

# FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | NOVEMBER 2022

## PERFORMANCE (AFTER FEES)<sup>1</sup>

	Month	Quarter	6 Months	1 Year	2 Years p.a.	3 Years p.a.	Fund inception p.a. <sup>3</sup>	5 Years p.a.	7 Years p.a.	10 Years p.a.	Strategy inception p.a. <sup>5</sup>
Fund <sup>2</sup>	6.24%	4.01%	0.26%	(1.47%)	8.42%	5.35%	5.56%	-	-	-	-
Strategy composite <sup>4</sup>	6.24%	4.01%	0.26%	(1.47%)	8.42%	5.35%	-	6.68%	10.28%	11.95%	9.28%
Benchmark	6.58%	6.04%	3.51%	5.00%	10.12%	5.93%	8.52%	9.29%	9.36%	9.92%	7.24%
Excess Return	<b>-0.34%</b>	<b>-2.03%</b>	<b>-3.25%</b>	<b>-6.47%</b>	<b>-1.70%</b>	<b>-0.57%</b>	<b>-2.96%</b>	<b>-2.61%</b>	<b>+0.92%</b>	<b>+2.02%</b>	<b>+2.03%</b>

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 – 30 NOV 2022

### Top 3 Overweight Holdings (Alphabetical)

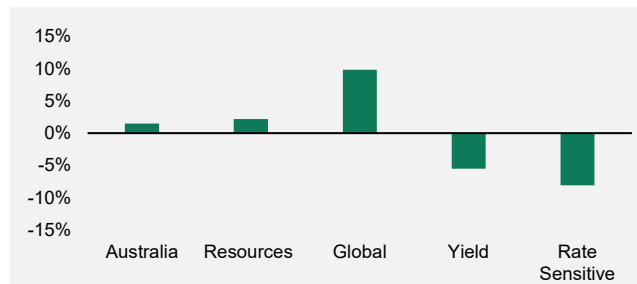
Newcrest Mining Ltd
ResMed Inc
Santos Ltd

## FUND DETAILS

Unit Prices	30 November 2022
Application price	\$1.1885
Redemption Price	\$1.1849
NAV Price	\$1.1867
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	\$707mil
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 – 30 NOV 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](http://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 6.24% (after fees) for the month ending 30 November 2022, underperforming the ASX 200 Accumulation Index by 0.34%.

## CONTRIBUTORS TO RETURNS

Positive contributors included Origin Energy, Virgin Money UK and Newcrest Mining. Negative contributors included Santos, Lendlease and James Hardie Industries. We discuss each further in our commentary below.

### POSITIVE CONTRIBUTORS

#### Origin Energy

Origin outperformed after receiving a non-binding indicative takeover proposal from Brookfield Asset Management and the EIG Consortium. The offer of \$9.00 per share represented a 55% premium to the most recent closing price, illustrating the value in Origin's suite of assets that are well positioned for the energy transition. Following the announcement, the Origin share price traded at a ~15% discount to the offer due to perceived risks around ACCC and other regulatory approvals.

#### Virgin Money UK

Virgin Money UK outperformed after delivering an in-line FY22 result and FY23 guidance ahead of consensus estimates. Virgin Money UK expects revenue tailwinds from higher interest rates to continue in FY23, and guided for a broadly flat cost base. A £50 million share buyback was also announced on top of the £75 million buyback announced in July.

#### Newcrest Mining

Newcrest outperformance was driven by a 7% increase in the gold price. The US Federal Reserve lifted interest rates by 75bps. However, outlook commentary was more mixed than previous statements, giving some weight to the argument that the pace of rate tightening could begin to slow.

### NEGATIVE CONTRIBUTORS

#### Santos

Santos underperformed as the oil price declined by 12% in November. While supply remains very tight, price softness was driven by concerns on the demand outlook as a result of the global slowdown and China's continued COVID-zero policy. Speculation around a government cap on East Coast gas prices also began to build. While we see problems with the implementation and flow-on consequences of such a cap, the increased uncertainty hindered sentiment on energy stocks.

#### Lendlease

Lendlease underperformed as it guided the market to the lower end of its FY23 target earnings ranges for its Investments, Development and Construction divisions. Longer-term guidance for an 8-10% ROE in FY24 was reaffirmed but management acknowledged that inflation, supply chain disruption, and interest rates still pose risks to the outlook.

#### James Hardie Industries

James Hardie underperformed as it revised FY23 NPAT guidance down by 10% versus its prior range. While housing market weakness was well appreciated, the market was surprised by how quickly volume trends have turned in James Hardie's key North America division. Management expects volume declines of 5-8% over the next six months, however this should be offset by continued double-digit tailwinds from price and product mix.

## 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, ANZ and Virgin Money UK.
  - Undervalued companies with defensive attributes including Newcrest and The Lottery Corporation.
- Underweight positions in Australian banks and iron ore where we don't see compelling opportunities.

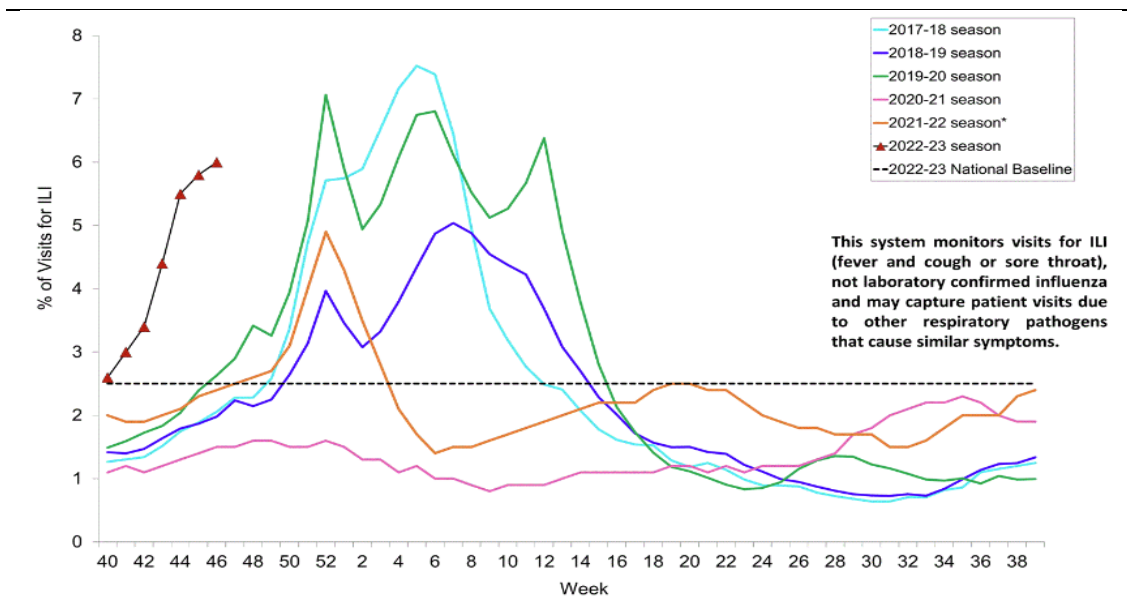
### ONE INTERESTING THING THAT HAPPENED THIS MONTH...

A severe flu season experienced in the Southern Hemisphere appears to have spread to the US. Early data is showing much higher incidence of the flu than usual for this time of year.

In November, 5-6% of US outpatient hospital visits were for flu-like illnesses which is almost three times the normal level. Higher flu cases are normally a positive lead indicator for CSL’s flu vaccine business. However, the number of flu vaccine doses distributed in the US this year has been lower than last year.

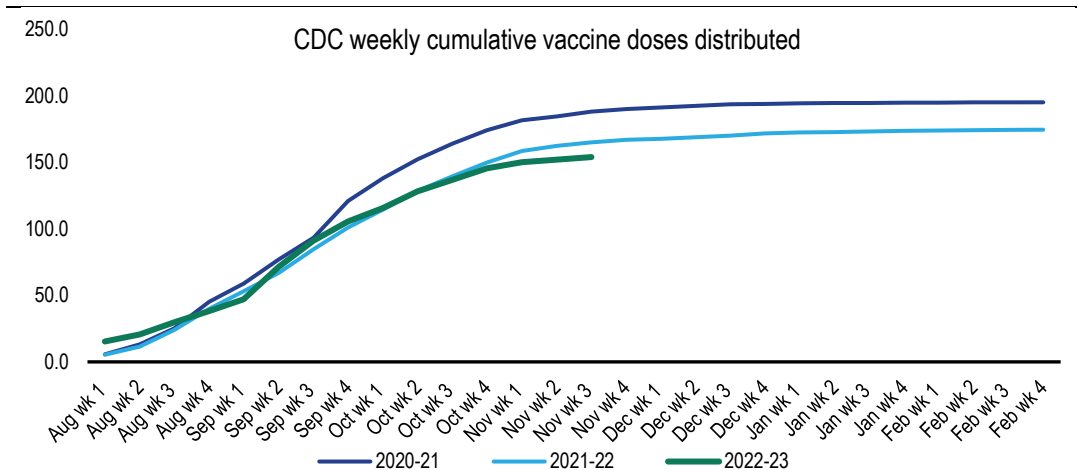
It’s possible that behavioural factors like ‘vaccine fatigue’ are impacting vaccine take-up this year, but we expect this impact to be more cyclical than structural.

**Figure 1: The percentage of US outpatient hospital visits for flu-like illnesses has been almost triple the normal level this flu season**



Source: Centers for Disease Control and Prevention

**Figure 2: Despite heightened flu cases this year, flu vaccine take up has been lower than recent years**



Source: JP Morgan, Centers for Disease Control and Prevention

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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](mailto:service@pinnacleinvestment.com)

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