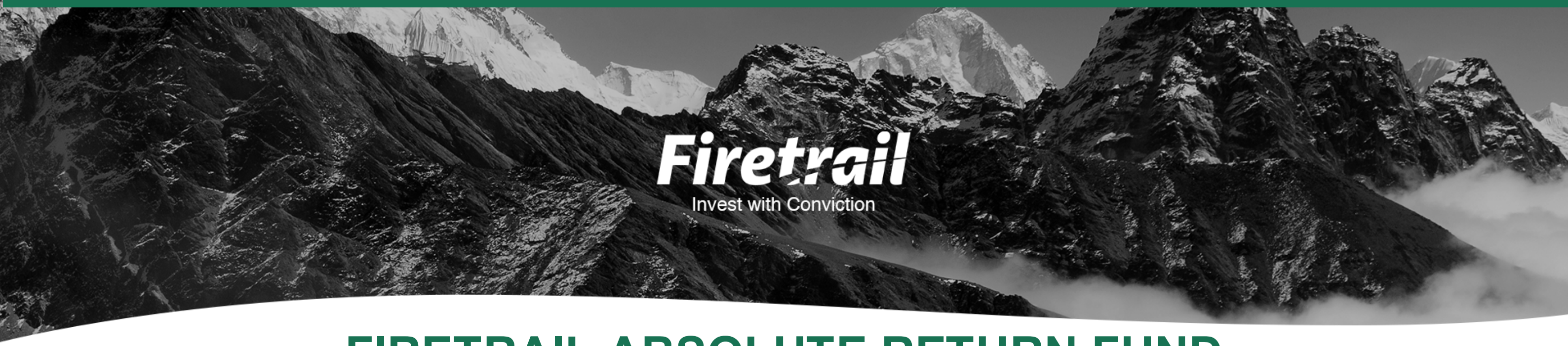


FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | JUNE 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]	-6.48%	-6.43%	1.60%	17.10%	15.93%	5.86%	6.47%	-	-
Strategy composite[3]	-6.48%	-6.43%	1.60%	17.10%	15.93%	5.86%	-	7.41%	12.55%
Benchmark	0.01%	0.02%	0.05%	0.15%	0.41%	0.76%	0.83%	1.06%	1.19%
Excess Return	**-6.49%**	**-6.45%**	**+1.55%**	**+16.95%**	**+15.52%**	**+5.10%**	**+5.64%**	**+6.35%**	**+11.36%**

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 JUNE 2021

Top 3 Overweight Holdings (Alphabetical)
Crown Resorts Ltd
Newcrest Mining Ltd
OZ Minerals Ltd

FUND DETAILS

Unit Prices	30 June 2021
Application price	$ 1.2300
Redemption Price	$ 1.2214
NAV Price	$ 1.2257
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception date	14 March 2018
Fund size	$334mil
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 30 JUNE 2021

	Portfolio Exposure
Long Equity	194.0%
Short Equity	(193.5%)
Net Equity Exposure	0.5%

Past performance is not a reliable indicator of future performance.

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 6.43% for the quarter ending 30 June 2021, underperforming the RBA Cash Rate benchmark by 6.45%. For the month of June, the fund returned negative 6.48%, underperforming the benchmark by 6.49%.

The 2020/21 financial year was a great year for the Absolute Return Fund, with the Fund returning 17.10%, outperforming the benchmark by 16.95%.

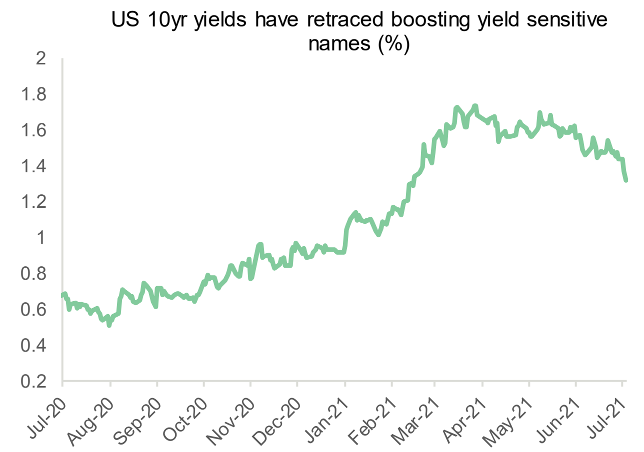
WHAT'S DRIVING MARKETS?

It was another positive month for the Australian equity market through the June quarter, helping the index to its strongest year of growth since 2007. The benchmark S&P200 added 8% for the quarter and 24% for the financial year ending June 2021. The Information Technology and Consumer Discretionary sectors led the market through the June quarter, building on their market leading performance throughout the year. IT was up 12%, while Consumer Discretionary rose 12%, outpacing the market's 8% gain. Energy (-3%) and Utilities (-6%) were the weakest performing sectors for the quarter.

A number of themes were at play over the last quarter with no clear direction for the market. Perhaps the most impactful of these was the reversal of performance of growth equities over value. The MSCI Australia Growth index outperformed value by c.3% in June, after being down in the previous month of May. Value has still outperformed growth significantly over the last 12 months, finishing up a relative c.20% through FY21.

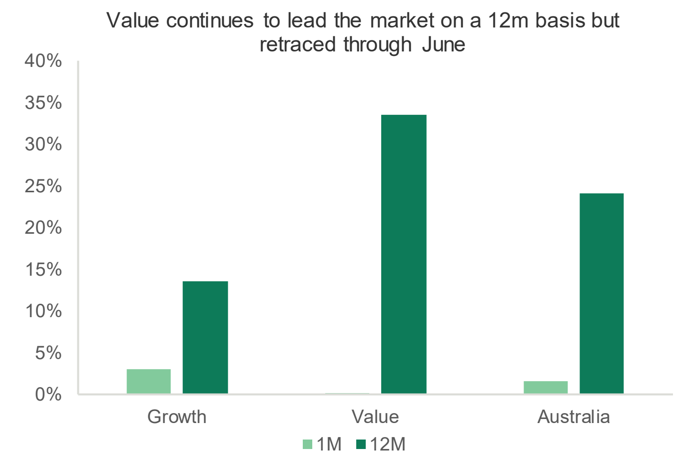
On the commodities front gold and base metals pulled back during June. Energy was a strong performer as Brent continued to rally, as did the iron price which finished up 8% at US$216/t.

Figure 1



Source: FactSet,

Figure 2



Source: MSCI

PORTFOLIO POSITIONING

For the FY21 year, the Firetrail Absolute Return fund has returned 17.1% after-fees, which was driven by a very strong 11 months of performance. Unfortunately, it was a disappointing end to the year with a very poor June contributing to a weak quarter for the Fund. Investing in the Firetrail Absolute Return Fund requires a minimum 3-year timeframe. The Fund has never underperformed on a rolling 3-year basis, and we remain incredibly confident about the available prospects through FY22.

While nothing really stood out in terms of the poor June-quarter performance, we note the Fund has a slight value and cyclical tilt over more yield sensitive and growth sectors. This negatively impacted performance. Stock selection in both the long and short portfolio drove the underperformance through the quarter.

Breaking it down further, most of the underperformance was driven by the month of June, where:

- The long portfolio detracted 3.7%
  - High conviction positions (Mid to large cap) cost 1.9%
  - Small caps and event positions cost 1.8%
- The short portfolio detracted 2.7%.
  - This was primarily driven by M&A activity which hit one of our shorted stocks

We have provided some additional detail around the main portfolio detractors over the quarter. For the most part we remain confident in the medium to long term thesis around these companies despite some of the more challenging recent performance numbers.

The main detractors within the large cap, high conviction positions included:

Nufarm

Despite delivering a much stronger than expected 1H21 result, the stock sold off on more cautious 2H21 outlook comments. Specifically, the company pointed to an elevated level of pull forward sales that occurred in the 1H21, which is not expected to be repeated. We believe the comments around 2H performance look overly conservative however, with continued positive seasonal conditions in Nufarm's key markets alongside stronger soft commodity pricing and an extensive cost out program supportive of an ongoing earnings turnaround for the company. This should be supported by improving balance sheet metrics and the commercialisation of Nufarm's AquaTerra Omega-3 product. Valuation continues to look undemanding versus peers with the Omega-3 optionality also not priced in at current levels.

Newcrest

Despite being the best performing gold company on the ASX over the last quarter, Newcrest continues to be weighed down by gold price and broader rate led volatility. After being up strongly through May, spot gold was 7% weaker in June weighing on gold equities. This followed the US Fed's comment on "talking about talking about tapering", which saw the market gearing up for two rate hikes in 2023 (from zero), and the US dollar rallying as a result. US 10yr treasuries initially rose above 1.55%, but have since eased back to the low 1.40% range, with the market increasingly at ease that inflation will be transitory. Thematically we continue to be attracted to gold exposure given lingering concerns around inflation. Within the sector we like Newcrest for operational improvements at Lihir as well as exploration upside at a number of projects.

Oz Minerals

After very strong gains for the most part of FY21, we saw profit taking in Oz through the June quarter, which mostly reflected the 9% drop in copper prices in the month of June. This may be a result of China's recent "crackdown" on speculation in both physical and futures markets. However, we continue to see the copper supply deficit largely unchanged on a medium term view and remain positive on the commodity price. Oz Mineral's remains an attractive way to play the copper thematic. Its favourable production profile at Prominent Hill and Carrapateena, alongside growth options at the West Musgrave Project, remain key attractions of the stock through 2022.

Additional small cap overweights also failed to add value over the quarter. The two main detractors here comprised:

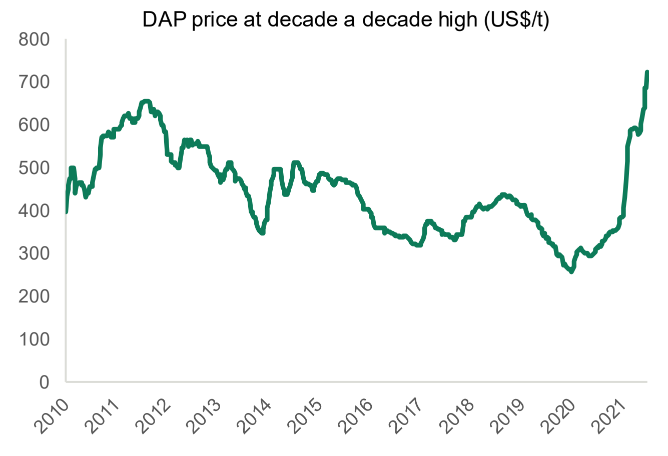
Incitec

We've discussed the operational issues that have impacted production at Incitec's Waggaman ammonia plant over the last few months. These have led to multiple earnings downgrades for FY21 and continue to weigh on sentiment around the stock. At current levels, we believe the market is ascribing little to no value to the Waggaman ammonia plant, despite its position as a tier one producer with access to low cost gas. Meanwhile, soft commodity and fertiliser prices remain resilient with both Ammonia and Phosphates recently hitting new multi-year highs. Incitec is in the process of restarting the Waggaman plant. We expect a more positive operational update in August to provide a catalyst for the market to begin to price in the more favourable operating backdrop for fertilisers.

Genworth

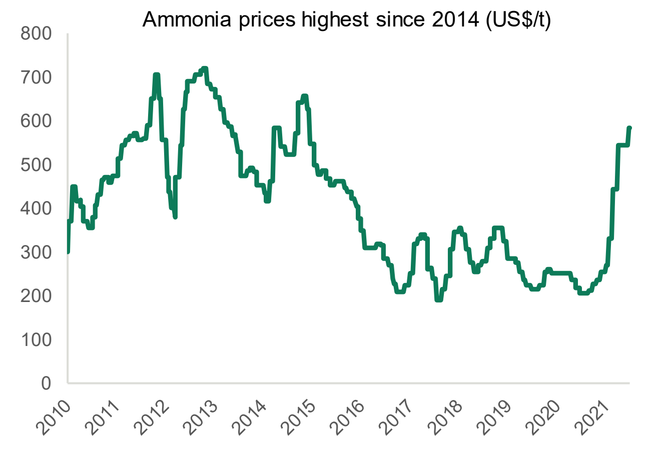
The company spooked investors towards the end of the June quarter with an announcement advising its largest customer Commonwealth Bank intends to issue a Request for Proposal relating to its Lenders Mortgage Insurance (LMI) requirements following the current exclusivity agreement with Genworth on 31 December 2022. Genworth has provided LMI exclusively to CBA since 2006. CBA represented 57% of the company's Gross Written Premium (GWP) in FY20, but significantly less of total policies outstanding. While the announcement is likely to create a significant amount of uncertainty near term, we believe Genworth remains the logical supplier to CBA (given its scale, track record and significant switching costs). Moreover, we believe this uncertainty is well reflected in Genworth's current price, with the stock now trading at a c.35% discount to book value. Genworth has relationships with over 50 lenders in Australia and continues to grow given the strong backdrop for housing and the economy generally. At current levels we see value and potential for capital returns but appreciate that this may take time to realise.

Figure 3



Source: Bloomberg

Figure 4



Source: Bloomberg

While the performance of the above stocks was disappointing, we believe inherent value exists in these names with most impacts likely to be short-term in nature. We will continue to hold these names into the new financial year.

The Absolute Return fund also had some notable positive contributors over the month. These included:

Megaport

This stock was the best performing long position in the Absolute Return Fund through the June quarter after the release of positive third quarter results, which were closely followed by a favourable investor day showcasing the longer-term growth drivers around its SD-WAN offering and potential.

ResMed

The sleep device maker reported broadly in line 3Q21 results during the quarter. However, this was overshadowed by the positive news its key competitor Philips had recently initiated a voluntary recall for specific CPAP and bi-level sleep devices (primarily first generation DreamStation products). This follows the identification of potential health risks associated with the polyester-based polyurethane sound abatement foam that is used in these devices. Industry feedback suggests potential market share gains for ResMed in the near term. This was reflected in double-digit earnings upgrades in FY22-23 which underpins our positive view on the company.

IGO

The company continues to be one of our preferred exposures to EV materials. This was further underpinned by the divestment of its 30% shareholding in the Tropicana Gold Mine to Regis Resources in April for A$900m. IGO used part of the Tropicana proceeds to acquire a c.25% stake in the Greenbushes spodumene mine and 49% of the Kwinana Lithium Hydroxide plant. Greenbushes remains a world class asset, being the largest and lowest cost spodumene mine globally with a mine life of >20years. The transactions were completed on the 30th of June, with the market now likely to focus on operational performance and cashflow.

THIS QUARTER'S STOCK STORY

RESMED

ResMed is a US$30bn healthcare company. We invested in ResMed last year because it is a focused market-share winner in a growing market at a reasonable price. It doesn't fit the mould of some of our contrarian ideas, but we still see significant underappreciated upside.

MARKET OPPORTUNITY

ResMed is trying to help ~1.5bn people who suffer from respiratory medical diseases. There are 3 key groups of people ResMed is focused on:

1. Sleep apnoea
   - 936m people
   - A sleep apnoea occurs when you stop breathing for 10 seconds or more because your airway becomes blocked or has collapsed. Sleep apnoea is an issue because it is related to high blood pressure, heart attacks and daytime fatigue.

2. Chronic obstructive pulmonary disease (COPD)
   - 380m people
   - Lung disease that causes obstructed airflow from the lungs.
   - 4 out of 5 patients are smokers.

3. Asthma
   - 340m people
   - Asthma can't be cured, but symptoms such as breathing difficulty and trigger coughing can be managed.

The above is based on ResMed's quoted addressable market. While we think they are overstating the opportunity by capturing cohorts with very mild symptoms, we do agree that the opportunity is very large.

As an example, our bottom-up estimates of the sleep apnoea addressable market of 401m people are based on:

- Worldwide obesity growing with % of population, tripling since 1975
- In 2016, according to the WHO, 39% of adults were overweight, while 13% were obese.
- Sleep apnoea affects about 3% of 'normal' weight people, but impacts 20%+ of obese people

Putting the numbers together we are talking about an addressable market of 401m people. ResMed believes that penetration currently sits below 20%, meaning 80%+ of the large addressable market is up for grabs.

The key drivers of ResMed end market growth will be:

- Population growth – more people in the world
- Obesity – continued growth in obesity and prevalence of sleep apnoea
- Penetration – awareness and treatment growing from the current sub-20% levels

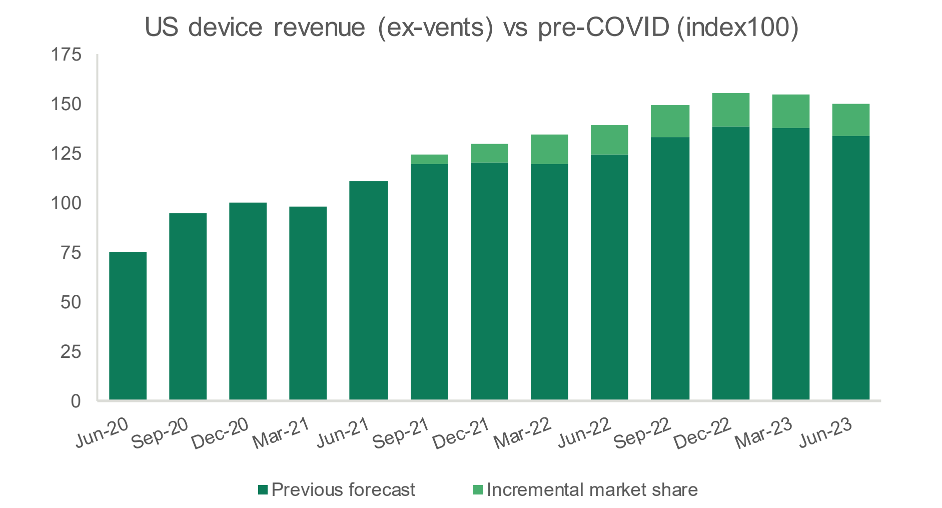
COVID IMPACT

ResMed is both a COVID winner and loser.

The win came from ventilator sales through COVID. ResMed makes ventilators, and during COVID hospitals stocked up big time. While not disclosed separately for the US, we have made an estimate below. The largest impact was the June 2020 quarter, but as we see now, there is limited contribution. It is over.

The loss came from sleep diagnosis slowing down. Sleep labs, where people go to get diagnosed were closed or running below capacity. But again, consider the below chart where US sales finished for the Dec-20 and Mar-21 quarters – back at pre-COVID levels. We also show additional growth we expect from the Philips recall, explained further below.

Figure 5



Source: Company data, Firetrail analysis

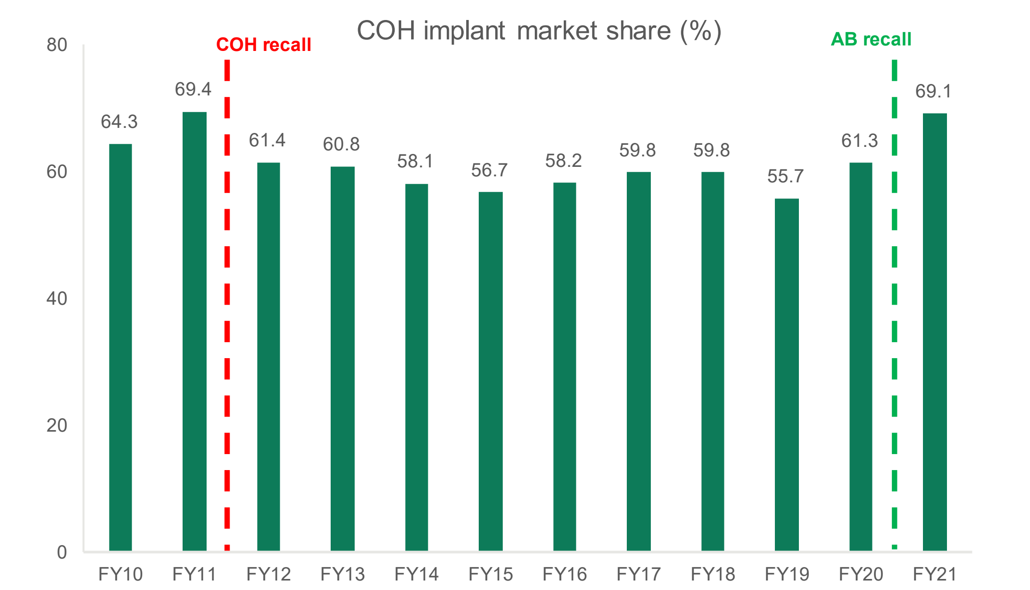
COMPETITOR PROBLEMS EXPOSE A GENERATIONAL OPPORTUNITY

ResMed's key competitor in sleep or CPAP devices is Philips. In June, Philips voluntarily recalled a range of products, including their legacy CPAP range. Philips has a problem with deterioration/degradation of the sound abatement foam used in its DreamStation CPAP flow generators and a number of its other devices.

Of the 4m devices impacted, around 80% are made up of CPAP flow generators. Philips expects to replace around 2.6m of these devices, which compares to annual production of around 2.4m devices. We expect at least 12 months of disruption to Philips' business as it addresses the legacy issues around the DreamStation device.

For ResMed there is a significant opportunity to dominate new CPAP flow generator installations over the near term while Philips is busy replacing its existing fleet. Cochlear provides a useful case study – when it initiated a product recall in 2011, its market share remained depressed for almost ten years, showing a long-term impact on market structure.

Figure 6



Source: Company data, Firetrail analysis

The key questions are how fast RMD can ramp up production of its new AirSense11 device, and how long until Philips can return to market and service new patients.

Key numbers over the next few years:

- On top of the continuing recovery trajectory that we already assume in FY22, we now factor in an additional 10-15% lift in device sales as a result of the Philips recall, plus a more modest mask benefit. This drives mid-teens revenue growth in FY22 and FY23.
- We assume gross margin contraction driven by the higher growth in lower margin devices plus some additional squeeze from freight and supply chain pressure, but OPEX growing below revenue growth.
- This drives annual earnings per share growth in the high teens in FY22 and FY23, which remains higher than street expectations.

WHAT DO YOU PAY?

ResMed's share price has responded positively to the market opportunity presented by the Philips recall. However, on a three-year view we still believe the stock screens as cheap, given our view that:

- The majority of market share gains over the next 12-24 months will be permanent, driving consensus EPS upgrades right across the forecast horizon.
- ResMed's underlying market continues to offer structural growth and low penetration.
- Strong balance sheet which will support either further incremental bolt on opportunities or recommencement of the buyback in CY21.

We see 22% upside to the current share price which assumes a 36x PE ratio in 3 years, a significant premium to the market, but one which we believe is warranted as outlined above.

MORE INFORMATION

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Firetrail INVESTMENTS