

FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | JULY 2022

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	(5.13%)	(9.10%)	(14.22%)	(10.09%)	(1.58%)	4.49%	1.68%	-	-
Strategy composite ³	(5.13%)	(9.10%)	(14.22%)	(10.09%)	(1.58%)	4.49%	-	3.51%	8.32%
Benchmark	0.11%	0.19%	0.22%	0.27%	0.20%	0.34%	0.69%	0.77%	1.04%
Excess Return	-5.24%	-9.30%	-14.44%	-10.36%	-1.79%	+4.15%	+0.99%	+2.74%	+7.28%

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 2022

Top 3 Overweight Holdings (Alphabetical)
Australia & New Zealand Banking Group Ltd
Newcrest Mining Ltd
Santos

FUND DETAILS

Unit Prices	31 JULY 2022
Application price	\$ 1.0587
Redemption Price	\$ 1.0513
NAV Price	\$ 1.0550
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception date	14 March 2018
Fund size	\$337mil
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

31 JULY 2022

	Portfolio Exposure
Long Equity	172.9%
Short Equity	-172.8%
Net Equity Exposure	0.1%

Past performance is not a reliable indicator of future performance.

The Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') of the Fund are available at <https://firetrail.com/firetrail-absolute-return-fund/>.

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 Fund returned negative 5.13% for the month ending 31 July 2022, underperforming the RBA Cash Rate benchmark by 5.24%.

Our objective is to deliver positive returns over the medium term (rolling 3-years), irrespective of equity market direction. Whilst the underperformance over the past 12-months has been difficult, some of our strongest performance periods have followed challenging performance periods, and we have high conviction in our long and short portfolio positioning to deliver on our medium-term objectives.

CONTRIBUTORS TO RETURNS

The long portfolio contributed positively to performance during July, driven by the strong performance of our high conviction small company positions. The short portfolio detracted from performance in the month, driven by short positions in bond proxies and global technology names.

Overall, the Fund remains well balanced in terms of thematic exposure. We continue to see companies exposed to the commodity and energy complex providing greater opportunities overall, particularly in an inflationary backdrop. This is reflected in the Fund's value and cyclical tilt over more yield sensitive and growth sectors.

NEGATIVE CONTRIBUTORS

Newcrest Mining

Newcrest underperformed over the month despite reporting 4Q FY22 production and cost results that beat consensus expectations. The quarterly results were reassuring given the industry cost and labour pressures recently reflected in peer results. However, the gold price underperformed the broader market by 8%, weighing on Newcrest and broader sector performance. We used the share price weakness as an opportunity to add to our position given Newcrest's current discount to medium-term valuation.

QBE Insurance Group

QBE underperformed as global bond yields reduced by 20-60bps. Results from UK and US peers showed reasonably strong pricing and underwriting trends, but comments on inflation pressures were more prevalent. Of particular interest were UK motor insurers which flagged significant inflation across a number of areas. QBE has minimal UK motor exposure, but broader claims inflation is the key downside risk that we are monitoring carefully.

Santos

Santos underperformed in July on concerns that slowing growth would impact overall oil demand. The oil price was down 4% for the month. Santos also provided an update on production that was modestly below consensus expectations. We believe the outlook for capital management through buybacks and higher dividends continues to look robust and used July's underperformance as an opportunity to add to our position.

POSITIVE CONTRIBUTORS

Megaport

Megaport shares outperformed following 4Q FY22 revenues that were well ahead of market expectations. The step-up in monthly recurring revenue was a positive surprise considering a slowing demand environment and recent key management departures. Reduced cash burn and a potential new debt facility also addressed balance sheet concerns, providing ample headroom to reach free cashflow breakeven while still investing for growth.

Telix Pharmaceuticals

Telix Pharmaceuticals shares outperformed in July after the 2Q CY22 result revealed first commercial sales of its prostate cancer diagnostic product in the US had surpassed expectations and were well ahead of its major competitor. The result sets up a solid platform for H2 CY22 sales with sell-side analysts materially upgrading their expectations. We used the share price strength as an opportunity to reduce our exposure through July.

APM Human Services

APM shares outperformed during the month driven by a material upgrade to earnings expectations. This followed completion of a major debt refinancing that saw APM extinguish higher cost debt. The new debt facility will see annual pre-tax interest savings of \$15 million per annum, resulting in 5% upgrades to consensus FY23 earnings forecasts.

PORTFOLIO POSITIONING

The Firetrail Absolute Return Fund is a market neutral portfolio (long/short) with zero net market exposure and beta (+/- 0.1) to ensure Fund performance is uncorrelated to equity market direction. The fund is driven by our best long and short ideas. We continue to remain overweight value over growth, reflected mainly through our exposure to energy and select cyclicals where we see attractive supply and demand dynamics and company fundamentals. Overall, we see the portfolio as follows:

The long portfolio can be summarised as:

- 173% long exposure across 40 to 60 stocks with upside based on our medium-term forecasts.
- Overweight energy, gold and select global growth with attractive supply and demand dynamics and company fundamentals.
- Overweight value / cyclicals which remain undervalued with underappreciated medium-term earnings.

The short portfolio can be summarised as:

- 173% short exposure across a diversified portfolio of earnings shorts and risk-reducing shorts.
- Earnings shorts aim to profit from falling share prices because of earnings downgrades. The current market environment is creating heightened shorting opportunities as companies deal with supply chain issues, rising costs, and changing consumer preferences.
- Risk-reducing shorts offset equity exposure risks and control portfolio risks such as style (value/growth), size, sector, and thematic biases to ensure returns are driven by stock specific risk (not macro risk).
- The short portfolio is currently overweight expensive consumer staples and bond proxies.

ONE INTERESTING THING THAT HAPPENED THIS MONTH...

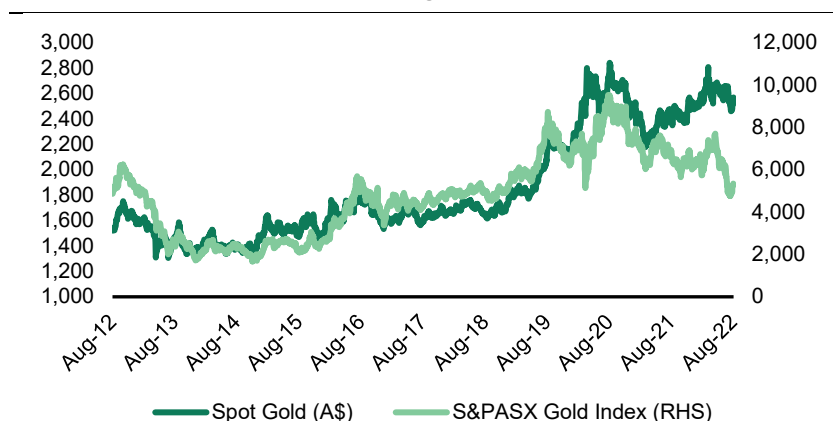
The USD gold price has come under further pressure recently as the US Federal Reserve continues to raise interest rates. There is a strong negative link between real interest rates and the gold price, and we are seeing this play out now.

Under this backdrop, Australian gold stocks have sold off and now trade 25% below peaks reached in July 2020.

However, the gold price denominated in AUD is near decade highs. The ASX Gold Index has historically followed the AUD gold price, but it is now trading at a large relative discount as shown in Figure 1 below.

We believe the sell-off in Australian gold stocks is overdone, and rising recession risks lead us to believe gold is an attractive asset class for investors over the coming 12 months. We have used the recent weakness to add to our position in Australian gold producer, Newcrest Mining.

Figure 1: The ASX Gold Index is trading at a large discount relative to the AUD gold price



Source: Factset

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Links to the Product Disclosure Statement: [WHT5134AU](#)

Links to the Target Market Determination: [WHT5134AU](#)

For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com

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