

FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | JULY 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	1.66%	6.42%	3.78%	0.17%	1.32%	2.07%	-	-
Strategy composite ⁴	1.66%	6.42%	3.78%	0.17%	1.32%	-	3.03%	7.73%
Benchmark	0.34%	0.99%	3.17%	1.18%	1.12%	1.14%	1.22%	1.31%
Excess Return	+1.32%	+5.43%	+0.61%	-1.01%	+0.21%	+0.92%	+1.80%	+6.42%

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 – 31 JULY 2023

Top 3 Overweight Holdings (Alphabetical)
CSL Ltd
Newcrest Mining Ltd
Origin Energy Ltd

FUND DETAILS

Unit Prices	31 July 2023
Application Price	\$1.0977
Redemption Price	\$1.0901
NAV Price	\$1.0939
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception Date	14 March 2018
Risk/Return Profile	High
Fund Size	\$291mil
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 – 31 JULY 2023

	Portfolio Exposure
Long Equity	192.8%
Short Equity	-187.2%
Net Equity Exposure	5.6%

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.

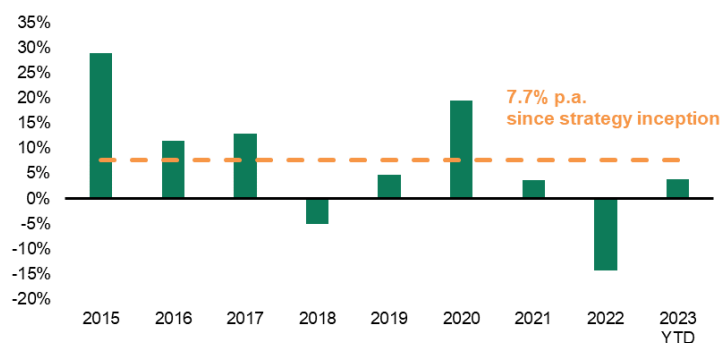
PORTFOLIO COMMENTARY

The Fund returned 1.66% for the month ending 31 July 2023, outperforming the RBA Cash Rate by 1.32%.

For the six months ending 31 July 2023, the Fund returned +8.03%, outperforming the RBA Cash Rate by 6.20%. While there remains significant work to do to return Fund performance to above our internal objectives, we continue to be encouraged by the turnaround in performance.

It remains a challenging backdrop for overall corporate profits given significant interest rate increases and sticky inflation. Despite this, we are seeing outstanding stock specific opportunities on the long and short side given significant dislocation in valuations across the market. We enter FY2024 confident in the outlook for the portfolio to deliver meaningful positive returns over the medium term, irrespective of equity market movements.

Figure 1: Firetrail Absolute Return Strategy composite returns by calendar year (after fees)



Source: Firetrail, July 2023. Strategy inception 30 June 2015

CONTRIBUTORS TO RETURNS

Positive contributors to monthly returns included long positions in First Quantum Minerals, Incitec Pivot, and AGL. Detractors included long positions in CSL, Estia Health, and Allkem.

POSITIVE CONTRIBUTORS

First Quantum Minerals

First Quantum Minerals outperformed following a 5% increase in the copper price through July. The company also reiterated that it expects to achieve the low end of its guidance range, implying a strong rebound in the H2 2023. It also expects to ratify its new agreement with the Panama government by the end of October. First Quantum is the Fund's preferred pure-play copper exposure with a strong management team and medium-term brownfield growth opportunities.

Incitec Pivot

Incitec Pivot shares outperformed as the company confirmed it had received a number of approaches for the potential acquisition of its fertilisers business. The Board will evaluate any offers alongside the proposed demerger of the business. In addition, ammonia prices appear to have found a floor after falling ~75% since September last year.

AGL

AGL shares continued to outperform strongly following its June update on FY2024 earnings guidance and long-term capex intentions. Of the \$20 billion of investment that AGL has earmarked to be spent on the energy transition, roughly half will be on AGL's balance sheet, with only \$4 billion to be spent between now and 2030. This capex profile enables AGL to pay out 50-75% of profits as dividends, providing a strong, sustainable yield for investors.

NEGATIVE CONTRIBUTORS

CSL

CSL shares underperformed ahead of a key trial for a product that competes with CSL's Immunoglobulin (IG) franchise. Positive results from the trial mean that the product, manufactured by Argenx, will now compete with CSL across ~25% of the IG market. Our view is that CSL's IG revenue growth outlook is only slightly impacted due to growth opportunities across the rest of the portfolio.

Estia Health

Estia Health underperformed after providing an update on the revised bid received from Bain Capital on 7th June 2023. The bid stands at \$3.20 per share to acquire all the issued capital of Estia. The exclusivity period ended on 27th July and Bain Capital continues to engage in constructive discussions to progress the transaction. Estia is trading at a ~15% discount to the bid price as at the end of July.

Allkem

Allkem underperformed in July in sympathy with a falling lithium price. While the market remains focused on the upcoming merger with US-listed company Livent, the company continues to make excellent progress on its high-quality growth projects. During the month, Allkem achieved first production from its Stage 2 Olaroz project in Argentina.

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:

- 192.8% long exposure across a diversified portfolio of 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 who are well placed to strengthen their competitive position through the cycle, including ResMed, SEEK and James Hardie Industries.
 - Financials with leverage to interest rate rises including QBE Insurance, Medibank Private and Suncorp.
 - Undervalued companies with defensive attributes including Newcrest and The Lottery Corporation.

The short portfolio can be summarised as:

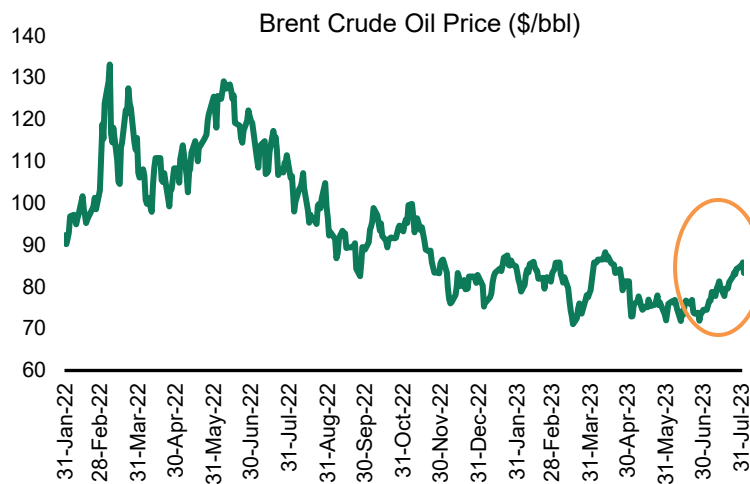
- 187.2% short exposure across a diversified portfolio of earnings shorts and risk-reducing shorts
- Earnings shorts aim to profit from companies that downgrade near term earnings. The current market is creating heightened opportunities as companies deal with rising costs and easing demand at a time 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 banks, large cap iron ore miners and bond proxies where we see increasing near term earnings risks.

ONE INTERESTING THING THAT HAPPENED THIS MONTH...

The oil price rose 15% over the month, adding to the narrative of a 'soft landing' in the US. While not completely ruling out further rate hikes, the US Fed appears to be closer to the end of its tightening cycle, giving the market confidence a recession can be avoided.

A soft landing will likely be positive for oil demand and is underpinned by further supply discipline from major producers, including Saudi Arabia and Russia. Saudi Arabia recently announced that it would extend July's cut of 1 million barrels per day through August, keeping output at 9 million barrels. Meanwhile, Russia announced that it would cut production by an additional 500,000 barrels a day in August. The voluntary cuts come on top of reductions by OPEC and could see the oil price remain supported if the US manages to avoid recession.

Figure 2: The oil price rebounded 15% in July, fuelling the narrative of a 'soft landing' in the US



Source: Factset, Firetrail, July 2023

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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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