

FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | MAY 2021

PERFORMANCE (AFTER FEES)

	Month	Quarter	6 Months	1 Year	2 Years p.a.	3 Years p.a.	Fund inception p.a. ²	5 Years p.a.	Strategy inception p.a. ⁴
Fund ¹	(0.79%)	0.04%	12.05%	22.24%	18.93%	7.05%	8.88%	-	-
Strategy composite ³	(0.79%)	0.04%	12.05%	22.24%	18.93%	7.05%	-	9.06%	14.09%
Benchmark	0.01%	0.03%	0.05%	0.16%	0.46%	0.80%	0.85%	1.10%	1.20%
Excess Return	-0.80%	+0.01%	+12.00%	+22.07%	+18.48%	+6.25%	+8.03%	+7.96%	+12.89%

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

31 MAY 2021

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

FUND DETAILS

Unit Prices	31 May 2021
Application price	\$ 1.3154
Redemption Price	\$ 1.3062
NAV Price	\$ 1.3108
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception date	14 March 2018
Fund size	\$349mil
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 31 MAY 2021

	Portfolio Exposure
Long Equity	183.8%
Short Equity	(181.4%)
Net Equity Exposure	2.4%

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 -0.79% for the month ending 31 May 2021, underperforming the RBA Cash Rate benchmark by 0.80%.

Positive contributors to performance included long positions in Immutep, Newcrest and Crown
Detractors included an overweight position in Incitec, Nufarm and Strike Energy.

WHAT'S DRIVING MARKETS?

The Australian Equity market continued its winning streak through May, despite starting the month on a more volatile footing. The S&P200 benchmark added 2.3%, taking calendar year to date gains to 10% for the Australian market. Large caps led the market higher, rising 2.9% for the month, while Small caps lagged eking out a 0.3% return. Financials were the best sector rising 6% in May, while yield sensitive sectors struggled, with IT down 10% for the month.

The procyclical rotation that has benefited Value stocks continued, building on the outperformance relative to Growth since last November. On a 12-month basis, Value has outperformed growth by about 25%. Commodities led the charge, with iron ore topping \$200/t, Gold and metals also rallied and coal recovered despite the Chinese restrictions on Australian coal imports.

PORTFOLIO POSITIONING

The Firetrail Absolute Return Fund is currently slightly tilted towards Value, or cyclically exposed, names. These include overweights in re-openers such as Qantas and Crown Resorts, stocks leveraged to improved GDP growth such as Bluescope Steel and Santos, and battery commodity names such as Oz Minerals and IGO. This is balanced against key positions in growth names such as Xero, MegaPort and Fineos, which have large applicable market opportunities and secular long-term tailwinds. The Fund is also overweight Gold via our position in Newcrest.

PORTFOLIO CHANGES

We added to a number of cyclically exposed names through the month. Overall, our thematic positioning remains largely unchanged. Most notable trades included:

QBE Insurance

We initiated a new position in QBE through the month. This follows a period of underperformance for the insurer despite a marked improvement in the operating backdrop. Most notable is the better premium rate environment, with recent trends illustrating an acceleration in rate increases across most of QBE's regions.

Santos

Energy stocks underperformed through May despite the oil price advancing 3%, alongside a broader rise in cyclically exposed names. We took this opportunity to add to our position in Santos given the more compelling valuation, with the share price implying Brent oil of c.US\$50/bbl versus spot closer to US\$70/bbl.

PORTFOLIO CONTRIBUTORS

The performance through May was primarily driven by the portfolios **Shorts**, which helped offset underperformance in the Small cap & Corporate Event levers. Key contributors on the long side last month included:

Immutep

Immutep's LAG3 (Lymphocyte activating gene-3) immune checkpoint, which has been identified as playing a key role in both the activation and inhibition of cancer cells, received a favourable Phase-III trial outcome following a review by Bristol Myer Squibb. These results will be presented at the American Society of Clinical Oncology conference in early June.

Newcrest

Was a key contributor following an 8% rise in the Gold price through May. The commodity is now flat for CY21. Thematically, we continue to be attracted to Gold exposure given the lingering concerns around inflation. Moreover, we believe Newcrest is also turning a corner on operational performance. During May the company reaffirmed full year production guidance which follows the positive March quarter update recently.

Crown

Outperformance was driven by a higher Blackstone all cash offer, which was followed by a competing cash and scrip merger proposal from the Star. We continue to see inherent asset value in Crown at current levels. Moreover, we believe the reform program currently underway should place the company in good stead for a significant earnings turnaround from FY22.

NEGATIVE CONTRIBUTORS:**Incitec Pivot**

Continued its recent underperformance following yet another disappointing update regarding its Waggaman ammonia plant in North America. Operational restart of the plant was pushed back to late May from early May following further repairs, which resulted in a further negative earnings impact for FY21.

Nufarm

Following a very strong 1H21 result that beat expectations, the stock sold off on more cautious 2H21 outlook comments. We believe the comments were overly cautious and still expect the 2H to demonstrate further evidence of significant earnings turnaround for the company. This should be supported by an improving balance sheet with further moderation in leverage metrics.

ONE INTERESTING THING THAT HAPPENED

A tiny hedge fund dealt a very large blow to one of the biggest oil companies in the world in late May. Engine No.1, an activist investor, secured at least 2 Exxon board seats in a bid to force the company to adjust their business strategy to combat climate change. At time of writing the Board election votes were still being counted, so Engine No. 1 could potentially see three of its four nominees join the Exxon board. Interesting to note that the investors stake in Exxon, with a market value of close to \$250 billion, is worth just \$50 million. This happened on the same day a Dutch court ordered Royal Dutch Shell to drastically deepen pledged cuts to greenhouse gas emissions.

Firetrail forecasts oil demand to return to normalised 2019 levels by the end of CY21, with some growth into CY22. These latest developments will only increase the supply shortages in oil expected over the medium-term.

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