

FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | AUGUST 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	1.41%	(3.61%)	(4.51%)	(6.13%)	13.21%	6.25%	4.96%	-	-	-	-
Strategy composite ³	1.41%	(3.61%)	(4.51%)	(6.13%)	13.21%	6.25%		6.43%	8.65%	11.74%	9.16%
Benchmark	1.18%	(2.39%)	0.75%	(3.43%)	11.24%	5.51%	7.60%	8.20%	7.02%	10.04%	6.97%
Excess Return	+0.23%	-1.22%	-5.26%	-2.69%	+1.97%	0.74%	-2.64%	-1.77%	+1.63%	+1.69%	+2.19%

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 AUGUST 2022

Top 3 Overweight Holdings (Alphabetical)

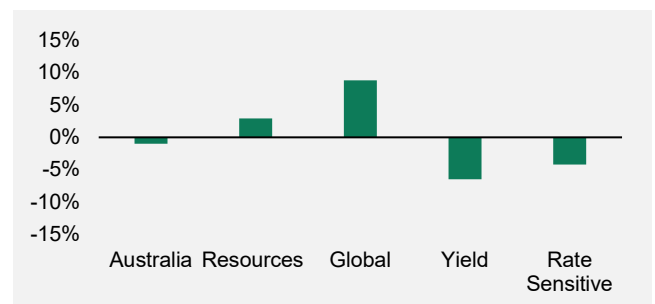
Newcrest Mining Ltd
ResMed Inc
Santos Ltd

FUND DETAILS

Unit Prices	31 August 2022
Application price	\$ 1.1426
Redemption Price	\$ 1.1392
NAV Price	\$ 1.1409
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Number of Holdings	23
Fund size	\$646mil
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 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 1.41% for the month ending 31 August 2022, outperforming the ASX 200 Accumulation Index by 0.23%.

CONTRIBUTORS TO RETURNS

Positive contributors included Santos, Qantas Airways and Incitec Pivot. Negative contributors included ResMed, Newcrest Mining and Megaport. We discuss each further in our commentary below.

POSITIVE CONTRIBUTORS

Santos

Santos shares outperformed despite a fall in the oil price during August. Alongside its 1H22 result, Santos confirmed it has made a final investment decision to proceed with its Alaskan oil project, Pikka. Santos has a 51% ownership interest in the project which is expected to deliver first oil by 2026 and 19% IRR at a US\$60 oil price.

Qantas Airways

Qantas Airways shares outperformed during the month driven by a strong FY22 result and material upgrade to earnings expectations in FY23. We were also pleased by cost performance and how the Qantas balance sheet ended the period. Net debt ended the period below the target range and Qantas announced a \$400m on-market buyback for FY23.

Incitec Pivot

Incitec Pivot shares outperformed in August due to a stronger outlook for fertiliser prices. Fertiliser prices are driven by gas and coal input costs throughout Asia and Europe. Gas prices increased globally, most notably Europe felt a 25% increase. Incitec stands to benefit from the higher input cost backdrop given its exposure to fixed price gas in Australia and low-priced Henry Hub gas in North America.

NEGATIVE CONTRIBUTORS

ResMed

ResMed reported June quarter revenues and earnings in line with consensus, however the share price underperformed following a strong run during July. US device revenues grew 11% in the quarter and the CEO continued to guide to further sequential revenue improvement in each quarter of FY23 as supply chain pressures begin to ease.

Newcrest Mining

Newcrest Mining shares underperformed as the Fed made incrementally more hawkish comments at its Jackson Hole conference and the gold price fell modestly. Newcrest's FY22 result was solid, and while FY23 guidance highlighted 6-8% cost inflation, the result was largely expected given peer commentary through July.

Megaport

Megaport provided useful new disclosure on its product and channel strategy with its FY22 result during the month. However, Megaport shares underperformed following very strong 65% outperformance during July and softened expectations for the pace of ramp-up of its indirect sales channel.

PORTFOLIO POSITIONING

Current portfolio positioning can be summarised as follows:

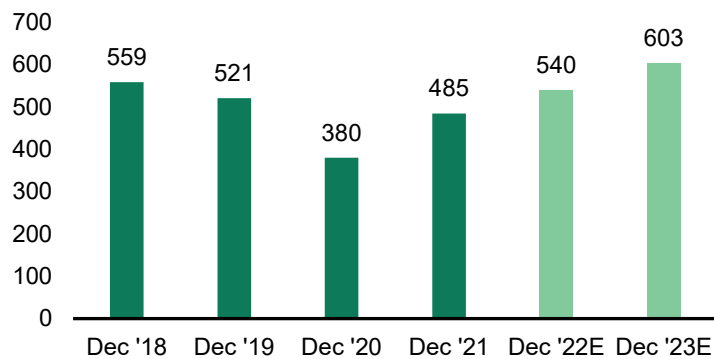
- Highly concentrated with an active share of 75%.
- Overweight:
 - Resource and energy companies exposed to commodities where we foresee short and medium-term undersupply, such as Santos and Lynas Rare Earths.
 - Healthcare companies with strong market positions and defensive underlying demand drivers, such as ResMed and CSL.
 - Market leaders including Qantas Airways and James Hardie Industries who are well placed to strengthen their competitive position through the cycle.
 - Financials with leverage to interest rate rises including QBE Insurance, ANZ Banking Group and Virgin Money UK.
 - Undervalued companies with defensive attributes including Newcrest Mining and The Lottery Corporation.
- Underweight positions in Australian banks and iron ore where we don't see compelling opportunities.

ONE INTERESTING THING THAT HAPPENED THIS MONTH...

Given the pace at which the economic backdrop is changing, the key focus of August reporting season was current trading rather than the results for the six months to June. Most management teams acknowledged that conditions are getting tougher. But, due to uncertainty, the majority did not give any definitive outlook or guidance. As a result, analysts didn't revise their earnings much.

CY23 earnings estimates for the ASX 200 Industrials Index (i.e. ex-resources) were broadly unchanged and still represent 11% growth on CY22 earnings. We believe there is reasonable downside to market earnings estimates over the next 18 months driven by higher interest rates.

Figure 1: ASX 200 Industrials Index – earnings per share estimates



Source: FactSet

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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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