

# FIRETRAIL AUSTRALIAN HIGH CONVICTION 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.	7 Years p.a.	10 Years p.a.	Strategy inception p.a. <sup>4</sup>
Fund <sup>1</sup>	2.28%	8.85%	27.25%	37.78%	6.63%	6.81%	-	-	-	-
Strategy composite <sup>3</sup>	2.28%	8.85%	27.25%	37.78%	6.63%	-	11.75%	12.25%	10.00%	9.94%
Benchmark	3.47%	7.54%	20.33%	30.76%	9.50%	9.39%	11.52%	8.94%	8.59%	7.28%
Excess Return	<b>-1.19%</b>	<b>+1.31%</b>	<b>+6.91%</b>	<b>+7.02%</b>	<b>-2.87%</b>	<b>-2.57%</b>	<b>+0.23%</b>	<b>+3.31%</b>	<b>+1.41%</b>	<b>+2.65%</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.

## 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

30 APRIL 2021

### Top 3 Overweight Holdings (Alphabetical)

Newcrest Mining Ltd

OZ Minerals Ltd

Virgin Money UK PLC

## FUND DETAILS

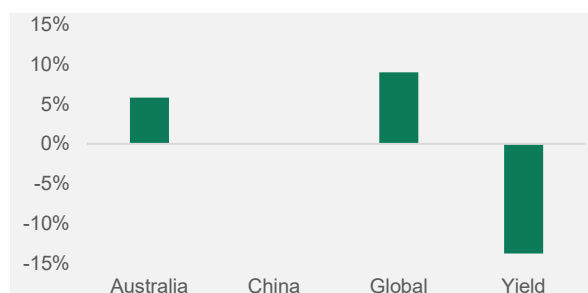
Unit Prices	30 April 2021
Application price	\$ 1.1766
Redemption Price	\$ 1.1731
NAV Price	\$ 1.1749
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Number of Holdings	30
Fund size	\$496mil
Management fee*	0.90% p.a.
Performance fee*	15% of outperformance above an annual Hurdle

\*Please read the Product Disclosure Statement for more details

## THEMATIC POSITIONING

30 APRIL 2021

Relative to the Benchmark



Past performance is not a reliable indicator of future performance.

1. Firetrail Australian High Conviction Fund ("Fund"). Gross 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 (before 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. Gross Fund returns are in AUD terms. Gross Fund returns are calculated based on exit price with distributions reinvested, before 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 2.28% for the month ending 30 April 2021, underperforming the ASX200 Accumulation index by 1.19%.

## CONTRIBUTORS TO RETURNS

Positive contributors included Bluescope, Newcrest and Seek. Negative contributors included Challenger, Lynas and Oil Search. We discuss each further in our commentary below.

## COMPANY & INDUSTRY NEWS

### POSITIVE CONTRIBUTORS:

#### Bluescope

2H21 EBIT guidance was upgraded by 32% due to higher US steel spreads. While spreads remain above mid-cycle levels, we believe supply side discipline will continue throughout 2021, supporting BSL's medium-term outlook.

#### Newcrest

Newcrest reported a solid quarterly and reiterated FY21 guidance. The release of the pre-feasibility study findings for the Lihir Phase 14A project, which will increase production over FY23-25, remains on track for before the end of June.

#### Seek

The strong recovery in Australian job ads continued, with Seek ads in March up 10% on February. We expect continued favourable mix towards SMEs and roll-through of price increases will drive further revenue momentum for Seek in 2H21.

### NEGATIVE CONTRIBUTORS:

#### Challenger

Alongside 3Q21 sales, Challenger revised profit guidance to the bottom end of its FY21 range. This was attributed to not fully reflecting the sharp reduction in investment returns in annuity pricing during late 2020, which also has negative implications for FY22 profitability. On the positive side pricing has now been adjusted and sales trends indicate annuities continue to gain traction in both retail and institutional channels.

#### Lynas

Lynas reported an in-line result, but underperformed the market following increased focus on the ramp up in China production. We do not think this is new news, but nevertheless highlights that the significant demand outlook for rare earths will elicit a supply response. In our view medium-term supply/demand dynamics remain favourable.

#### Oil Search

Despite a short unplanned outage, Oil Search reported solid production for the March quarter. OPECs announced ~1m barrel per day production increase over Apr-Jun put some pressure on the oil price, but in our view the demand outlook can support OPEC returning to pre-COVID production levels by the end of CY21.

## PORTFOLIO POSITIONING

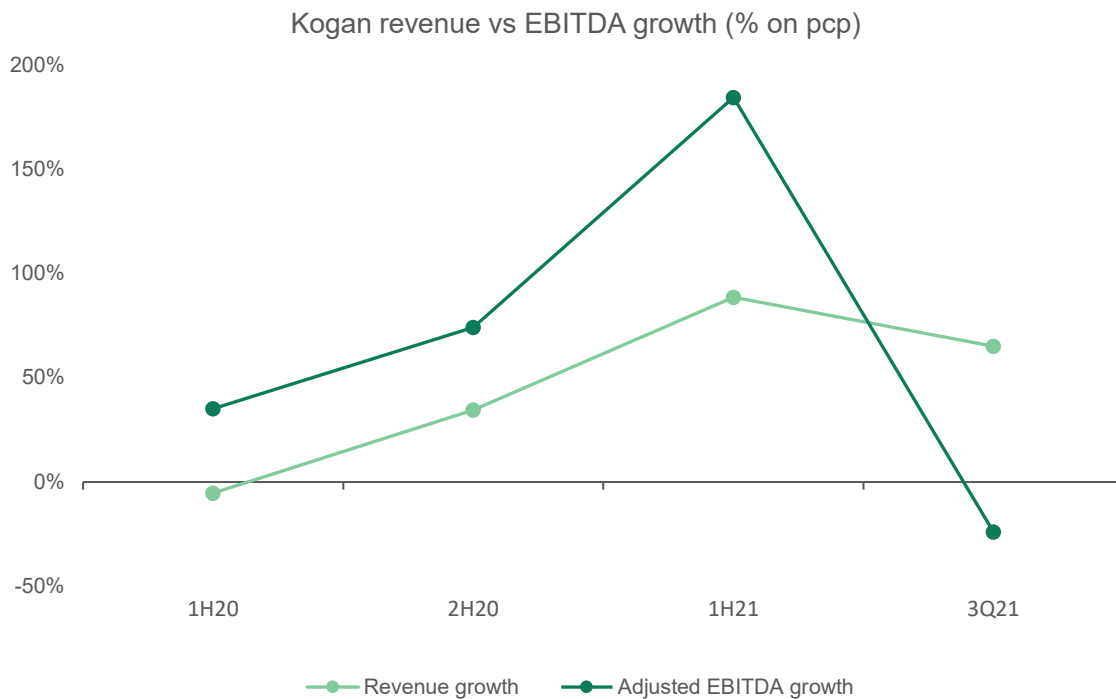
Positioning can be summarised as follows:

- Highly concentrated with an 80% active share
- Overweight
  - Re-opening trades like Qantas, Aristocrat, and the energy sector, where competitive dynamics have improved post Covid.
  - Base metal and EV materials where supply will not be able to keep up with demand in the medium term.
  - Housing plays like Bluescope and James Hardie who are benefitting from strong demand while taking market share in their categories.
  - Non-bank financials including IAG and Medibank.
  - Stock specific opportunities that cannot be categorised! Newcrest and Crown as examples
- No holding in Australian banks and iron ore where we do not see compelling opportunities.

## ONE INTERESTING THING THAT HAPPENED THIS MONTH

A number of updates from retailers over April indicated that the COVID-driven boost to sales is now showing signs of rolling over. This was clearly illustrated in KGN's 3Q - sales grew by 54% but were well below company expectations, resulting in an EBITDA decline of 24% due to inventory build and increased costs of storage and shipping.

Figure 1.



Source: Company Data

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