

# FIRETRAIL AUSTRALIAN HIGH CONVICTION 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. <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>	2.33%	7.55%	14.52%	33.85%	11.84%	6.51%	7.39%	-	-	-	-
Strategy composite <sup>3</sup>	2.33%	7.55%	14.52%	33.85%	11.84%	6.51%	-	12.23%	11.79%	10.04%	10.04%
Benchmark	2.34%	8.48%	11.74%	28.23%	9.38%	9.95%	9.92%	12.43%	8.54%	8.59%	7.40%
Excess Return	<b>-0.01%</b>	<b>-0.93%</b>	<b>+2.78%</b>	<b>+5.62%</b>	<b>+2.46%</b>	<b>-3.44%</b>	<b>-2.52%</b>	<b>-0.20%</b>	<b>+3.25%</b>	<b>+1.45%</b>	<b>+2.64%</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

31 MAY 2021

### Top 3 Overweight Holdings (Alphabetical)

Newcrest Mining Ltd

OZ Minerals Ltd

Virgin Money UK PLC

## FUND DETAILS

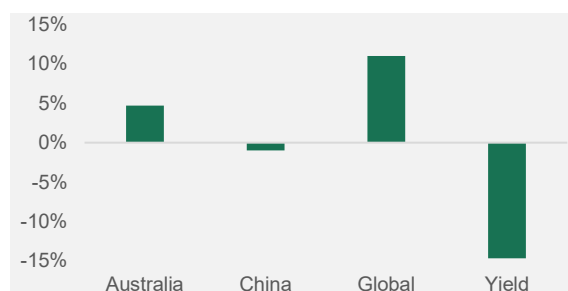
Unit Prices	31 May 2021
Application price	\$ 1.2040
Redemption Price	\$ 1.2004
NAV Price	\$ 1.2022
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Number of Holdings	29
Fund size	\$521mil
Management fee*	0.90% p.a.
Performance fee*	15% of outperformance above an annual Hurdle

\*Please read the Product Disclosure Statement for more details

## THEMATIC POSITIONING

31 MAY 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 2.33% for the month ending 31 May 2021, performing in-line with the ASX200 Accumulation index.

## CONTRIBUTORS TO RETURNS

Positive contributors included Virgin Money UK, Aristocrat and Newcrest. Negative contributors included Qantas, Nufarm and our nil holding in Commonwealth Bank. We discuss each further in our commentary below.

## COMPANY & INDUSTRY NEWS

### POSITIVE CONTRIBUTORS:

#### **Aristocrat**

Revenues in Aristocrat's 1H21 result were strong, particularly given a number of slot machines across the US remain switched off. Casinos are prioritising Aristocrat's better performing games and allocating it a greater share of slot floors. A higher cost trajectory has been guided into 2H21 as management invests in systems, sales, and design talent to support future growth.

#### **Virgin Money UK**

Virgin Money UK reported its 1H21 result and upgraded full-year net interest margin guidance from ~156bps to ~160bps, reflecting benefits from improved mortgage pricing and substantial re-pricing of deposits. 1H costs were higher than expected, however we believe this is largely a timing issue with greater cost-out plans likely to be articulated at the FY21 result in November.

#### **Newcrest**

There was no material company specific news for Newcrest, but it benefitted from an 8% appreciation in the gold price over the month. Gold is now back to where it was at the start of 2021, ~7% below the Aug-20 peak.

### NEGATIVE CONTRIBUTORS:

#### **Qantas**

Underperformed during the month as the Federal Budget highlighted a re-opening of the international border is unlikely until mid-2022. Qantas initiated FY21 underlying EBITDA guidance of \$400-500m, below consensus, but more importantly confirmed that net debt has peaked and 2H21 will generate positive cash flow.

#### **Nufarm**

The 1H21 result featured strong margins in ANZ and Europe, driven by better demand conditions and improved cost control. No quantitative guidance was given for FY21, but management highlighted a significant expected skew of profit to the 1H – we believe this reflects a reasonable degree of conservatism but was interpreted more negatively by the market.

#### **Commonwealth Bank**

Our nil holding in CBA was a detractor in May given strong outperformance. The 3Q21 update illustrated that CBA continues to take mortgage market share with loan growth 1.1x system and is having early success at pushing more aggressively into business lending (>3.0x system).

## PORTFOLIO POSITIONING

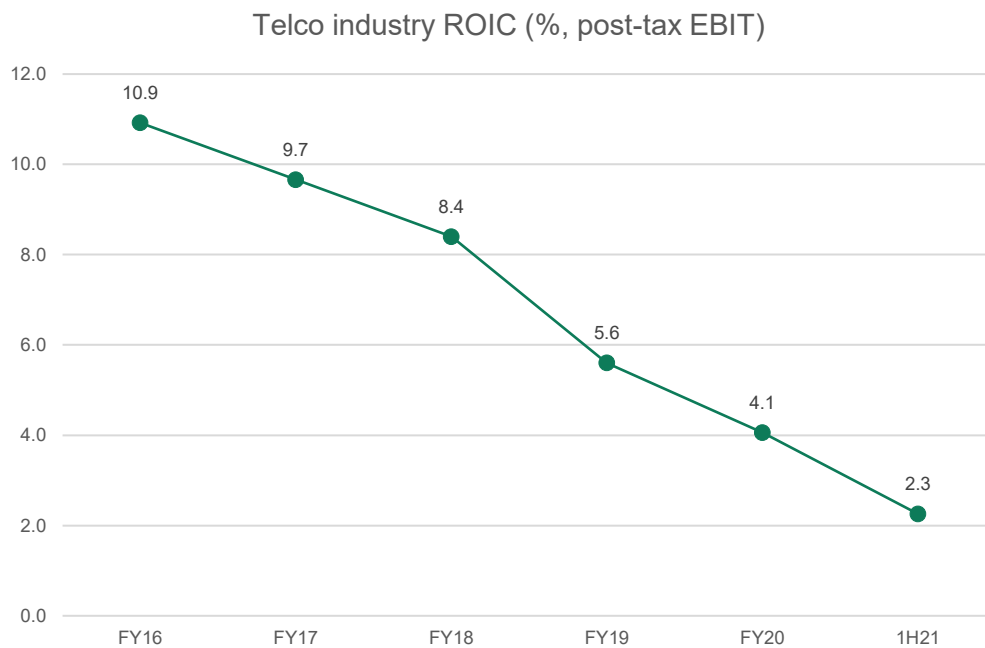
Current portfolio positioning can be summarised as follows:

- 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 QBE, IAG and Medibank.
  - Undervalued defensive companies including Newcrest, Telstra, and Crown.
- No holding in Australian banks and iron ore where we do not see compelling opportunities.

## ONE INTERESTING THING THAT HAPPENED THIS MONTH

**Your mobile bill is going up!** – Optus lifted the prices of its sim-only mobile offerings by \$6/mth – equivalent to a 10-15% increase on small and mid-sized plans. This comes almost 12 months to the day after the Optus CEO first started talking about market repair, and 10 months after Telstra lifted its sim-only prices by \$5/mth. Alongside the transition to the NBN, mobile competition has been a key driver of the decline in industry ROIC over the past five years. With some rationality now returning to the market, ROIC for Telstra and the industry should shift to a much more positive trajectory.

Figure 1.



Source: Company Data, UBS, Firetrail, May 2021

This document is prepared by Firetrail Investments Pty Limited ('Firetrail') ABN 98 622 377 913 AFSL 516821 as the investment manager of the Firetrail Australian High Conviction Fund ARSN 624 136 045 ('the Fund'). This communication is for general information only. It is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice before doing so. Past performance is for illustrative purposes only and is not indicative of future performance.

Pinnacle Fund Services Limited ABN 29 082 494 362 AFSL 238371 ('PFSL') is the product issuer of the Fund. PFSL is not licensed to provide financial product advice. PFSL is a wholly-owned subsidiary of the Pinnacle Investment Management Group Limited ('Pinnacle') ABN 22 100 325 184. The Product Disclosure Statement ('PDS') of the Fund is available at <https://firetrail.com/products/firetrail-australian-high-conviction-fund>. Any potential investor should consider the PDS before deciding whether to acquire, or continue to hold units in, the Fund.

Whilst Firetrail, PFSL and Pinnacle believe the information contained in this communication is reliable, no warranty is given as to its accuracy, reliability or completeness and persons relying on this information do so at their own risk. Subject to any liability which cannot be excluded under the relevant laws, Firetrail, PFSL and Pinnacle disclaim all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage), however caused, which may be suffered or arise directly or indirectly in respect of such information. This disclaimer extends to any entity that may distribute this communication.

The information is not intended for general distribution or publication and must be retained in a confidential manner. Information contained herein consists of confidential proprietary information constituting the sole property of Firetrail and its investment activities; its use is restricted accordingly. All such information should be maintained in a strictly confidential manner.

Any opinions and forecasts reflect the judgment and assumptions of Firetrail and its representatives on the basis of information available as at the date of publication and may later change without notice. Any projections contained in this presentation are estimates only and may not be realised in the future.

Unauthorised use, copying, distribution, replication, posting, transmitting, publication, display, or reproduction in whole or in part of the information contained in this communication is prohibited without obtaining prior written permission from Firetrail. Pinnacle and its associates may have interests in financial products and may receive fees from companies referred to during this communication.

This may contain the trade names or trademarks of various third parties, and if so, any such use is solely for illustrative purposes only. All product and company names are trademarks™ or registered® trademarks of their respective holders. Use of them does not imply any affiliation with, endorsement by, or association of any kind between them and Firetrail.

#### MORE INFORMATION

General enquiries 1300 010 311

Existing client enquiries 1300 360 306

[www.firetrail.com](http://www.firetrail.com)