

# FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | JULY 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>               | 0.72%         | 3.40%         | 12.56%        | 34.34%        | 9.07%         | 5.77%         | 7.35%                            | -             | -             | -             | -                                    |
| Strategy composite <sup>3</sup> | 0.72%         | 3.40%         | 12.56%        | 34.34%        | 9.07%         | 5.77%         | -                                | 10.92%        | 11.72%        | 10.07%        | 10.01%                               |
| Benchmark                       | 1.10%         | 5.80%         | 13.78%        | 28.56%        | 7.65%         | 9.48%         | 10.49%                           | 11.40%        | 8.74%         | 8.91%         | 7.55%                                |
| Excess Return                   | <b>-0.38%</b> | <b>-2.40%</b> | <b>-1.23%</b> | <b>+5.78%</b> | <b>+1.42%</b> | <b>-3.71%</b> | <b>-3.14%</b>                    | <b>-0.49%</b> | <b>+2.98%</b> | <b>+1.16%</b> | <b>+2.45%</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 JULY 2021

### Top 3 Overweight Holdings (Alphabetical)

Newcrest Mining Ltd

ResMed Inc

Virgin Money UK PLC

## FUND DETAILS

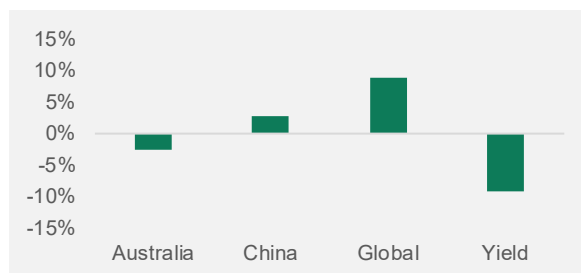
| Unit Prices        | 31 July 2021                                 |
|--------------------|--|
| Application price  | \$ 1.2135                                    |
| Redemption Price   | \$ 1.2099                                    |
| NAV Price          | \$ 1.2117                                    |
| Fund Details       |  |
| APIR Code          | WHT3810AU                                    |
| Benchmark          | S&P/ASX 200 Accumulation Index               |
| Inception date     | 14 March 2018                                |
| Number of Holdings | 29   |
| Fund size          | \$576mil                                     |
| 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 JULY 2021

Relative to the Benchmark



Past performance is not a reliable indicator of future performance.

1. Firetrail Australian High Conviction Fund ("Fund"). Gross 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 (before 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. Gross Fund returns are in AUD terms. Gross Fund returns are calculated based on exit price with distributions reinvested, before 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 0.72% for the month ending July 2021, underperforming the ASX200 Accumulation index by 0.38%.

## CONTRIBUTORS TO RETURNS

Positive contributors included Lynas, ResMed and BlueScope. Negative contributors included Crown, Seek and IAG. We discuss each further in our commentary below.

### POSITIVE CONTRIBUTORS:

#### Lynas

Lynas outperformed on the back of rising rare earths prices and a strong production report. Lynas' 4Q commentary highlighted that demand has accelerated faster than expected on the back of green investment. The company is continuing to evaluate how it can increase production capacity further.

#### ResMed

ResMed outperformed materially for the second month in a row as the market continued to factor in the positive implications of a major competitor recall. 2.2m Philips devices have now been registered under the recall program, and Philips management stated it is unlikely to be able to supply any new patients for ~12 months. We believe there is a substantial medium-term market share opportunity for ResMed if it can ramp up production.

#### BlueScope

BlueScope upgraded EBIT guidance for the 3rd time this calendar year. The company now expects to report EBIT of \$1.2bn in 2H21. This exceptional profit result, which will be almost in line with the full-year EBIT it reported in FY18 & FY19, was driven by rising steel prices and continued strong demand out of China.

### NEGATIVE CONTRIBUTORS:

#### Crown

The Royal Commission into Crown's Victorian casino licence concluded its public hearings in July. Final submissions from counsel assisting the commission suggested that Crown should either lose its licence or retain it under onerous conditions – we believe the latter scenario remains the most likely. The Commissioner will report his findings on October 15th.

#### Seek

Seek underperformed over the month as the market focussed on the sustainability of recent job ad strength. The escalating lockdown situation in Sydney and resultant closure of construction for a two-week period created some short-term uncertainty.

#### IAG

IAG provided an update on its expected FY21 result. The underlying result was broadly in line with low market expectations. Redundancy costs were a surprise, but are expected to contribute positively in future years. Importantly, FY22 points to an improvement in underlying margins.

## PORTFOLIO POSITIONING

Current portfolio positioning can be summarised as follows:

- 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 iron ore where we don't see compelling opportunities.

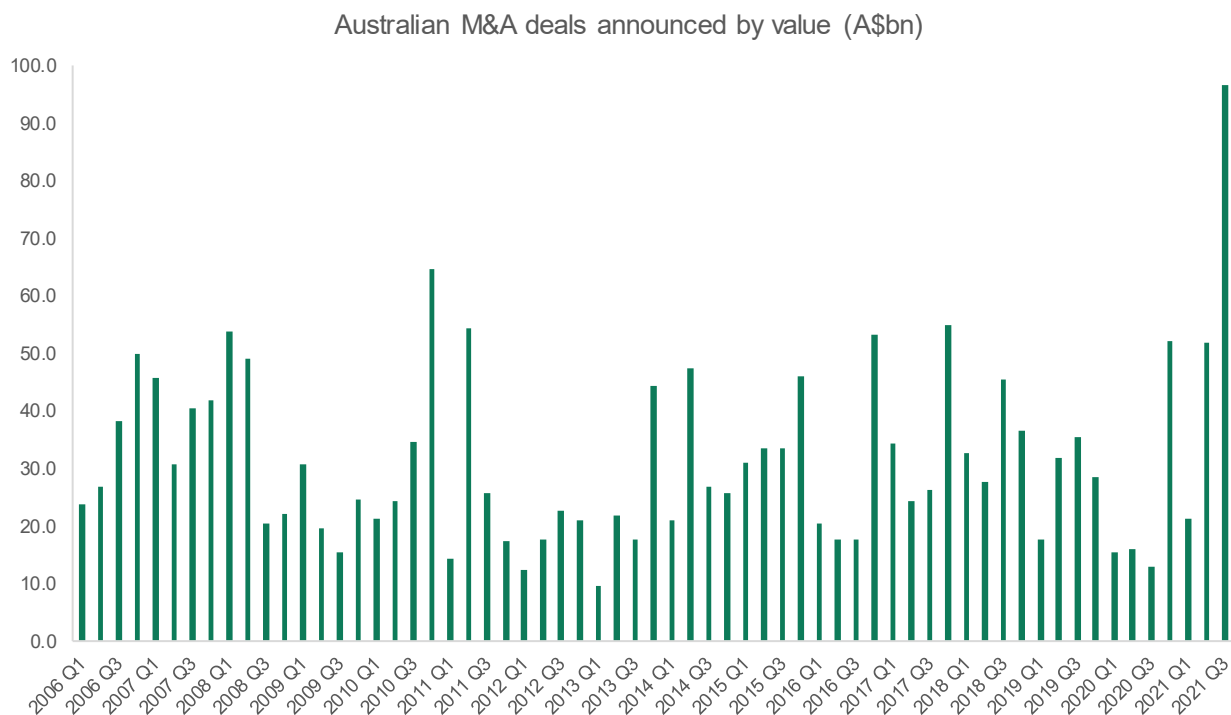
## ONE INTERESTING THING THAT HAPPENED THIS MONTH...

After a period of capital preservation from corporates while the COVID crisis played out, deployment of excess capital is now accelerating through M&A, share buybacks and dividends. Notable events we observed over the past month were:

- \$20bn+ bids for two ASX-listed companies (Sydney Airport and Afterpay).
- A recommended \$20bn+ merger of two ASX-listed oil companies (Oil Search and Santos).
- Buybacks of \$4bn announced by two Aussie major banks (ANZ \$1.5bn, NAB \$2.5bn).
- An interim dividend of A\$9.1bn announced by RIO, equating to an annualised yield of 14%.

In terms of value of deals announced, the Sep-21 quarter is already the biggest ever in Australian M&A by some margin.

Figure 1.



Source: Bloomberg, Firetrail 2021

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