

FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | AUGUST 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	0.49%	2.90%	6.42%	(0.13%)	2.49%	2.13%	-	-
Strategy composite ⁴	0.49%	2.90%	6.42%	(0.13%)	2.49%	-	3.08%	7.71%
Benchmark	0.34%	1.01%	3.36%	1.29%	1.16%	1.19%	1.25%	1.34%
Excess Return	+0.14%	+1.89%	+3.06%	-1.42%	+1.33%	+0.94%	+1.83%	+6.38%

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 AUG 2023

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

FUND DETAILS

Unit Prices	31 August 2023
Application Price	\$1.1030
Redemption Price	\$1.0954
NAV Price	\$1.0990
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception Date	14 March 2018
Risk/Return Profile	High
Fund Size	\$286mil
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 AUG 2023

	Portfolio Exposure
Long Equity	184.2%
Short Equity	-184.1%
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.

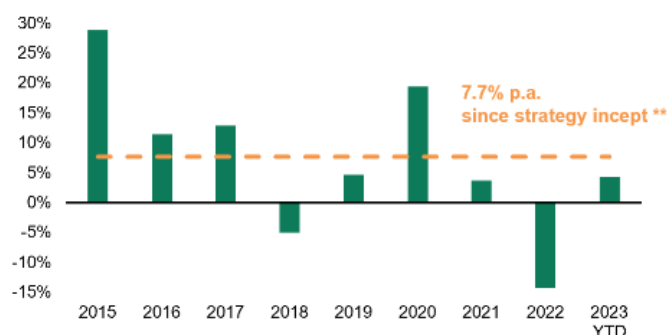
PORTFOLIO COMMENTARY

The Fund returned 0.49% for the month ending 31 August 2023, outperforming the RBA Cash Rate by 0.14%.

For the six months ending 31 August 2023, the Fund returned +7.15%, outperforming the RBA Cash Rate by 5.21%. 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 remain 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, August 2023. Strategy inception 30 June 2015

CONTRIBUTORS TO RETURNS

Positive contributors to monthly returns included long positions in Estia Health, Domino’s Pizza Enterprises, and Azure Minerals. Detractors included long positions in ResMed, Alumina, and SEEK.

POSITIVE CONTRIBUTORS

Estia Health

Estia Health outperformed after final agreements were made for Bain Capital to acquire 100% of Estia’s shares for A\$3.20 cash per share. This is an improvement on the A\$3.00 cash per share bid Bain Capital made in March 2023 and represents a 59% premium to the 3-month volume-weighted average price prior to the announcement of the bid.

Domino’s Pizza Enterprises

Domino’s reported an FY2023 result which was in line with the market update it provided in June. The stock outperformed after Domino’s revealed it has seen same store sales growth of ~7% in Australia and Europe since 30 June 2023. The positive start to FY2024 indicates that the worst of the impacts from inflation and reduced customer counts may now be behind it.

Azure

Lithium explorer Azure Minerals outperformed after it revealed material exploration success and potential size at its Andover Lithium Project. This was followed by confirmation that Azure had received an indicative offer to acquire the company from its 20% shareholder and global lithium producer SQM.

NEGATIVE CONTRIBUTORS

ResMed

ResMed's 4Q 2023 result disappointed the market as gross margin did not rise as expected. While this contributed to the share price fall, the larger factor was the rising risk associated with obesity drugs. One of the major obesity drugs, Wegovy, cited a 20% reduction in cardiovascular events in a study. While a sustained reduction in obesity levels across a large proportion of the population would have some negative impacts on ResMed's business, we believe there are several complexities that are underappreciated. We believe the recent share price fall has been significantly overdone.

Alumina

Alumina shares underperformed after the company flagged higher costs as a result of mining in a low-grade area. We expect the business to be cashflow breakeven at current settings and the balance sheet net debt of \$268 million is manageable. A key catalyst will be a return to mining high-grade bauxite areas in Western Australia post an Environmental Protection Authority review.

SEEK

SEEK shares underperformed after guidance for FY2024 earnings disappointed the market. While a reduction of new job listings was expected, SEEK flagged continued cost investment in the business through this period of cyclical softness. We are supportive of SEEK's longer term approach to creating shareholder value.

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:

- 184% 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, Alkerm and Lynas Rare Earths.
 - Market leaders who are well placed to strengthen their competitive position through the cycle, including CSL, 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:

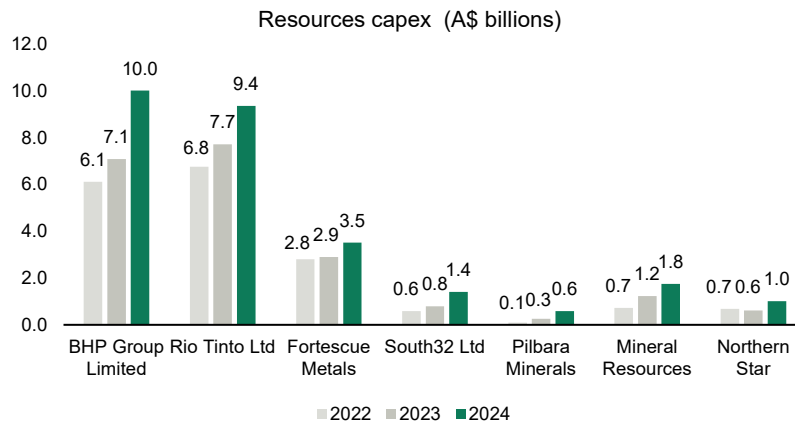
- 184% short exposure across a diversified portfolio of earnings shorts and risk-reducing shorts
- Earnings shorts aim to profit from companies that downgrade near term earnings. The current market is creating heightened opportunities as companies deal with rising costs and easing demand at a time of 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...

Resources-related names had a particularly weak reporting season in August 2023. In aggregate, EBITDA declined by an average of 15% in FY2023 owing to softer commodity prices and a spike in operating costs. Mining industry cost inflation is running at around 10-15%, with the lagged impact likely to continue well into FY2024.

Capital expenditure also increased with amount spent in FY2023 up 10%. A further 33% increase is forecasted for FY2024 based on company guidance. Higher capex was driven by BHP, Mineral Resources, Lynas Rare Earths and Pilbara Minerals. Most of the increase is focused on production growth in energy transition metals such as Lithium and Copper, as well as iron ore replacement mines.

Figure 2: Resources companies flagged material capex increases



Source: Company presentations, Firetrail, August 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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