

# FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | APRIL 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>	-1.39%	-5.63%	-8.86%	-10.69%	7.09%	6.54%	4.16%	-	-
Strategy composite <sup>3</sup>	-1.39%	-5.63%	-8.86%	-10.69%	7.09%	6.54%	-	5.15%	10.24%
Benchmark	0.01%	0.02%	0.05%	0.10%	0.14%	0.38%	0.68%	0.81%	1.05%
Excess Return	<b>-1.40%</b>	<b>-5.65%</b>	<b>-8.91%</b>	<b>-10.79%</b>	<b>+6.95%</b>	<b>+6.16%</b>	<b>+3.48%</b>	<b>+4.34%</b>	<b>+9.19%</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

30 APRIL 2022

Top 3 Overweight Holdings (Alphabetical)
Newcrest Mining
QBE Insurance Group
Santos

## FUND DETAILS

Unit Prices	30 APRIL 2022
Application price	\$ 1.1839
Redemption Price	\$ 1.1757
NAV Price	\$ 1.1798
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception date	14 March 2018
Fund size	\$386mil
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

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	Portfolio Exposure
Long Equity	174.4%
Short Equity	-174.4%
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 Fund returned negative 1.39% for the month ending 30 April 2022, underperforming the RBA Cash Rate benchmark by 1.40%.

The long portfolio detracted from performance over the month, while the short portfolio contributed positively. Our tilt to small caps was a key driver of underperformance in the long portfolio.

Our objective is to deliver positive returns over the medium term (rolling 3-years), irrespective of equity market direction. Whilst the underperformance over the past 12-months has been difficult, some of our strongest performance periods have followed challenging performance periods, and we have high conviction in our long and short portfolio positioning to deliver on our medium-term objectives.

## CONTRIBUTORS TO RETURNS

The long portfolio detracted from performance during the month. The Fund has a tilt toward small companies in the long portfolio. Whilst this positioning has added materially to returns in the past two to three years, it has detracted over the past 12-months in a period where Australian small caps have underperformed large caps by over 7%. We remain comfortable with our portfolio tilt to small companies given the material upside we see in the stock-specific positions.

### NEGATIVE CONTRIBUTORS

#### Megaport

Megaport underperformed over the month. Megaport reported 3Q FY22 revenues that were modestly below market expectations. The lower step-up in monthly recurring revenue (MRR) raised some concerns around the pace of its partner channel strategy ramp-up and the extent to which this may be impacting momentum in Megaport's core business. We continue to believe the medium-term growth opportunity for Megaport is significant and will be realised within a reasonable timeframe.

#### Lynas Rare Earths

Lynas Rare Earths shares underperformed during the month as rare earth prices retreated from all-time highs. Record production in the 3Q added around A\$100m to Lynas' cash position during the quarter despite significant expenditure on expansion projects. These projects will increase production by ~40% over the next 3 years to meet soaring demand from the electric vehicle and wind turbine sectors.

#### ResMed

ResMed shares underperformed during April after it reported 3Q results impacted by the global chip shortage. The inability of suppliers to fulfill contracts has hampered ResMed's ability to meet a substantial uplift in demand resulting from a major competitor recall. ResMed remains confident of growing sales through FY23 despite limited supply chain visibility and highlighted a 12-18 month patient backlog that will also need to be addressed in time.

### POSITIVE CONTRIBUTORS

#### Amcor

Amcor shares outperformed in April, benefiting from solid peer results which showed resilient volume demand and strong pricing trends for fast-moving consumer goods (FMCG). Amcor reported strong March quarter results which beat expectations and the company raised the midpoint of its FY22 EPS growth guidance range. The result demonstrated Amcor's pricing power and ability to drive product mix across its customer segments.

#### Telix Pharmaceuticals

Telix Pharmaceuticals shares outperformed in April following a decline in March. Telix launched their prostate cancer imaging agent, Illucix, into the US market on the 1st of April. Telix has a distribution advantage over competitor Lantheus, given the Illucix radioisotope can be stored in generators at nuclear pharmacies. Telix's distribution partner Cardinal has over 100 nuclear pharmacies across the United States giving them greater proximity to patient dosing sites.

#### Lendlease

Lendlease shares outperformed in April as value stocks outpaced growth stocks through the month. The company didn't report any material news but did host a virtual tour of its Military Housing business which was attended by the Firetrail team.

## 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 equity market direction.

### The long portfolio can be summarised as:

- 174% long exposure across 40 to 60 stocks with upside based on our medium-term forecasts.
- Tilted toward mid to small companies with compelling valuations and earnings upside based on our 3-year forecasts.
- Overweight energy and EV materials with attractive supply and demand dynamics and company fundamentals.
- Overweight value / cyclicals which remain undervalued with underappreciated medium-term earnings.

### The short portfolio can be summarised as:

- 174% short exposure across a diversified portfolio of earnings shorts and risk-reducing shorts.
- Earnings shorts aim to profit from falling share prices because of earnings downgrades. The current market environment is creating heightened shorting opportunities as companies deal with supply chain issues, rising costs, and changing consumer preferences.
- Risk-reducing shorts offset equity exposure risks and control portfolio risks such as style (value/growth), size, sector, and thematic biases to ensure returns are driven by stock specific risk (not macro risk).
- The short portfolio is currently overweight expensive consumer staples and bond proxies.

## ONE INTERESTING THING THAT HAPPENED THIS MONTH...

The US Job Quits Rate measures voluntary resignations initiated by the employee (not including retirements). It is a useful measure of workers' willingness and ability to leave jobs, and also a forward indicator of wage inflation as employers have to increase wages to retain staff.

Since COVID-19, the rate of voluntary resignations in the US has soared to its highest level in over 25 years, well above levels seen post-GFC.

While this is a US data point, we are seeing signs of the same trend in Australia and we are keeping a close eye on the cost line for our portfolio companies. Higher labour costs will hurt companies with tighter profit margins and larger labour forces. On the other hand, this trend will benefit a company like SEEK who is a beneficiary of higher labour force turnover.

**Figure 1:** The US Job Quits Rate is at its highest level in over 25 years.



Source: TradingEconomics.com, U.S. Bureau of Labor Statistics

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Link to the Product Disclosure Statement: [WHT5134AU](#)

Link to the Target Market Determination: [WHT5134AU](#)

For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email [service@pinnacleinvestment.com](mailto:service@pinnacleinvestment.com)

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