

FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | JANUARY 2022

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	-0.12%	-3.43%	4.81%	0.60%	12.63%	8.48%	6.00%	-	-
Strategy composite ³	-0.12%	-3.43%	4.81%	0.60%	12.63%	8.48%	-	6.88%	11.68%
Benchmark	0.01%	0.03%	0.05%	0.10%	0.18%	0.49%	0.72%	0.88%	1.09%
Excess Return	-0.13%	-3.45%	+4.76%	+0.50%	+12.45%	+7.99%	+5.28%	+6.00%	+10.59%

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 JANUARY 2022

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

FUND DETAILS

Unit Prices	31 January 2022
Application price	\$ 1.2546
Redemption Price	\$ 1.2458
NAV Price	\$ 1.2502
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception date	14 March 2018
Fund size	\$412mil
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 JANUARY 2022

	Portfolio Exposure
Long Equity	162.4%
Short Equity	-162.4%
Net Equity Exposure	0.0%

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 Firetrail Absolute Return Fund returned a negative 0.12% during January, underperforming the RBA Cash Rate benchmark by 0.13%.

Positive contributors to performance included long positions in Santos, BHP and Amcor. Detractors included overweight positions in Megaport, Serko and James Hardie.

WHAT'S DRIVING MARKETS?

The Australian S&P200 Benchmark closed lower in January, mirroring a weaker US lead. The index fell ~6.5% during the month, with Energy leading the market. Valuation pressures led Info Tech and Healthcare sharply lower. The US market also finished January down, falling ~5%. Increased volatility was led initially by the Federal Reserve failing to soothe investor fears around the pace of monetary policy tightening. The December US headline inflation print of 7% was the highest since 1982. Spurring Fed Reserve Chairman Powell to make the strongest indication yet that rate rises could start as early as March.

With the prospect of at least four US rate rises in 2022, the market pivoted towards Value orientated stocks, with Growth underperforming. In Australia, we have also seen consumer prices start to accelerate, albeit at a more modest pace. The December quarter data pointed to a rise of 3.5% over the past year, which is still above the RBA's 2% target and well ahead of expectations. The RBA has since taken steps to end its emergency quantitative easing program, with rate rises increasingly priced to begin from the September quarter here in Australia.

Global markets are trying to price a more hawkish monetary policy outlook through 2022. In Australia, we have seen the expensive part of the market materially underperform, led by Information Technology stocks. We have also seen large caps being preferred over the mid and small cap end of the market as risk tolerances start to wane. Unfortunately, we expect volatility to remain elevated until we start to see consumer prices begin to ease. This is unlikely until at least late 2022 or early 2023 as rate rises begin to have an impact and still constrained global supply chains begin to ease.

PORTFOLIO CONTRIBUTORS & DETRACTORS

The Absolute Return Portfolio ended slightly down over the month, which is a pleasing result given the broader market sell-off amidst elevated volatility.

The fund's slight tilt to small caps hurt performance through the January market malaise, with the Small Ords underperforming the broader market by 300bps. Despite this, individual stock selection continues to play a key role in the performance of the Fund. Overall, we believe that the Fund remains well balanced in terms of its thematic exposure. We continue to see companies exposed to global growth and reopening providing greater opportunities overall. This is reflected in the Fund's value and cyclical tilt over more yield sensitive and growth sectors.

Breaking it down further, the performance in the month was driven by the following:

- The long portfolio detracted 2.3% - mainly due to weakness in the small to mid-cap stocks within the portfolio.
- The short portfolio added 2.2% - Pleasingly both our fundamental shorts and risk shorts contributed to the positive performance.

Some of the standouts from January included:

Santos

Santos shares were up 13% in January, mirroring the moves in Brent Oil and reversing the declines seen during the December quarter. This reflected increased confidence in the oil demand recovery following the most recent Omicron wave as well as the heightened geopolitical tensions between Russia and NATO over Ukraine. Potential global supply growth continues to remain broadly elusive in our view, which provides us with increased confidence around the Energy overweight in the Absolute Return Fund.

BHP

BHP shares were up 11% in the month. Part of the improvement was due to the recent collapse of the DLC structure and index upweight in Australia. However, more importantly we continue to see signs of an improvement in the China outlook through 2022. Steel demand appears to have bottomed in the December quarter with indications that steel mills will look to further increase production after the Chinese New Year and the Beijing Olympics. This has helped drive iron ore prices higher from around \$100 per tonne to \$140 per tonne recently.

Ancor

Ancor shares were 2% higher through January. We are attracted to Ancor’s defensiveness during heightened periods of market volatility given the exposure to consumer staples demand. The market’s increasingly risk off nature helped drive the shares higher.

Detractors to portfolio performance in the month included the following:

Megaport

Megaport declined by 28% over the month following the release of December quarter results. We were disappointed by the number of Megaport Virtual Edge (MVE) sales. Megaport reported 12 sales during the quarter relative to our expectations of 30. Megaport remains a high conviction position and we increased our holdings during the month.

Serko

Serko shares were down 20% in the month, which we believe was largely driven by the impact of Omicron on travel related demand.

James Hardie

James Hardie shares were down 15% during January driven mainly by the departure of its CEO last month. This was exacerbated by rising US bond yields sparking concerns around the outlook for US housing demand. We believe macro concerns are being overplayed with the US market still facing a large housing supply deficit and chronic labour shortages. Rates are also only increasing off trough levels, which should enable a longer than normal cycle as supply slowly catches up with demand.

ONE INTERESTING THING THAT HAPPENED THIS MONTH

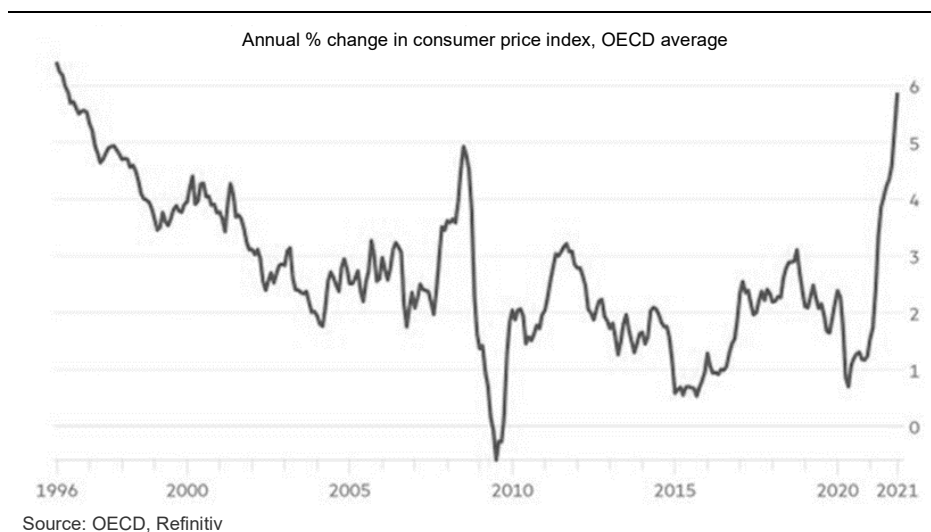
The US CPI print dominated headlines in January as the December US headline inflation print hit 7%. A 39 year high! But back in 1982 the circumstances were very different.

While inflation right now is rising, back then it was falling after peaking at 14.8% in 1980, when Jimmy Carter was still president and the Iranian revolution had pushed up oil prices. Newly installed Federal Reserve Chairman Paul Volcker had set out to crush inflation by raising interest rates dramatically, causing a recession in 1980. As rates reached 19% (!!!) in 1981, a much deeper recession began. By the summer of 1982, both inflation and interest rates were falling sharply...

Fast forward to today and Bond markets are pricing in ~4 rates hikes for 2022, and >90% chance of a March hike. The US 10-year breached 1.8% earlier in January, representing a post-pandemic high.

The challenge has been set for the Fed to bring inflation under control without short circuiting the business cycle. If inflation does not moderate, this will trigger faster Fed hikes increasing the risk of another policy-driven recession.

Figure 1. Inflation in OECD countries hit a 25-year high in January...



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