

# FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | MAY 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>	-0.63%	-6.33%	-8.24%	-10.55%	4.57%	8.16%	3.92%	-	-
Strategy composite <sup>3</sup>	-0.63%	-6.33%	-8.24%	-10.55%	4.57%	8.16%	-	5.05%	10.00%
Benchmark	0.03%	0.04%	0.07%	0.12%	0.14%	0.34%	0.68%	0.79%	1.04%
Excess Return	<b>-0.66%</b>	<b>-6.37%</b>	<b>-8.31%</b>	<b>-10.67%</b>	<b>+4.42%</b>	<b>+7.82%</b>	<b>+3.25%</b>	<b>+4.27%</b>	<b>+8.96%</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

31 MAY 2022

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

## FUND DETAILS

Unit Prices	31 May 2022
Application price	\$ 1.1765
Redemption Price	\$ 1.1683
NAV Price	\$ 1.1724
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception date	14 March 2018
Fund size	\$374mil
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

31 MAY 2022

	Portfolio Exposure
Long Equity	172.2%
Short Equity	-172.1%
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/>.

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 0.51% for the month ending 31 May 2022, underperforming the RBA Cash Rate benchmark by 0.54%.

The long portfolio detracted from performance over the month, while the short portfolio contributed positively.

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. We have high conviction in our long and short portfolio positioning to deliver on our medium-term objectives.

## CONTRIBUTORS TO RETURNS

### POSITIVE CONTRIBUTORS

#### Santos

Santos shares outperformed in May as the oil price rallied from US\$100/bbl to US\$117/bbl. During the month, Ministers from Saudi Arabia and Bahrain highlighted that refining bottlenecks would limit the ability of supply to meet demand even if more crude oil was pumped by producers. Restricted supply and solid demand will continue to put upward pressure on oil prices. This is positive for Santos.

#### Lynas

The price of Lynas' main rare earth mineral, NdPr, rose 11% during May. While no stock specific announcements were made during the month, the company released an exploration update in early June. The update highlighted the size and scale of Lynas' Mt Weld deposit in WA that underpins the company's long-term growth plans. Lynas is currently mining at a depth of ~100m below surface. The current 'life of mine plan' extends to 200m. Recent drilling shows that the orebody extends ~600m below this.

#### Amcor

Amcor shares outperformed in May after the packaging company reported strong 3Q FY22 results. Amcor reported earnings growth of 9% and upgraded guidance for the full year FY22 to 9.5-11%. Amcor's recent results have demonstrated the company's ability to pass on raw material inflation to its customers.

### NEGATIVE CONTRIBUTORS

#### Newcrest Mining

Newcrest Mining underperformed during May. Rising inflation and higher interest rate expectations continue to negatively impact the price of gold and other precious metals. Newcrest also reported disappointing Q3 FY22 results during the month. Higher costs and a lack of improvement at Newcrest's Lihir mine weighed on investor sentiment.

#### Megaport

Network-as-a-service provider Megaport underperformed in May on no fundamental news. The broader ASX 300 Information Technology index fell 8% in May with declines once again concentrated in small cap, non-profitable technology companies.

#### Bluescope

BlueScope Steel underperformed in May due to a broader sell-off in US-exposed steel companies. During the month, BlueScope upgraded 2H22 earnings guidance by 10% thanks to higher-than-expected prices in its North America steel business. This was partly offset by softer trends in its Australian steel products division as a result of supply chain disruptions (floods, rail outages and COVID).

## 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:

- 172% long exposure across 40 to 60 stocks with upside based on our medium-term forecasts.
- Slightly 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:

- 172% 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.

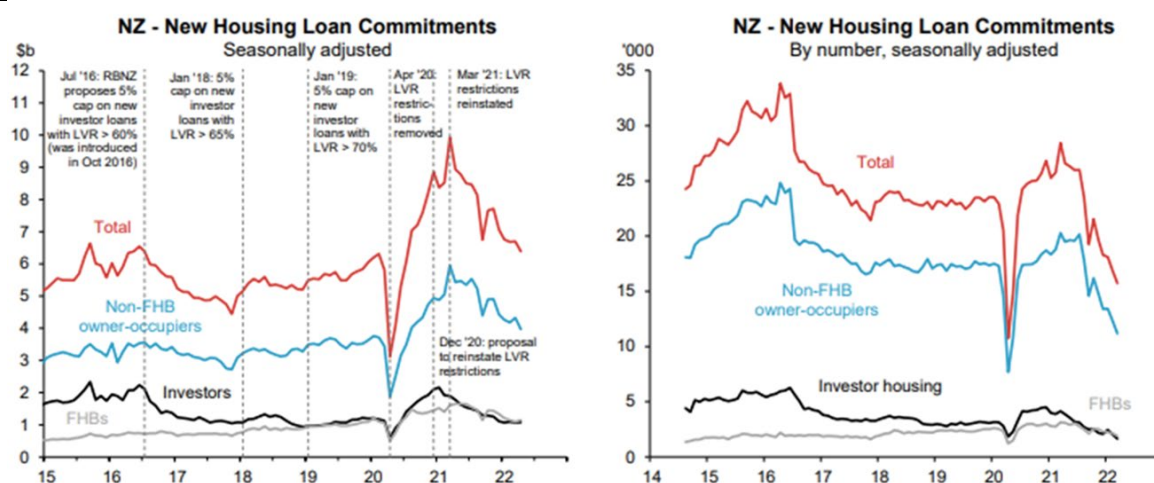
## ONE INTERESTING THING THAT HAPPENED THIS MONTH...

The Reserve Bank of New Zealand has become the canary in the central banking coalmine of late...

In late May, RBNZ increased rates 50bps to 2.0%. It also warned the market to expect an additional 2% of increases over the next 12 months. With rates up, NZ home loan values and the number of commitments are down across all borrower types.

With the RBA announcing its own 50bps increase in early June, it will be interesting to watch how Australians react. Australian banks have outperformed global banks in recent months. But if Australians put a hold on taking out mortgages, this could revert quickly...

**Figure 1: Rates up, loans down... NZ home loan values and number of commitments are falling after aggressive RBNZ interest rate hikes**



Source: Macrobond, RBNZ, Macquarie Macro Strategy

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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](mailto:service@pinnacleinvestment.com)

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