

FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | MAY 2023

PERFORMANCE (AFTER FEES)¹

	Month	Quarter	1 Year	3 Years p.a.	5 Years p.a.	Fund inception p.a. ³	10 Years p.a.	Strategy inception p.a. ⁵
Fund ²	(0.73%)	1.60%	4.16%	12.59%	5.20%	5.79%	-	-
Strategy composite ⁴	(0.73%)	1.60%	4.16%	12.59%	5.20%	-	9.90%	9.24%
Benchmark	(2.53%)	(0.89%)	2.90%	11.43%	7.47%	7.56%	7.80%	6.99%
Excess Return	+1.80%	+2.48%	+1.26%	+1.17%	-2.27%	-1.77%	+2.10%	+2.25%

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 MAY 2023

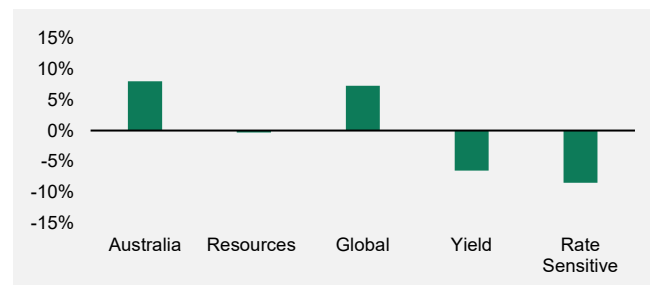
Top 3 Overweight Holdings (Alphabetical)
Newcrest Mining Ltd
ResMed Inc
Santos Ltd

FUND DETAILS

Unit Prices	31 May 2023
Application price	\$1.2113
Redemption Price	\$1.2077
NAV Price	\$1.2095
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Risk/Return Profile	High
Number of Holdings	28
Fund size	\$659mil
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 MAY 2023



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 negative 0.73% (after fees) for the month ending 31 May 2023, outperforming the ASX 200 Accumulation Index by 1.80%.

CONTRIBUTORS TO RETURNS

Positive contributors included Santos, James Hardie Industries, and Lynas Rare Earths. Negative contributors included Newcrest Mining, Incitec Pivot, and Ramsay Health Care. We discuss each further in our commentary below.

POSITIVE CONTRIBUTORS

Santos

Santos shares outperformed over the month on no notable company news. The upcoming OPEC+ June meeting will be one of the group's most anticipated meetings, given conflicting messages around production cuts from Russia's Deputy Prime Minister and Saudi Arabia's Energy Minister during May.

James Hardie Industries

James Hardie outperformed in May after reporting an in-line FY 2023 result and initiating 1Q 2024 profit guidance 10-15% ahead of consensus expectations. Management did not explicitly guide to full-year earnings, but outlined a number of scenarios for North America margins if volumes weaken. The market took comfort from the fact that James Hardie expects to maintain margins above 25% even if volumes fall by 20%.

Lynas Rare Earths

Lynas Rare Earths outperformed during the month. The Malaysian Government extended the deadline for Lynas to cease cracking and leaching in the country by six months to 1 January 2024. The extension is significant as it allows Lynas more time to transition to its new facility currently being constructed in Kalgoorlie, WA.

NEGATIVE CONTRIBUTORS

Newcrest Mining

Newcrest shares underperformed in May. The US 10-year bond yield rose 20 basis points and the US dollar strengthened 3%, both negative for the gold price. On 15th May, Newcrest entered a binding scheme implementation deed with Newmont on previously agreed terms. The shareholder vote will be held in September or October, with scheme completion expected before the end of 2023.

Incitec Pivot

Incitec Pivot reported a 1H 2023 result below market expectations, mainly due to lower earnings from its Phosphate Hill fertiliser plant. An unexpected outage at Phosphate Hill led to lower volumes and consequently higher cost per tonne. Despite the operational miss, we remain encouraged by positive operating trends emerging in the Explosives business.

Ramsay Health Care

Ramsay Health Care's 3Q 2023 update illustrated a continued recovery in surgical volume trends across Australia, the UK and France. However, earnings margins were below expectations due to a slower January than usual and ongoing issues around the availability of labour. The March quarter is a seasonally soft period for profits so we don't believe the margin shortfall should be extrapolated across the rest of 2023.

PORTFOLIO POSITIONING

- Highly concentrated portfolio with 78% active share.
- Overweight:
 - Energy companies exposed to commodities where supply is constrained in the medium-term, such as Santos and Incitec Pivot.
 - Healthcare companies with strong market positions and defensive underlying demand drivers, such as ResMed and CSL.
 - Market leaders including SEEK 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, Computershare and Virgin Money UK.
 - Undervalued companies with defensive attributes including Newcrest Mining and The Lottery Corp.
- Underweight Australian banks and iron ore where we don't see compelling opportunities.

Companies mentioned are illustrative only and not a recommendation to buy or sell any particular security

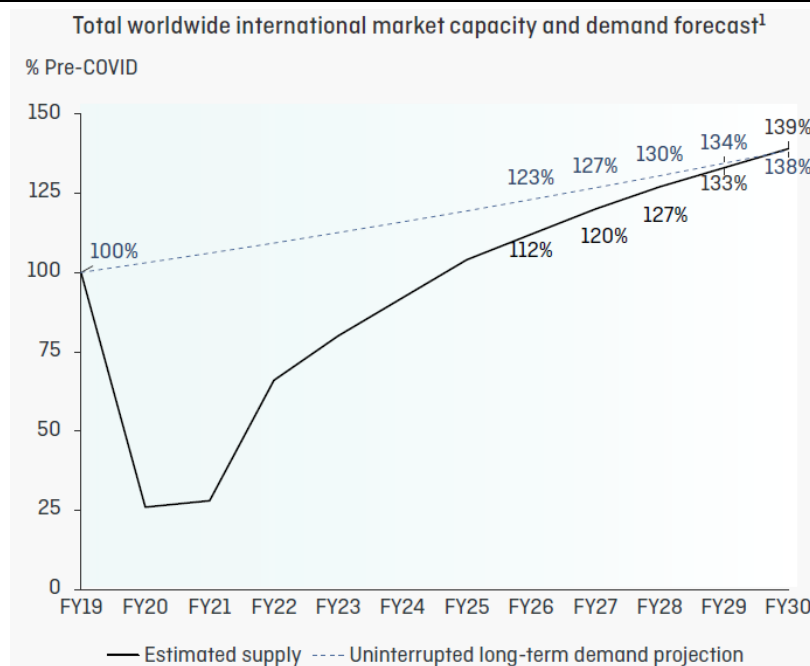
ONE INTERESTING THING THAT HAPPENED THIS MONTH...

Qantas hosted an investor day on 30th May. The company detailed several longer-run predictions about its various markets.

Of interest was a chart produced on international airline capacity shown in Figure 1 below. Due to constraints including 1) time required to bring back aircraft from long-term storage, 2) delayed fleet deliveries, and 3) continued limitations on labour and training resources, Qantas doesn't expect total capacity to return to pre-COVID levels until FY 2025, and not to trend levels until FY 2030.

In management's view, this will underpin higher returns than has historically been the case for its international business.

Figure 1: Qantas doesn't expect worldwide airline capacity to get back trend levels until FY 2030.



Source: Company presentation

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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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