

FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | JULY 2022

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.	7 Years p.a.	10 Years p.a.	Strategy inception p.a. ⁴
Fund ¹	3.75%	(8.23%)	(3.38%)	(3.70%)	13.74%	4.63%	4.72%	-	-	-	-
Strategy composite ³	3.75%	(8.23%)	(3.38%)	(3.70%)	13.74%	4.63%	-	6.27%	8.70%	10.50%	9.12%
Benchmark	5.75%	(6.04%)	1.71%	(2.17%)	12.15%	4.27%	7.46%	7.34%	6.90%	9.16%	6.93%
Excess Return	-2.00%	-2.19%	-5.09%	-1.53%	+1.59%	+0.36%	-2.74%	-1.07%	+1.79%	+1.33%	+2.18%

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 ASX 200 Accumulation Index over the medium to long term.

PORTFOLIO POSITIONING

31 JULY 2022

Top 3 Overweight Holdings (Alphabetical)
QBE Insurance Group Ltd
ResMed Inc
Santos Ltd

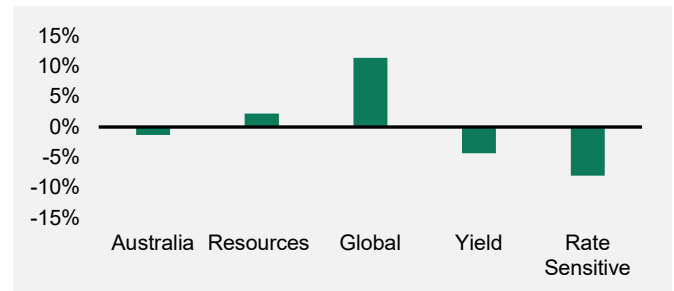
FUND DETAILS

Unit Prices	31 July 2022
Application price	\$ 1.1268
Redemption Price	\$ 1.1234
NAV Price	\$ 1.1251
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Number of Holdings	24
Fund size	\$633mil
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 2022

Relative to the Benchmark



Past performance is not a reliable indicator of future performance.

The Product Disclosure Statement ('PDS') and the Target Market Determination ('TMD') of the Fund is available at www.firetrail.com. Any potential investor should consider the PDS and TMD before deciding whether to acquire, or continue to hold units in, the Fund.

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 3.75% for the month ending 31 July 2022, underperforming the ASX 200 Accumulation Index by 2.00%.

CONTRIBUTORS TO RETURNS

Positive contributors included Megaport, ResMed, and an underweight position in BHP Group. Negative contributors included QBE Insurance Group, Santos and Newcrest Mining. We discuss each further in our commentary below.

POSITIVE CONTRIBUTORS

Megaport

Megaport outperformed through the month after reporting better 4Q FY22 sales and cash flow numbers than the market feared. Monthly Recurring Revenue growth of 10% (in constant currency) highlighted that momentum in the core business remains strong as Megaport continues to work on scaling distribution through third party channels. Megaport also announced it was in the final stages of finalising a ~\$20 million revolving credit facility, alleviating any balance sheet concerns.

ResMed

ResMed outperformed during July, driven by positive feedback on its ability to navigate supply chain constraints. During the month, ResMed's main competitor Philips announced that it had received a proposed 'consent decree' from the Department of Justice regarding Phillips' recent product recall due to safety issues. A consent decree will further restrict Phillips' business operations and creates more opportunity for ResMed to take share.

BHP Group (underweight position)

BHP underperformed in July as fears of a global slowdown drove commodity price weakness and underperformance across most resource stocks. The iron ore price declined 18% during July.

NEGATIVE CONTRIBUTORS

QBE Insurance Group

QBE underperformed as global bond yields reduced by 20-60bps. Results from UK and US peers showed reasonably strong pricing and underwriting trends, but comments on inflation pressures were more prevalent. Of particular interest were UK motor insurers which flagged significant inflation across a number of areas. QBE has minimal UK motor exposure, but broader claims inflation is the key downside risk that we are monitoring carefully.

Santos

Santos underperformed in July on concerns that slowing growth would impact overall oil demand. The oil price was down 4% for the month. Santos also provided an update on production that was modestly below consensus expectations.

Newcrest Mining

Newcrest underperformed during the month despite providing a reasonably positive update on June quarter production. The Lihir mine's production of 212.9k oz was the best quarter for Newcrest's PNG asset since September 2019. However, Newcrest also flagged that when it reports results in August, it will outline its "views on the risk of cost inflation". This suggests that cost estimates may need to be revised upwards as we have seen across peers in recent months.

PORTFOLIO POSITIONING

Current portfolio positioning can be summarised as follows:

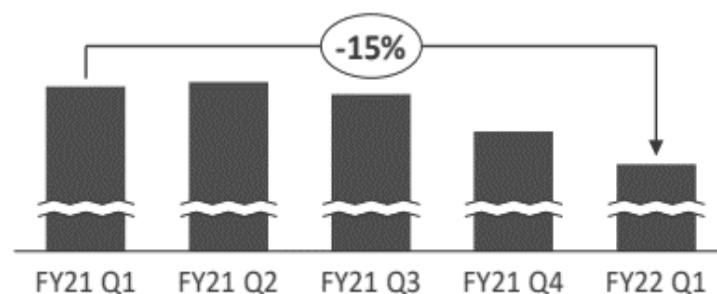
- Highly concentrated with an active share of 73%.
- Overweight:
 - Resources and energy companies exposed to commodities where we foresee short-term and medium-term undersupply, such as Santos and Lynas Rare Earths.
 - Healthcare companies with strong market positions and defensive underlying demand drivers, such as ResMed and CSL.
 - Market leaders who are benefiting from strong demand while winning market share in their categories, such as Qantas Airways and James Hardie Industries.
 - Financials with material leverage to interest rate rises including QBE Insurance Group, Australia and New Zealand Banking Group, and Virgin Money UK.
 - Undervalued defensive companies including Newcrest Mining and Telstra.
- Underweight positions in Australian banks and iron ore where we don't see compelling opportunities.

ONE INTERESTING THING THAT HAPPENED THIS MONTH...

Cost inflation is being felt across almost all inputs for ASX listed companies. However, one of the biggest companies on the ASX, CSL, has an input cost that now looks to be falling.

At its June 2022 result, CSL's competitor Takeda announced that the fees it pays to plasma donors have reduced by 15% per litre. During COVID, donor fees had to be lifted materially to compete with substantial levels of fiscal stimulus. We could see that reverse now that household budgets are becoming more stretched. The counter-cyclical nature of this cost driver is one of the key underpinnings to our positive investment thesis on CSL.

Figure 1: Average donor compensation per litre in US collection centres



Source: Takeda

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Link to the Product Disclosure Statement: [WHT3810AU](#)

Link to the Target Market Determination: [WHT3810AU](#)

For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com

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Existing client enquiries 1300 360 306

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