

# FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | JULY 2023

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

	Month	Quarter	1 Year	3 Years p.a.	5 Years p.a.	Fund inception p.a. <sup>3</sup>	10 Years p.a.	Strategy inception p.a. <sup>5</sup>
Fund <sup>2</sup>	4.09%	3.24%	13.97%	13.82%	5.37%	6.38%	-	-
Strategy composite <sup>4</sup>	4.09%	3.24%	13.97%	13.82%	5.37%	-	10.78%	9.39%
Benchmark	2.88%	2.04%	11.67%	11.99%	7.47%	8.23%	8.05%	7.20%
Excess Return	<b>+1.21%</b>	<b>+1.20%</b>	<b>+2.30%</b>	<b>+1.83%</b>	<b>-2.10%</b>	<b>-1.85%</b>	<b>+2.72%</b>	<b>+2.19%</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 – 31 JULY 2023

Top 3 Overweight Holdings (Alphabetical)
CSL Ltd
Newcrest Mining Ltd
Santos Ltd

## FUND DETAILS

Unit Prices	31 July 2023
Application price	\$1.2340
Redemption Price	\$1.2304
NAV Price	\$1.2322
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Risk/Return Profile	High
Number of Holdings	27
Fund size	\$654mil
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 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](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 4.09% (after fees) for the month ending 31 July 2023, outperforming the ASX 200 Accumulation Index by 1.21%.

## CONTRIBUTORS TO RETURNS

Positive contributors included Virgin Money UK, Incitec Pivot and AGL. Negative contributors included CSL, and nil holdings in Commonwealth Bank of Australia and Woodside Energy Group. We discuss each further in our commentary below.

### POSITIVE CONTRIBUTORS

#### Virgin Money UK

Virgin Money UK shares outperformed in July. The company announced it had comfortably passed the annual Bank of England stress test. Following the stress test results, Virgin Money UK confirmed that it intends to resume its share buyback programme before the end of FY2023 (30 September). Virgin aims to return to a target capital range of 13.0-13.5% versus its current 14.7%. We expect meaningful capital returns over the next 18 months for Virgin Money UK.

#### Incitec Pivot

Incitec Pivot shares outperformed as the company confirmed it had received a number of approaches for the potential acquisition of its fertilisers business. The Board will evaluate any offers alongside the proposed demerger of the business. In addition, ammonia prices appear to have found a floor after falling ~75% since September last year.

#### AGL

AGL shares continued to outperform strongly following its June update on FY2024 earnings guidance and long-term capex intentions. Of the \$20 billion of investment that AGL has earmarked to be spent on the energy transition, roughly half will be on AGL's balance sheet, with only \$4 billion to be spent between now and 2030. This capex profile enables AGL to pay out 50-75% of profits as dividends, providing a strong, sustainable yield for investors.

### NEGATIVE CONTRIBUTORS

#### CSL

CSL shares underperformed ahead of a key trial for a product that competes with CSL's Immunoglobulin (IG) franchise. Positive results from the trial mean that the product, manufactured by Argenx, will now compete with CSL across ~25% of the IG market. Our view is that CSL's IG revenue growth outlook is only slightly impacted due to growth opportunities across the rest of the portfolio.

#### Commonwealth Bank of Australia (no holding)

CBA shares outperformed along with the other major banks as softer Australian CPI data reinforced the view that the RBA's hiking cycle may be over. While higher base rates are generally positive for bank net interest margins, the market is now more concerned about the negative impact higher rates could have on asset quality across bank loan portfolios.

#### Woodside Energy Group (no holding)

Energy stocks outperformed during July on the back of a 13% rally in the oil price. While our underweight position in Woodside detracted from performance, this was offset by our overweight position in Santos.

## PORTFOLIO POSITIONING

- Highly concentrated portfolio with 77% 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 who are well placed to strengthen their competitive position through the cycle, such as SEEK and James Hardie.
  - 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.

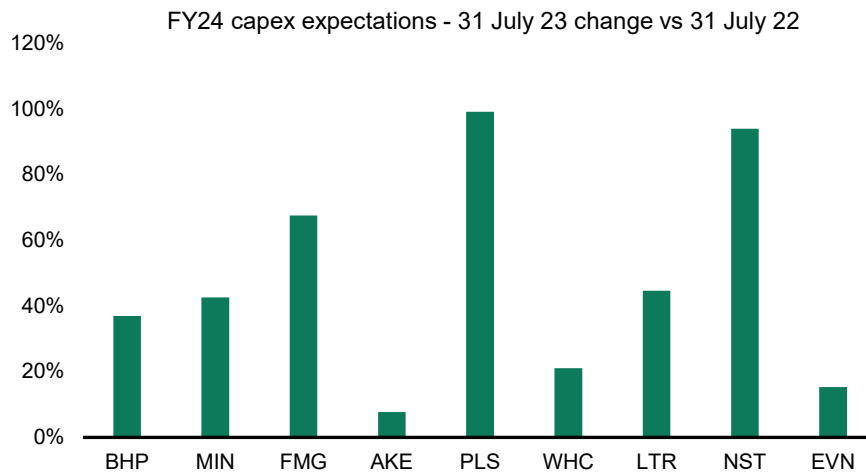
Companies mentioned are illustrative only and not a recommendation to buy or sell any particular security

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

During July, we saw a number of updates from resource companies highlighting the tough conditions currently facing the sector. Cost pressures are acute, impacting current operations and also forward capital expenditure budgets.

Over the past 12 months, FY2024 capex expectations have lifted by an average of 40-50% across a sample of listed miners, with some budgets doubling. On the positive side, this will likely mean that pricing remains supported. However, we are applying an additional level of scrutiny to any companies that are undergoing meaningful capex programs.

**Figure 1: Cost inflation is forcing large miners' FY24 capital expenditure expectations higher**



Source: Direct from companies, Firetrail

This document is prepared by Firetrail Investments Pty Limited ('Firetrail') ABN 98 622 377 913 AFSL 516821 as the investment manager of the Firetrail Australian High Conviction Fund ARSN 624 136 045 ('the Fund'). This communication is for general information only. It is not intended as a securities recommendation or statement of opinion intended to influence a person or persons in making a decision in relation to investment. It has been prepared without taking account of any person's objectives, financial situation or needs. Any persons relying on this information should obtain professional advice before doing so. Past performance is for illustrative purposes only and is not indicative of future performance.

Pinnacle Fund Services Limited ABN 29 082 494 362 AFSL 238371 ('PFSL') is the product issuer of the Fund. PFSL is not licensed to provide financial product advice. PFSL is a wholly-owned subsidiary of the Pinnacle Investment Management Group Limited ('Pinnacle') ABN 22 100 325 184. The Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') of the Fund are available via the links below. Any potential investor should consider the PDS and TMD before deciding whether to acquire, or continue to hold units in, the Fund.

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)

Whilst Firetrail, PFSL and Pinnacle believe the information contained in this communication is reliable, no warranty is given as to its accuracy, reliability or completeness and persons relying on this information do so at their own risk. Subject to any liability which cannot be excluded under the relevant laws, Firetrail, PFSL and Pinnacle disclaim all liability to any person relying on the information contained in this communication in respect of any loss or damage (including consequential loss or damage), however caused, which may be suffered or arise directly or indirectly in respect of such information. This disclaimer extends to any entity that may distribute this communication.

The information is not intended for general distribution or publication and must be retained in a confidential manner. Information contained herein consists of confidential proprietary information constituting the sole property of Firetrail and its investment activities; its use is restricted accordingly. All such information should be maintained in a strictly confidential manner.

Any opinions and forecasts reflect the judgment and assumptions of Firetrail and its representatives on the basis of information available as at the date of publication and may later change without notice. Any projections contained in this presentation are estimates only and may not be realised in the future.

Unauthorised use, copying, distribution, replication, posting, transmitting, publication, display, or reproduction in whole or in part of the information contained in this communication is prohibited without obtaining prior written permission from Firetrail. Pinnacle and its associates may have interests in financial products and may receive fees from companies referred to during this communication.

This may contain the trade names or trademarks of various third parties, and if so, any such use is solely for illustrative purposes only. All product and company names are trademarks™ or registered® trademarks of their respective holders. Use of them does not imply any affiliation with, endorsement by, or association of any kind between them and Firetrail.

#### MORE INFORMATION

General enquiries 1300 010 311

Existing client enquiries 1300 360 306

[www.firetrail.com](http://www.firetrail.com)