

FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | JULY 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	-2.69%	-9.71%	-4.02%	7.73%	12.64%	4.60%	5.45%	-	-
Strategy composite ³	-2.69%	-9.71%	-4.02%	7.73%	12.64%	4.60%	-	5.72%	11.84%
Benchmark	0.01%	0.03%	0.05%	0.14%	0.37%	0.73%	0.81%	1.03%	1.17%
Excess Return	-2.69%	-9.74%	-4.07%	+7.59%	+12.27%	+3.88%	+4.63%	+4.69%	+10.67%

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 JULY 2021

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

FUND DETAILS

Unit Prices	31 July 2021
Application price	\$ 1.1970
Redemption Price	\$ 1.1886
NAV Price	\$ 1.1928
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception date	14 March 2018
Fund size	\$336mil
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 JULY 2021

	Portfolio Exposure
Long Equity	194.5%
Short Equity	(194.1%)
Net Equity Exposure	0.4%

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 negative 2.69% for the month ending July 2021, underperforming the RBA Cash Rate benchmark by 2.69%.

Whilst Fund performance over recent years has been strong, the past quarter has disappointed, impacted by the market's sharp rotation away from cyclicals, toward quality and defensive companies. The COVID Delta variant has increased uncertainty in the near-term for economically exposed companies. However, we see material valuation and earnings upside potential in our cyclical portfolio positions and believe our conviction will reward investors with a medium-term view (as it has in the past). The portfolio is also overweight to globally exposed growth names in sectors such as technology and healthcare to balance our cyclical tilt.

WHAT'S DRIVING MARKETS?

The Australian equity market streak continued with the S&P/ASX 200 Index closing 1.1% higher in July. Resources did the heavy lifting, outperforming the rest of the market, while Energy and Info Tech were the worst performing sectors. The emergence of the Delta variant saw parts of the Australian East Coast back into the tightest restrictions since the Covid pandemic began. Growth in Delta cases elsewhere also weighed on sentiment around the ongoing global recovery. This dragged bond yields lower, despite stronger inflation data. The US 10yr yield retraced to January 2021 levels, helping gold rise for the month.

CONTRIBUTORS TO RETURNS

Positive contributors for July included long portfolio positions in Lynas and IGO. A long position in Crown Resorts was the largest portfolio detractor during the month. The short portfolio was also negatively impacted by a takeover bid in the infrastructure sector.

CONTRIBUTORS

Lynas

Lynas is one of the key energy transition positions in the portfolio. Lynas outperformed on the back of rising rare earths prices and a strong production report. Lynas' 4Q commentary highlighted that demand has accelerated faster than expected on the back of green investment. The company is continuing to evaluate how it can increase production capacity further.

IGO

Also a key energy transition company held in the portfolio, IGO's strong recent performance follows completion of the acquisition of c.25% stake in the Greenbushes Lithium Mine and 49% of the Kwinana Hydroxide Refinery via the formation of a JV with Tianqi Lithium. The JV will be the exclusive vehicle for lithium investments outside China for IGO and Tianqi. The focus going forward will be ramp-up of the Kwinana Hydroxide Refinery, which recently commenced commissioning and is on track for first hydroxide in 2H CY2021.

DETRACTORS

Crown Resorts

Crown was the largest detractor for the month and quarter. The Royal Commission into Crown's Victorian casino licence concluded its public hearings in July. Final submissions from counsel assisting the commission suggested that Crown should either lose its licence or retain it under onerous conditions. We believe the latter scenario remains the most likely. The Commissioner will report his findings on October 15th.

We entered a long position in Crown in December 2020 – when the Crown share price was trading at close to book value due to the NSW regulatory uncertainties. Since entering the position, the stock has been a marginal positive contributor to returns despite recent underperformance. Today, the Crown share price is once again trading at close to book valuation.

From here, we believe there is limited downside to the Crown share price based on our worst-case scenario analysis. In our view, poor governance is currently masking a highly attractive asset with defensive earnings. The current Crown share price remains well below Blackstone's all cash offer of \$12.35 in May 2021 and The Star's takeover bid that was pulled due to regulatory uncertainty. Whilst the share price will remain volatile until we get more certainty around the result of the Royal Commission, we continue to see material upside potential in Crown and recently increased the portfolio position.

Fundamental shorts

Short portfolio performance was negatively impacted by a takeover bid in one of our positions in the infrastructure sector. The M&A wave continued in Australia during July. A consortium of local and global investors made an indicative offer for Sydney Airport at a c.40% premium, which the Board later rejected. Spark Infrastructure also confirmed an indicative proposal.

PORTFOLIO POSITIONING

Current portfolio positioning can be summarised as follows:

- A market neutral portfolio driven by long and short stock selection
 - Highly active with Gross Exposure of 376% (188% long / 188% short)
 - Overweight Cyclical vs Defensives
 - Overweight Global Growth
 - Overweight Value vs Growth.
- Designed to deliver returns that are uncorrelated from traditional assets such as equities and bonds.

ONE INTERESTING THING THAT HAPPENED THIS MONTH...

China unveiled a sweeping overhaul of its >\$100 billion education sector, banning companies that teach the school curriculum from making profits, raising capital or going public. As a result, Education stocks plunged between 60-70% in one day! Online education platforms had attracted over 100bn yuan (AUD \$20bn) of capital in 2020 alone, according to iResearch.

The regulatory change has been attributed to the government's perception that private tuition is contributing to social inequality and rising costs of education, impacting childbirth decisions.

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