

FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | OCTOBER 2022

PERFORMANCE (AFTER FEES)¹

	Month	Quarter	6 Months	1 Year	2 Years p.a.	3 Years p.a.	Fund inception p.a. ³	5 Years p.a.	7 Years p.a.	10 Years p.a.	Strategy inception p.a. ⁵
Fund ²	4.76%	(0.72%)	(8.89%)	(7.29%)	12.16%	5.13%	4.29%	-	-	-	-
Strategy composite ⁴	4.76%	(0.72%)	(8.89%)	(7.29%)	12.16%	5.13%	-	5.38%	8.32%	11.41%	8.93%
Benchmark	6.04%	0.67%	(5.41%)	(2.01%)	11.98%	4.82%	7.20%	8.05%	7.12%	9.46%	6.87%
Excess Return	-1.28%	-1.39%	-3.48%	-5.28%	+0.18%	+0.31%	-2.90%	-2.67%	+1.20%	+1.95%	+2.06%

1. Past performance is not indicative of future performance

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 (after fees).

PORTFOLIO POSITIONING – 31 OCT 2022

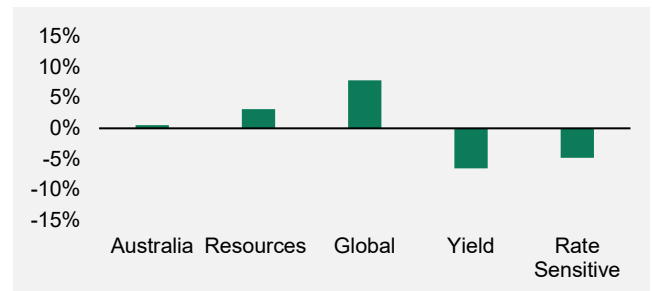
Top 3 Overweight Holdings (Alphabetical)
Newcrest Mining Ltd
ResMed Inc
Santos Ltd

FUND DETAILS

Unit Prices	31 October 2022
Application price	\$ 1.1187
Redemption Price	\$ 1.1153
NAV Price	\$ 1.1170
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Risk/Return Profile	High
Number of Holdings	23
Fund size	\$660mil
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 OCT 2022



Source: Firetrail. 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.

2. 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. 3. Fund inception is 14 March 2018. 4. 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. 5. Strategy inception 29 November 2005.

PORTFOLIO COMMENTARY

The Fund returned 4.76% (after fees) for the month ending 31 October 2022, underperforming the ASX 200 Accumulation Index by 1.28%.

CONTRIBUTORS TO RETURNS

Positive contributors included Santos, Qantas Airways and Virgin Money UK. Negative contributors included Commonwealth Bank (no holding), Ampol and ResMed. We discuss each further in our commentary below.

POSITIVE CONTRIBUTORS

Santos

Santos shares outperformed in October on the back of strength in the oil price. OPEC agreed to cut production by two million barrels per day during the month in response to a weakening demand outlook. The company also reported a quarterly result which was in line with expectations, with only minor tweaks to 2022 guidance measures.

Qantas Airways

Qantas Airways shares outperformed during the month after the company released a very strong profit update. Qantas expects to report pre-tax profit of \$1.2-\$1.3 billion for the six months to 31 December 2022, driven by strong consumer demand which has enabled it to fully recoup higher fuel costs through prices. For context, \$1.3 billion is equal to the amount of pre-tax profit Qantas earned in its last full financial year before COVID.

Virgin Money UK

Virgin Money UK outperformed in October as the UK Government backflipped on a number of controversial stimulatory policies announced in late September. UK 10-year government bond yields retraced to 3.5% by the end of October after peaking at more than 4.5% in the weeks following the UK mini-budget. The pound also staged a strong recovery.

NEGATIVE CONTRIBUTORS

Commonwealth Bank (no holding)

The Australian major bank sector outperformed during October on the back of strong margin trends evident in reported results from Bank of Queensland and ANZ. The High Conviction Fund benefitted from its overweight position in ANZ, but nil holdings in Commonwealth Bank and Westpac detracted from returns.

Ampol

Ampol shares underperformed in the month after the company released a soft trading update for the September quarter. While results in refining, retail fuel, and the recently acquired Z Energy business were strong, elevated oil price volatility impacted profits in Ampol's wholesale fuel division.

ResMed

ResMed shares underperformed following weaker than expected sales in its Rest of World division during the September quarter. The weaker ROW result was offset by much stronger sales in the US. However, market expectations were elevated leading into the result.

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...

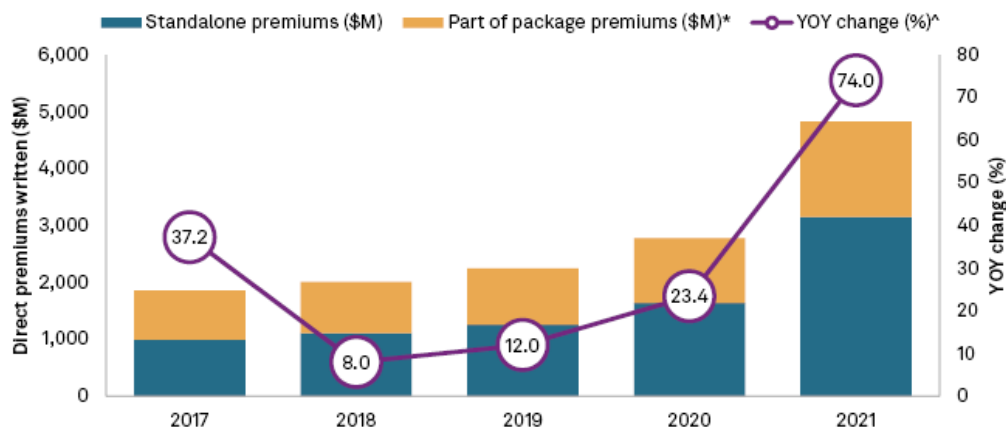
Following the cyber-attack on Optus in September, there were a number of publicised attacks on Medibank, Australian Clinical Labs, and MyDeal during October.

Medibank did not hold any insurance against cyber-attacks and expects to incur a cost of \$25-35 million as a result. The cyber insurance market has been one of the most rapidly growing insurance segments. In the US, total cyber insurance premiums rose 74% to US\$5 billion during 2021.

While accurately quantifying the claims risks associated with this type of insurance is a challenging exercise for insurers, cyber looks set to become an increasingly important part of the insurance market over the coming years. The Firetrail High Conviction Fund has exposure to this structural theme via key holding QBE Insurance.

Figure 1: Companies are scrambling to protect against cyber risks.

Total US cyber insurance premiums soar 74% in 2021



Data compiled June 30, 2022.

* Includes both quantified and estimated direct premiums written.

^ Value shown is based off of the year-over-year change of total cyber insurance direct premiums written.

Data reflects the aggregation of all individual property and casualty filers that submit regulatory statements to the NAIC.

Based on direct premiums written reported within annual NAIC statutory property and casualty filings: Cybersecurity and Identity Theft Insurance Coverage Supplement Part 2 – Stand-Alone Policies and Part 3 – Part of a Package Policy. U.S. filers only but may include business written outside the U.S.

Source: S&P Global Market Intelligence

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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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