IGO** – was up strongly during April following the sale of its 30% share of the Tropicana gold mine to Regis Resources for c.\$900m. The final price was above market expectation, however more importantly it means IGO is well capitalised to focus on growing its battery materials exposure over time.
2. **Airtasker** – The stock was up again through April, following a solid IPO debut in March, after it upgraded FY21 prospectus guidance for both revenue and earnings. Business performance in the March quarter was solid which pleasingly also helped underpin positive cash flows from operations through Q3FY21.
3. **Newcrest** – benefited from a 5% rally in the gold price through April, which came after multiple consecutive months of declines. Newcrest also reported a solid March quarter result, slightly beating expectations on production and costs, suggesting it remains firmly on track to deliver FY21 guidance.
4. **Short holdings** – continue to do well on both the Fundamental Short side as well as our Risk Shorts. Our fundamental shorts on a number of retail names were key drivers in the month.

**Portfolio Detractors** through April included the following with disappointing updates:

1. **Challenger** – Provided a trading update saying underlying FY21 net profit is expected to be at the bottom end of the \$390-440m guidance range provided in February. The update was below market expectations, with the key driver being weaker margins in the 2H21 which will be 30-40bps below previous guidance. Most of this was due to a contraction in credit spreads and mix impact from higher institutional flows. The impact of which also led to FY22 consensus downgrades.
2. **Lynas** – The stock underperformed despite a broad-based rally in commodities. The main driver of the stock trading lower we believe is the decision by China to lift production quotas for rare earths (NdPr) in response to recent record prices, which have more than doubled over the last 9-months.

## ONE INTERESTING THING THAT HAPPENED

**Watch out for the inflation bear** – We have written about the increasing prospect of inflationary pressures returning alongside a post-Covid global economic recovery numerous times in this report over the past several months. Those pressures continued to build through April, particularly for key raw material inputs. We are seeing multi-year and even record pricing for some commodities impacting the end cost of many products. These include things like steel, timber, grains, freight and resins.

This is being driven by strong demand as confidence of a post Covid vaccine led recovery builds, and significant supply side pressures continue to disrupt key supply chains globally. In the US, Q1 earnings calls including inflation chat had the biggest increase since one broker started tracking this in 2004.

**Figure 2. YoY change in S&P 500 companies' mentions of "inflation" on earnings calls vs. CPI YoY (2003 – present)**



Source: BofA Global Research, Bloomberg

We are cautious on the implications of significant cost increases on the margin outlook for some industrial and consumer companies. As a result, we are increasing our preference towards names with dominant market positions and pricing power that will help weather cost impacts from these inflationary pressures as we continue to move through the current cycle.

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General enquiries 1300 010 311

Existing client enquiries 1300 360 306

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