

FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | APRIL 2023

PERFORMANCE (AFTER FEES)¹

	Month	Quarter	1 Year	3 Years p.a.	5 Years p.a.	Fund inception p.a. ³	7 Years p.a.	Strategy inception p.a. ⁵
Fund ²	(0.97%)	1.52%	(11.36%)	0.55%	0.81%	0.94%	-	-
Strategy composite ⁴	(0.97%)	1.52%	(11.36%)	0.55%	0.81%	-	3.65%	7.11%
Benchmark	0.29%	0.84%	2.35%	0.87%	0.99%	1.01%	1.15%	1.22%
Excess Return	-1.26%	+0.68%	-13.71%	-0.32%	-0.18%	-0.07%	+2.50%	+5.89%

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 APR 2023

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

FUND DETAILS

Unit Prices	30 April 2023
Application Price	\$1.0321
Redemption Price	\$1.0249
NAV Price	\$1.0285
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception Date	14 March 2018
Risk/Return Profile	High
Fund Size	\$294mil
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 APR 2023

	Portfolio Exposure
Long Equity	190.3%
Short Equity	-190.4%
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 negative 0.97% for the month ending 30 April 2023, underperforming the RBA Cash Rate by 1.26%.

CONTRIBUTORS TO RETURNS

Positive contributors to monthly returns included long positions in James Hardie Industries, Genesis Minerals, and Silk Laser Australia. Detractors included long positions in Star Entertainment Group, Mineral Resources, and The Lottery Corporation. We discuss each further in our commentary below.

POSITIVE CONTRIBUTORS

Newcrest Mining

Newcrest Mining outperformed during the month as it received a revised non-binding proposal from Newmont. The revised offer represented a total value ~11% above the previous offer. Subsequently, Newcrest granted Newmont exclusive due diligence until 11th May 2023.

Genesis Minerals

Genesis Minerals performed strongly over the month after renegotiating a deal with St Barbara to consolidate the gold-rich Leonora Province in WA. Under the new arrangement, Genesis Minerals will purchase St Barbara's Australian assets for \$600 million. This deal is far simpler than the prior merger arrangement, enabling the market to focus on the underlying value of the assets.

Silk Laser Australia

In April, Wesfarmers' Australian Pharmaceutical Industries lobbed a \$3.15 a share bid to acquire 100% of Silk Laser Clinics. Silk provides non-surgical aesthetic treatments like laser hair removal, injectables, and skin treatments from over 140 clinics across Australia. Silk have expanded both organically and inorganically, participating in four accretive acquisitions in the past two years. Sector consolidation has placed Silk as the second largest player behind Laser Clinics Australia.

NEGATIVE CONTRIBUTORS

Star Entertainment Group

Star Entertainment Group shares underperformed in April after the company cut its previous FY23 earnings guidance by 15% due a deterioration in operating conditions. Star cited ongoing regulatory restrictions and a weakening consumer as the key drivers of the weaker performance. In response to the new challenges, Star announced implementation of a range of cost savings initiatives, including the elimination of five hundred full-time positions across the group.

Mineral Resources

Mineral Resources underperformed during the month due to weakness in global lithium prices and March quarter production volumes which missed consensus forecasts. The company has reset expectations for Lithium and Mining Services volumes resulting in downgrades to full year estimates. However, the outlook for lithium prices is beginning to improve. After a five month-long, 70% sell-off, China's lithium spot prices appear to have stabilised and have moved up again in recent weeks.

The Lottery Corporation

The Lottery Corporation modestly underperformed in April after a strong run through the first quarter of the year. The number of Powerball jackpots so far in 2023 has tracked below consensus expectations. We note that a ~10% increase in the Powerball ticket price is due to take effect in May, which will assist earnings for the remainder of FY23.

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 the equity market. The Fund is driven by our best long and short ideas.

The long portfolio can be summarised as:

- 190.3% long exposure across 40-60 stocks with upside based on our medium-term earnings forecasts.
- Overweights include:
 - Energy companies exposed to commodities where supply is constrained in the medium-term, such as Santos and Incitec Pivot.
 - Commodity companies exposed to decarbonisation with attractive cost positions and strong growth, such as Mineral Resources, Allkem and Lynas Rare Earths.
 - Market leaders including ResMed, SEEK and James Hardie Industries who are well placed to strengthen their competitive position through the cycle.
 - Financials with leverage to interest rate rises including QBE Insurance, Medibank Private and Virgin Money UK.
 - Undervalued companies with defensive attributes including Newcrest Mining and The Lottery Corporation.

The short portfolio can be summarised as:

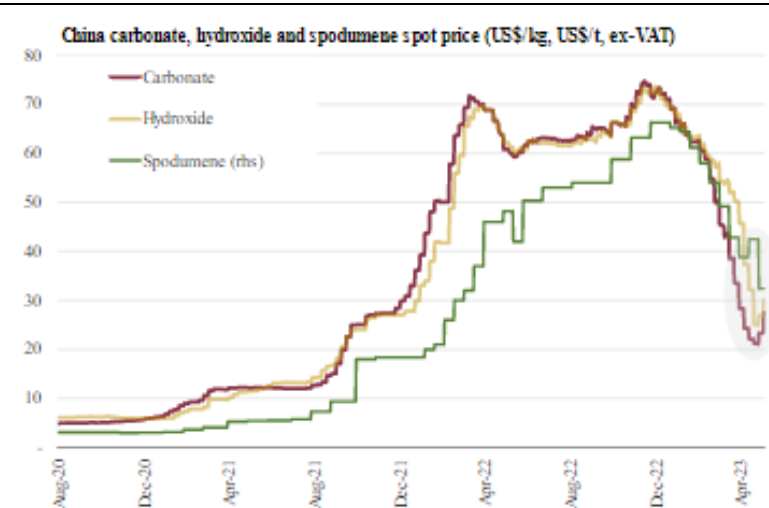
- 190.4% short exposure across a diversified portfolio of earnings shorts and risk-reducing shorts
- Earnings shorts aim to profit from companies that downgrade near term earnings. The current market is creating heightened opportunities as companies deal with rising costs and easing demand at a time of peak margins.
- Risk-reducing shorts offset equity market exposure and control portfolio risk such as style, size, sector, and thematic biases to ensure returns are driven by stock specific factors.
- The short portfolio is overweight consumer cyclicals and expensive bond proxies where we see material near term earnings risks.

ONE INTERESTING THING THAT HAPPENED THIS MONTH...

After a stellar 2022, lithium prices have experienced a sharp reversal so far in 2023. China's lithium prices are down around 70% year-to-date but appear to have finally found a floor. Prices bottomed around \$21/kg in April before starting to move higher again recently.

Sentiment is improving, inventory levels at downstream converters have fallen at the same time supply growth has disappointed. Production misses from the likes of Mineral Resources, Pilbara Minerals and others continues to highlight the complexity of ramping up and maintaining full rates of production. An acceleration of electric vehicle sales in China and battery production could provide upside to lithium prices in the second half of 2023.

Figure 1: Lithium prices have fallen sharply in 2023



Source: Morgan Stanley Research

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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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