

FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | OCTOBER 2021

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	3.18%	8.53%	-2.01%	12.76%	16.27%	8.63%	7.45%	-	-
Strategy composite ³	3.18%	8.53%	-2.01%	12.76%	16.27%	8.63%	-	7.09%	12.83%
Benchmark	0.01%	0.03%	0.05%	0.10%	0.27%	0.61%	0.76%	0.95%	1.13%
Excess Return	+3.18%	+8.51%	-2.06%	+12.66%	+16.00%	+8.02%	+6.69%	+6.14%	+11.71%

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 OCTOBER 2021

Top 3 Overweight Holdings (Alphabetical)
Crown Resorts
Megaport
Newcrest Mining

FUND DETAILS

Unit Prices	31 October 2021
Application price	\$ 1.2990
Redemption Price	\$ 1.2900
NAV Price	\$ 1.2945
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception date	14 March 2018
Fund size	\$389mil
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 AT 31 OCTOBER 2021

	Portfolio Exposure
Long Equity	191.4%
Short Equity	(191.8%)
Net Equity Exposure	-0.4%

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 a positive 3.18% for the month ending 31 October 2021, outperforming the RBA Cash Rate benchmark by 3.18%.

WHAT'S DRIVING MARKETS?

The Australian S&P200 benchmark closed little changed during October. A strong US lead and generally robust earnings updates through the early AGM season failed to offset the weakness in the large iron ore and energy names. Information Technology was the best performing sector up 2.1%, while Industrials were the worst, down 3.3%.

The transitory versus persistent inflation debate continued through October. We saw macro inflation measures point to accelerating global prices. At the same time a number of central banks including Canada, announced they would bring forward expected rate hikes. Others such as the ECB continued to hold the fort on bond purchases, saying higher prices would begin to ease from 2022 as supply chain issues began to abate.

Closer to home we saw increased volatility in credit markets towards month end. Australian bonds sold off following sharp increases in short end rates despite the RBA's yield curve control on 2-year rates. Corporates used AGM season to update investors, with supply chain challenges and rising costs dominating management commentary. Despite this, companies provided more positive than negative surprises from earnings revisions given the re-opening economy and favourable global demand backdrop.

PORTFOLIO CONTRIBUTORS & DETRACTORS

We believe the Absolute Return Fund remains well balanced in terms of its thematic / macroeconomic exposures. Stock selection has continued to drive recent performance. Several of our largest long positions performed strongly in October, and we continue to remain incredibly confident about the available prospects through FY22.

We continue to see companies exposed to global growth and reopening providing greater opportunities overall. Breaking it down further, the outperformance in the month was driven by:

- The long portfolio added 2.0% - driven by positive contributions from our high conviction (mid-large cap) positions.
- The short portfolio added 1.4% - Fundamental shorts added performance from companies with little or no pricing power in a rising cost backdrop. Risk shorts which are used to hedge equity exposure and thematic risk also added to portfolio returns in October.

Positive contributors to performance included long positions in Newcrest, Senex Energy, and Crown Resorts. Detractors included our overweight positions in Strike Energy, Virgin Money UK and Pact Group.

Some of the standouts from October included:

Senex Energy

Senex was up 20% in the month following its announcement that POSCO International would be granted a period of exclusive due diligence. This grant came after POSCO's submission of an indicative proposal to acquire 100% of Senex for a cash offer price of A\$4.40 per share, or c.20% premium to the 30-day average price.

Crown Resorts

Crown was up 4% through October. The stock reacted positively to the results of the Victorian Royal Commission into its suitability to retain the Melbourne casino license. The report found Crown not currently suitable to hold a license, but also said it would not be in the public interest to cancel it given the risk of harm to the Victorian community. Instead, Crown would be allowed to continue to operate under strict supervision and granted a 2 year period to become a suitable holder of its operating license.

Newcrest

Newcrest increased 9% in the month following the release of pre-feasibility studies on the Lihir Phase 14A, Havieron development, and Red Chris Block Cave projects. The studies provided clarity on production and capital costs and generally led to minor consensus earnings upgrades across longer term expectations.

Detractors to portfolio performance in the month included the following:

Strike Energy

Strike Energy shares were down 36% after the company reported disappointing gas reserves and resources at its West Erregulla project in Western Australia versus its own assessment in 2019. Despite the disappointment, the company is well funded to see it through the current drilling at its South Erregulla exploration program.

Pact Group

Pact Group fell 19% through October following its September quarter trading update. The update was generally inline albeit Pact reinforced caution around freight costs. The main disappointment came from its decision to cease the sale process for its non-core Contract Manufacturing businesses. We don't believe this should have been a major surprise given the protracted process. Moreover, the core businesses appear to be performing well with the longer-term value from its circular economy strategy very much on track. We used the share price weakness to add to our position

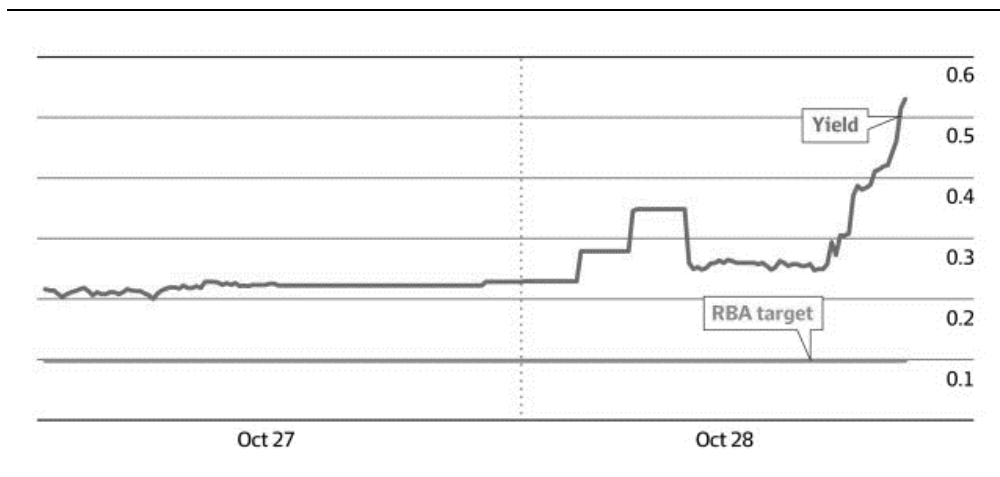
ONE INTERESTING THING THAT HAPPENED THIS MONTH

This month, underlying inflation entered the RBA's 2-3% target range for the first time in six years! The key three-year bond rate increased to five times the RBA's 0.1% target, as the Futures market was pricing in a 75% chance of a rate hike in Australia in February 2022.

In their meeting in early November, the RBA scrapped the 0.1% yield target, and its explicit calendar-based forward guidance, which positioned its first rate hike this cycle in 2024. They replaced this policy with a more flexible view, maintaining "patience" while waiting for its objectives to be met before raising the cash rate...

Pressure is clearly building on Australia as other developed nations look to gradually raise rates. Norway and New Zealand have most recently raised rates in September and October respectively, and we await an update from the Bank of England on November 4.

Figure 1. April 24 government bond yield (%)



Source: Eikon

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