

# FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | AUGUST 2021

## 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.  | 7 Years p.a.  | 10 Years p.a. | Strategy inception p.a. <sup>4</sup> |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|----------------------------------|---------------|---------------|---------------|--------------------------------------|
| Fund <sup>1</sup>               | 4.03%         | 5.13%         | 13.07%        | 36.53%        | 13.04%        | 8.35%         | 8.39%                            | -             | -             | -             | -                                    |
| Strategy composite <sup>3</sup> | 4.03%         | 5.13%         | 13.07%        | 36.53%        | 13.04%        | 8.35%         | -                                | 10.84%        | 12.22%        | 10.71%        | 10.23%                               |
| Benchmark                       | 2.50%         | 5.97%         | 14.96%        | 28.15%        | 10.29%        | 9.87%         | 11.00%                           | 11.27%        | 9.02%         | 9.39%         | 7.68%                                |
| Excess Return                   | <b>+1.53%</b> | <b>-0.85%</b> | <b>-1.90%</b> | <b>+8.38%</b> | <b>+2.75%</b> | <b>-1.52%</b> | <b>-2.62%</b>                    | <b>-0.44%</b> | <b>+3.20%</b> | <b>+1.32%</b> | <b>+2.55%</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.

## AUSTRALIAN HIGH CONVICTION FUND

The Australian High Conviction Fund ("Fund") is a concentrated portfolio (approx. 25 companies) of our most compelling equity ideas. 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 ASX200 Accumulation Index over the medium to long term.

## PORTFOLIO POSITIONING

31 AUGUST 2021

### Top 3 Overweight Holdings (Alphabetical)

Newcrest Mining Ltd

ResMed Inc

Virgin Money UK PLC

## FUND DETAILS

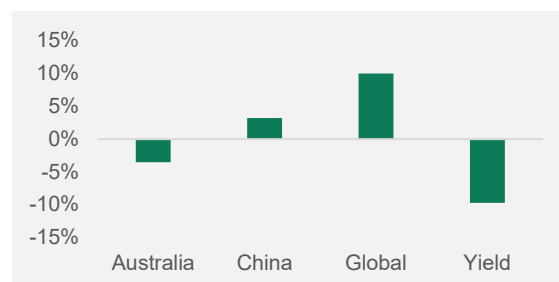
| Unit Prices        | 31 August 2021                               |
|--------------------|--|
| Application price  | \$ 1.2625                                    |
| Redemption Price   | \$ 1.2587                                    |
| NAV Price          | \$ 1.2606                                    |
| Fund Details       |  |
| APIR Code          | WHT3810AU                                    |
| Benchmark          | S&P/ASX 200 Accumulation Index               |
| Inception date     | 14 March 2018                                |
| Number of Holdings | 27   |
| Fund size          | \$616mil                                     |
| Management fee*    | 0.90% p.a.                                   |
| Performance fee*   | 15% of outperformance above an annual Hurdle |

\*Please read the Product Disclosure Statement for more details

## THEMATIC POSITIONING

31 AUGUST 2021

Relative to the Benchmark



Past performance is not a reliable indicator of future performance.

1. Firetrail Australian High Conviction 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 Australian High Conviction Strategy Composite ("Strategy") which has been operating since 29 November 2005. 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 High Conviction Fund (after fees) between 29 November 2005 to 23 November 2017. The Fund employs the same strategy as was used by the same investment team that managed the Macquarie High Conviction Fund as at 23 November 2017. Firetrail has records that document and support the performance achieved as the Macquarie High Conviction Fund. The composite returns for the Strategy and the S&P/ASX 200 Accumulation Index (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 29 November 2005.

## PORTFOLIO COMMENTARY

The Fund returned 4.03% for the month ending 31 August 2021, outperforming the ASX200 Accumulation index by 1.53%.

## CONTRIBUTORS TO RETURNS

Positive contributors included James Hardie, QBE and Qantas. Negative contributors included Newcrest, Lynas and Ampol. We discuss each further in our commentary below.

### CONTRIBUTORS

#### James Hardie

Volumes in James Hardie's North America division grew by 21% in the June quarter. It's fibre cement product continues to take share in a growing US external siding market. At the same time, prices are rising and customers are being shifted to higher value products. Full year NPAT guidance was upgraded by 5% only three months after it was first initiated, highlighting management's confidence in the outlook.

#### QBE

1H21 results showed the fourth consecutive half of >8% average price increases across QBE's business. Price changes take some time to impact the P&L in insurance, but are now driving a noticeable improvement in underlying profitability. QBE's CEO described current market conditions as the most attractive QBE has experienced in over a decade.

#### Qantas

Qantas reported a large \$2.4bn statutory pre-tax loss in FY21, in line with market expectations. Net debt of \$5.9bn and available liquidity of \$3.8bn highlighted disciplined capital management while flying activity remains constrained. Guided by the Federal Government's national COVID-19 plan, management sees a path towards capacity of 110% in domestic and 50-70% in international in the Jun-22 half-year.

### DETRACTORS

#### Newcrest

Newcrest reported a solid FY21 result, but FY22 cost guidance drove consensus earnings downgrades. Looking forward, we expect pre-feasibility studies on Lihir Phase 14A, Red Chris and Havieron to be delivered before the end of 2021. Newcrest enters this exciting growth phase with a very strong net cash balance sheet.

#### Lynas

After outperforming strongly through June and July, Lynas' share price underperformed modestly in August. A number of market participants have highlighted a pick-up in demand in recent months, driven by electric vehicles and wind turbines. Supply responses remain limited in the short-term, supporting continued robust pricing for Lynas' main rare earth products.

#### Ampol

Ampol's 1H21 result was overshadowed by the announcement of a non-binding indicative proposal to acquire a New Zealand fuel and distribution and retailing company, Z Energy. The market treated this news cautiously, with the stock underperforming due to the absence of a buyback that had been partly factored into expectations. Ampol has been granted a four-week period of exclusivity to conduct due diligence on Z. If a deal is agreed, Ampol will provide more clarity on the synergy opportunity presented by the combination.

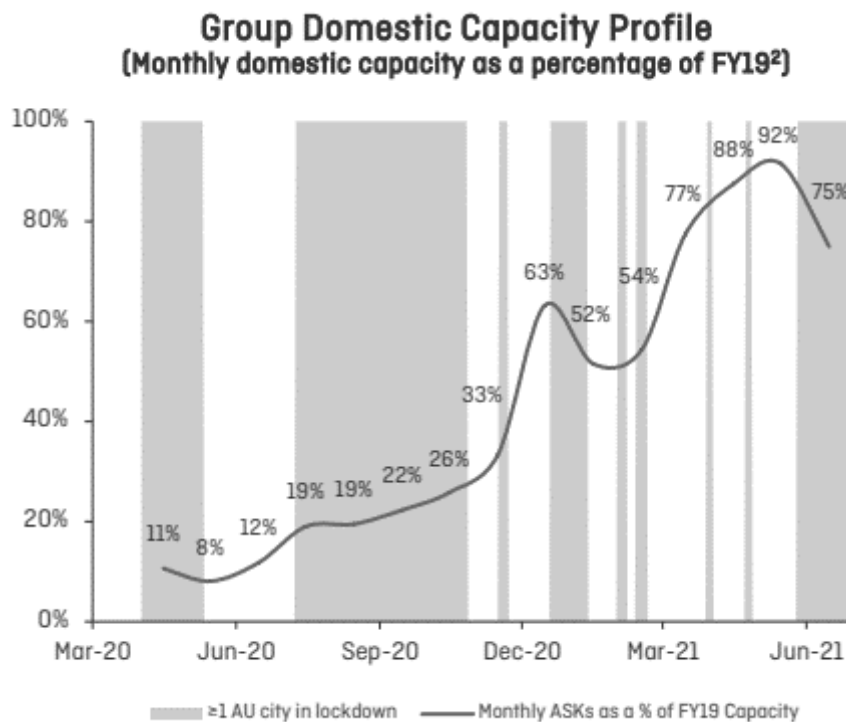
## PORTFOLIO POSITIONING

- Highly concentrated with an 80% active share
- Overweight
  - Re-opening trades like Qantas, Aristocrat and the energy sector, where competitive dynamics have improved post COVID.
  - Base metal and EV materials where supply won't be able to keep up with demand in the medium-term.
  - Housing plays like Bluescope and James Hardie who are benefitting from strong demand while taking market share in their categories.
  - Non-bank financials including QBE, IAG and Medibank.
  - Undervalued defensive companies including Newcrest, Telstra and Crown.
- No holding in Australian banks and underweight iron ore where we don't see compelling opportunities.

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

Qantas outlined a number of reasons why it remains confident on the reopening trajectory beyond the very short-term. Through the Jun-21 half-year, domestic capacity steadily increased to a peak of 92% before the Sydney lockdown. Demand was driven by both leisure and business travel. Qantas expects all domestic borders to be open by 1 December, and international to gradually open from mid-December. While it has been wrong on reopening timing before, this time vaccination rates are underpinning a higher level of conviction.

Figure 1.



Source: Qantas, Firetrail 2021

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