

FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | NOVEMBER 2022

PERFORMANCE (AFTER FEES)¹

	Month	Quarter	6 Months	1 Year	2 Years p.a.	3 Years p.a.	Fund inception p.a. ³	5 Years p.a.	7 Years p.a.	Strategy inception p.a. ⁵
Fund ²	0.85%	(0.38%)	(10.70%)	(18.06%)	(5.39%)	2.85%	1.04%	-	-	-
Strategy composite ⁴	0.85%	(0.38%)	(10.70%)	(18.06%)	(5.39%)	2.85%	-	0.92%	7.49%	7.56%
Benchmark	0.23%	0.63%	0.95%	1.02%	0.56%	0.50%	0.81%	0.83%	1.08%	1.10%
Excess Return	+0.62%	-1.01%	-11.65%	-19.08%	-5.95%	+2.35%	+0.24%	+0.09%	+6.42%	+6.46%

1. Past performance is not a reliable indicator of future performance.

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 (after fees).

PORTFOLIO POSITIONING

30 NOVEMBER 2022

Top 3 Overweight Holdings (Alphabetical)
CSL
Newcrest Mining Ltd
Santos Ltd

FUND DETAILS

Unit Prices	30 November 2022
Application Price	\$1.0335
Redemption Price	\$1.0263
NAV Price	\$1.0299
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception Date	14 March 2018
Risk/Return Profile	High
Fund Size	\$317mil
Management Fee*	1.28% p.a.
Performance Fee*	20% of outperformance above an annual Hurdle

*Please read the Product Disclosure Statement for more details

FUND EXPOSURE

30 NOVEMBER 2022

	Portfolio Exposure
Long Equity	189.7%
Short Equity	-189.6%
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/>.

2. 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. 3. Fund inception is 14 March 2018. 4. 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. 5. Strategy inception 30 June 2015.

PORTFOLIO COMMENTARY

The Fund returned 0.85% (after fees) for the month ending 30 November 2022, outperforming the RBA Cash Rate benchmark by 0.62%.

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

Key positive contributors included long positions in Origin Energy, First Quantum Minerals and Virgin Money UK. Detractors included long positions in Santos, James Hardie Industries and Lendlease. We discuss each in our commentary below.

POSITIVE CONTRIBUTORS

Origin Energy

Origin outperformed after receiving a non-binding indicative takeover proposal from Brookfield Asset Management and the EIG Consortium. The offer of \$9.00 per share represented a 55% premium to the most recent closing price, illustrating the value in Origin's suite of assets that are well positioned for the energy transition. Following the announcement, the Origin share price traded at a ~15% discount to the offer due to perceived risks around ACCC and other regulatory approvals.

First Quantum Minerals

Copper miner First Quantum outperformed in November driven by a 10% rise in the price of copper. Commodity prices were supported by a weaker US dollar, and news that China was considering an end to its COVID-zero policy. As copper is used for electrical wiring, buildings and other infrastructure, demand in China is a major driver of the copper market.

Newcrest Mining

Newcrest outperformance was driven by a 7% increase in the gold price. The US Federal Reserve lifted interest rates by 75bps. However, outlook commentary was more mixed than previous statements, giving some weight to the argument that the pace of rate tightening could begin to slow.

NEGATIVE CONTRIBUTORS

Santos

Santos underperformed as the oil price declined by 12% in November. While supply remains very tight, price softness was driven by concerns on the demand outlook as a result of the global slowdown and China's continued COVID-zero policy. Speculation around a government cap on East Coast gas prices also began to build. While we see problems with the implementation and flow-on consequences of such a cap, the increased uncertainty hindered sentiment on energy stocks.

Lendlease

Lendlease underperformed as it guided the market to the lower end of its FY23 target earnings ranges for its Investments, Development and Construction divisions. Longer-term guidance for an 8-10% ROE in FY24 was reaffirmed but management acknowledged that inflation, supply chain disruption and interest rates still pose risks to the outlook.

James Hardie Industries

James Hardie underperformed as it revised FY23 NPAT guidance down by 10% versus its prior range. While housing market weakness was well appreciated, the market was surprised by how quickly volume trends have turned in James Hardie's key North America division. Management expects volume declines of 5-8% over the next six months, however this should be offset by continued double-digit tailwinds from price and product mix.

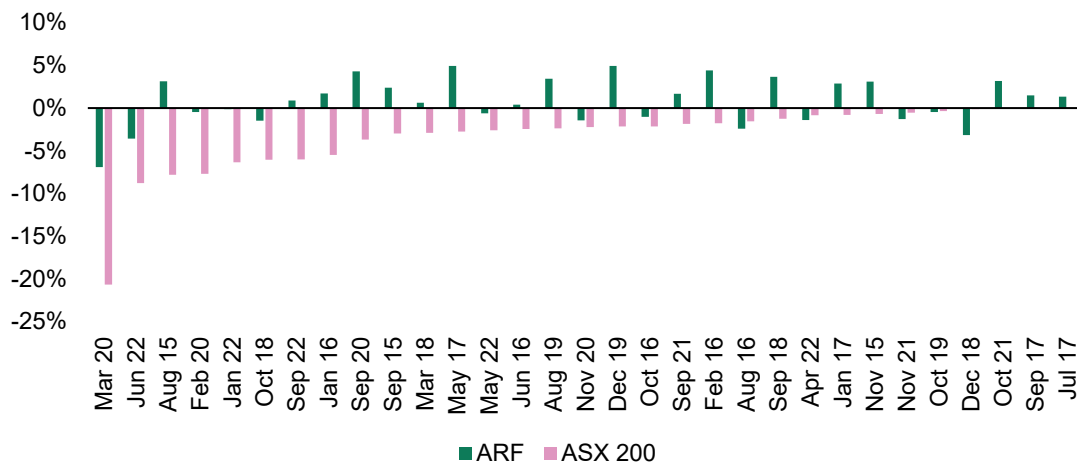
PORTFOLIO POSITIONING

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 designed to provide portfolio protection during equity market drawdowns and major dislocations. Historically, the strategy has provided good diversification from negative monthly equity market returns. Figure 1 below shows every negative ASX 200 market return since Strategy inception in 2015 in pink, from largest to smallest drawdown. The bars in green show the corresponding return of the Firetrail Absolute Return Strategy.

Historically, when the ASX 200 monthly return was negative, the Firetrail Absolute Return Strategy has delivered a positive return 58% of the time. On average, the Strategy delivered a positive return of +0.78% versus the ASX 200 average monthly drawdown of -3.38%, providing good diversification during monthly market drawdowns.

Figure 1: Firetrail Absolute Return Strategy performance (after fees) in negative markets since inception (30 June 2015). The Fund delivered a positive return in 58% of negative ASX 200 months



Source: Firetrail, Morningstar, November 2022
Past performance is not a guarantee of future returns.

Overall, we believe that the Fund remains well balanced in terms of its thematic exposure. We continue to see companies exposed to energy and the decarbonisation complex providing greater opportunities over the medium term, particularly given the current inflationary backdrop and medium-term supply constraints. This is reflected in the Fund’s value tilt over more yield sensitive bond proxies and growth sectors.

The long portfolio can be summarised as:

- 189.7% long exposure across 40 to 60 stocks with upside based on our medium-term forecasts.
- Overweight Energy, Gold, Rate-Sensitive Financials, and high-quality Growth companies that we believe have been oversold in recent market volatility
- Overweight value / cyclicals which remain undervalued with underappreciated medium-term earnings.

The short portfolio can be summarised as:

- 189.6% 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 Bond Proxies, Consumer Staples, and Consumer Cyclical where we see material earnings risks and elevated expectations.

ONE INTERESTING THING THAT HAPPENED THIS MONTH...

Forecasting the demand for commodities such as iron ore is no easy task, even when you do have access to all the relevant data...

While updating our demand models over the past several years, we've noticed that several Chinese data series have simply stopped being published. This adds further difficulty given China makes up a large portion of demand for many commodities.

It turns out we aren't the only ones having this problem. The Financial Times have found that the number of indicators made available by China's National Bureau of Statistics has fallen by ~90% over the past decade.

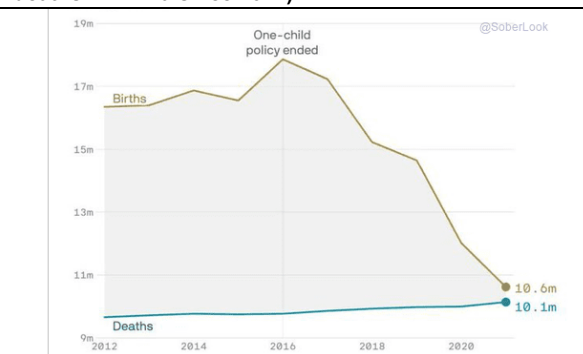
Interestingly, the decline in the number of indicators comes at a time of slowing GDP growth and a rapidly declining birth rate.

Figure 1: China has become less and less transparent since Xi Jinping came to power...



Source: National Bureau of Statistics of China, FT

Figure 2: ...at a time when economic growth is slowing, and demographic headwinds are emerging. (Annual births and deaths in China since 2012)



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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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