

# FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | FEBRUARY 2022

## PERFORMANCE (AFTER FEES)

	Month	Quarter	6 Months	1 Year	2 Years p.a.	3 Years p.a.	Fund inception p.a. <sup>2</sup>	5 Years p.a.	Strategy inception p.a. <sup>4</sup>
Fund <sup>1</sup>	0.11%	-2.04%	1.42%	-4.47%	12.96%	8.92%	5.91%	-	-
Strategy composite <sup>3</sup>	0.11%	-2.04%	1.42%	-4.47%	12.96%	8.92%	-	7.22%	11.54%
Benchmark	0.01%	0.02%	0.05%	0.10%	0.16%	0.45%	0.71%	0.85%	1.07%
Excess Return	<b>+0.10%</b>	<b>-2.07%</b>	<b>+1.37%</b>	<b>-4.57%</b>	<b>+12.80%</b>	<b>+8.47%</b>	<b>+5.20%</b>	<b>+6.37%</b>	<b>+10.47%</b>

## 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

28 FEBRUARY 2022

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

## FUND DETAILS

Unit Prices	28 February 2022
Application price	\$ 1.256
Redemption Price	\$ 1.2472
NAV Price	\$ 1.2516
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception date	14 March 2018
Fund size	\$413mil
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 28 FEBRUARY 2022

	Portfolio Exposure
Long Equity	166.9%
Short Equity	-166.8%
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/>.

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

For the month, the Fund returned 0.11% outperforming the benchmark by 0.10%. Positive contributors to performance included long positions in Newcrest, Nufarm and Bluescope. Detractors included our overweight positions in Telix, Seek and Xero.

### WHAT'S DRIVING MARKETS?

February wrapped up another Australian reporting season. Overall, results were positive with 1.5x more earnings beats than misses. Earnings upgrades were also 2x the long run average despite margin pressures from supply chain constraints and rising input costs. Clearly the demand backdrop remains supportive with re-stocking of channels and hot demand underpinning pricing power and the ability for corporates to pass on higher costs. Value orientated stocks was where we saw most upgrades, while growth overall saw a reduction in earnings expectations. Upgrades were largest in Energy, Media and Materials, while Tech and Staples saw most downgrades.

Geopolitical risks didn't dampen the month end, with the Australian market the best performing index globally. The ASX 200 closed 2% higher, an outlier amongst global peers which all closed lower. The US S&P 500 was down -3.1%, while Europe finished down -2.8%. Our Resources and Energy heavy index did the lifting. Tech continues to be a drag with profitless Technology stocks continuing to see investor outflows. Central bank efforts designed to combat inflation are likely to provide a challenging backdrop for these stocks over the medium term.

## PORTFOLIO POSITIONING

The Absolute Return Portfolio ended up slightly over the month, which is a pleasing result given the broader market moves amidst elevated volatility.

The fund's slight tilt to small caps hurt performance again through February, with the Small Ords underperforming the broader market by 300bps, taking the year to date spread between smalls and large caps to 600bps. 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 the energy complex 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 1.0% - pleasingly this was driven by our fundamental shorts, which offset the impact from risk shorts that are used to manage market exposures.

## PORTFOLIO CONTRIBUTORS & DETRACTORS

### CONTRIBUTORS

Some of the standouts from February included:

- **Nufarm was up 23%** following Nufarm's positive trading update. The company reported 36% revenue growth in the December quarter driven by price and volume. Nufarm's investor day presentation also provided more detail on the medium-term growth opportunities in plant-based Omega 3 and low-carbon fuel (Carinata). These two products support Nufarm's ambition to more than double revenues in its Nuseed division over the next 4-5 years.
- **Bluescope was up 11%** following increased indicators that US steel spreads are bottoming at a time when global steel supply is tightening. Bluescope also reported a broadly inline result yet doubled its buyback to c.\$1bn. We expect a strong free cashflow profile and net cash position to underpin further buybacks over the next few periods.
- **Lynas rose 14% for the month.** Supply and demand dynamics for Lynas' main rare earth product, NdPr, remain very favourable. Lynas' Vice President of Downstream, Pol Le Roux, commented that inventory levels for magnet makers are down to ~1 month vs ~6 months typically. With its 1H22 result, Lynas also confirmed its project to expand processing at Kalgoorlie remains on track to be operational by July 2023.

### DETRACTORS

Key detractors over the month included:

- **Telix declined by 27%** over the month. While we anticipated the capital raise, it was poorly timed and priced. As a result, the stock has since performed weakly. The raise will allow the company to pursue its significant R&D drug pipeline. Telix will commercialise their first FDA approved diagnostic product, Illucix, in the second quarter of 2022. Illucix is a targeted prostate cancer imaging agent that the company will distribute to imaging centres and hospitals throughout the US. The prostate cancer diagnostic market is estimated to be US\$900m per annum.
- **Seek dropped 8%**. Seek reported 59% growth in revenues in the December half, driven by record job advertisement volumes in Australia and a shift by employers and recruiters towards more expensive ads. After the normal seasonal lull in December, Seek also flagged a strong return in January which gave management the confidence to upgrade FY22 EBITDA guidance by 10-15%. Unfortunately, due to the sectoral shift out of technology stocks, the strong result was not reflected in the share price with Seek underperforming in February.
- **Xero was down 13%**. Given its March year-end, Xero didn't report results or any other material news during February. The broad sell-off in technology stocks weighed on the share price.

### ONE INTERESTING THING THAT HAPPENED THIS MONTH

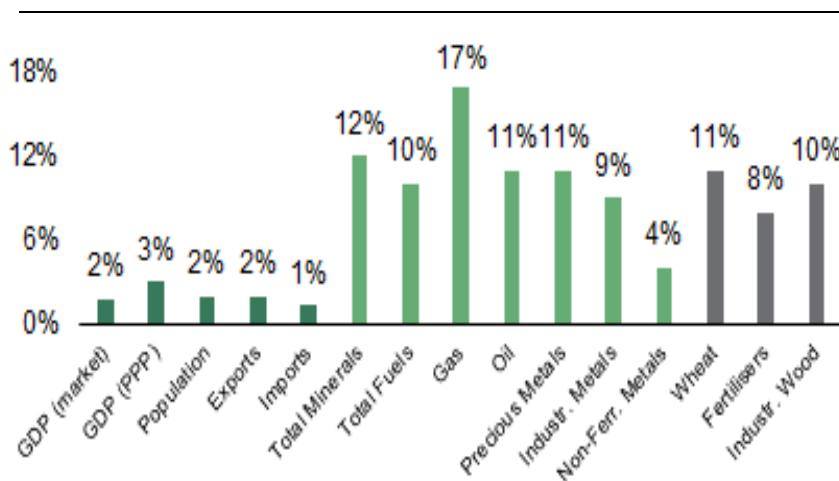
On the 24th of February 2022, Russian troops invaded Ukraine. Global financial markets are facing a new wave of uncertainty as a range of sanctions have been placed on Russia in response to the threat to the sovereignty of Ukraine.

Russia is the world's largest exporter of oil to global markets and is the second largest oil producer behind the United States. Approximately half of Russia's oil is exported to European countries such as Germany, Italy, the Netherlands, Poland, Finland, Lithuania, Greece, Romania, and Bulgaria.

The price of Brent crude has surged recently. This is the result of the geopolitical uncertainty and countries refusing to buy oil from Russia, further ratcheting up economic pressure. The United States and European allies have now begun to actively engage in discussions to officially sanction Russian oil imports.

As can be seen in Figure 1 below, Russia also has significant exposure to other major commodity markets. We wait to see what the impacts from continued Russian aggression will be.

Fig 1. Russian global market exposure (%)



Source: Firetrail, Goldman Sachs

This document is prepared by Firetrail Investments Pty Limited ('Firetrail') ABN 98 622 377 913 AFSL 516821 as the investment manager of the Firetrail Absolute Return Fund (ARSN 624 135 879) ('the Fund'). This communication is for general information only. It is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice before doing so. Past performance is for illustrative purposes only and is not indicative of future performance.

Pinnacle Fund Services Limited ABN 29 082 494 362 AFSL 238371 ('PFSL') is the product issuer of the Fund. PFSL is not licensed to provide financial product advice. PFSL is a wholly-owned subsidiary of the Pinnacle Investment Management Group Limited ('Pinnacle') ABN 22 100 325 184. The Product Disclosure Statement ('PDS') of the Fund is available at <https://firetrail.com/firetrail-absolute-return-fund/>. Any potential investor should consider the PDS before deciding whether to acquire, or continue to hold units in, the Fund. The Product Disclosure Statement ('PDS') and the Target Market Determination ('TMD') of the Fund is available at <https://firetrail.com/firetrail-absolute-return-fund/>.

Whilst Firetrail, PFSL and Pinnacle believe the information contained in this communication is reliable, no warranty is given as to its accuracy, reliability or completeness and persons relying on this information do so at their own risk. Subject to any liability which cannot be excluded under the relevant laws, Firetrail, PFSL and Pinnacle disclaim all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage), however caused, which may be suffered or arise directly or indirectly in respect of such information. This disclaimer extends to any entity that may distribute this communication.

The information is not intended for general distribution or publication and must be retained in a confidential manner. Information contained herein consists of confidential proprietary information constituting the sole property of Firetrail and its investment activities; its use is restricted accordingly. All such information should be maintained in a strictly confidential manner.

Any opinions and forecasts reflect the judgment and assumptions of Firetrail and its representatives on the basis of information available as at the date of publication and may later change without notice. Any projections contained in this presentation are estimates only and may not be realised in the future.

Unauthorised use, copying, distribution, replication, posting, transmitting, publication, display, or reproduction in whole or in part of the information contained in this communication is prohibited without obtaining prior written permission from Firetrail. Pinnacle and its associates may have interests in financial products and may receive fees from companies referred to during this communication.

This may contain the trade names or trademarks of various third parties, and if so, any such use is solely for illustrative purposes only. All product and company names are trademarks™ or registered® trademarks of their respective holders. Use of them does not imply any affiliation with, endorsement by, or association of any kind between them and Firetrail.

#### MORE INFORMATION

General enquiries 1300 010 311

Existing client enquiries 1300 360 306

[www.firetrail.com](http://www.firetrail.com)