

# FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | AUGUST 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>	(2.37%)	1.53%	9.72%	12.03%	5.55%	5.81%	-	-
Strategy composite <sup>4</sup>	(2.37%)	1.53%	9.72%	12.03%	5.55%	-	11.08%	9.19%
Benchmark	(0.73%)	3.92%	9.56%	10.68%	7.01%	7.95%	8.47%	7.12%
Excess Return	<b>-1.64%</b>	<b>-2.39%</b>	<b>+0.16%</b>	<b>+1.35%</b>	<b>-1.46%</b>	<b>-2.14%</b>	<b>+2.60%</b>	<b>+2.07%</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 AUG 2023

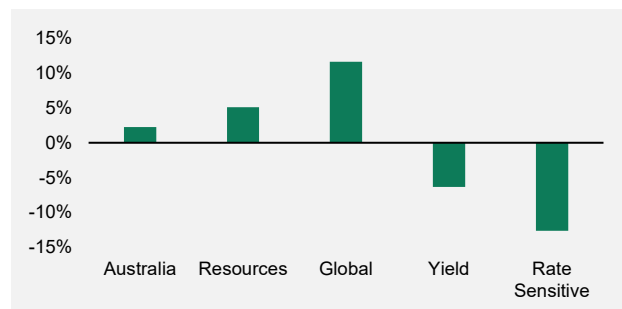
Top 3 Overweight Holdings (Alphabetical)
CSL Ltd
Incitec Pivot Ltd
Santos Ltd

## FUND DETAILS

Unit Prices	31 August 2023
Application price	\$1.2048
Redemption Price	\$1.2012
NAV Price	\$1.2030
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	\$624mil
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 AUG 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 negative 2.37% (after fees) for the month ending 31 August 2023, underperforming the ASX 200 Accumulation Index by 1.64%.

## CONTRIBUTORS TO RETURNS

Positive contributors included Domino's Pizza Enterprises, Ampol and Medibank Private. Negative contributors included ResMed, Alumina, and SEEK. We discuss each further in our commentary below.

### POSITIVE CONTRIBUTORS

#### Domino's Pizza Enterprises

Domino's reported an FY2023 result which was in line with the market update it provided in June. The stock outperformed after Domino's revealed it has seen same store sales growth of ~7% in Australia and Europe since 30 June 2023. The positive start to FY2024 indicates that the worst of the impacts from inflation and reduced customer counts may now be behind it.

#### Ampol

Ampol shares outperformed after its 1H 2023 result showed strong performance across all divisions. The recently acquired Z Energy business continues to go from strength to strength. Interestingly, in the six months to 30 June 2023, premium fuel made up the highest percentage of total retail fuel sales than in any other time in history.

#### Medibank Private

Medibank shares outperformed following an FY2023 result that was modestly above expectations. Almost one year on from the cyber-attack in 2022, Medibank is growing policyholder numbers again and is targeting market share gains in FY2024.

### NEGATIVE CONTRIBUTORS

#### ResMed

ResMed's 4Q 2023 result disappointed the market as gross margin did not rise as expected. While this contributed to the share price fall, the larger factor was the rising risk associated with obesity drugs. One of the major obesity drugs, Wegovy, cited a 20% reduction in cardiovascular events in a study. While a sustained reduction in obesity levels across a large proportion of the population would have some negative impacts on ResMed's business, we believe there are several complexities that are underappreciated. We believe the recent share price fall has been significantly overdone.

#### Alumina

Alumina shares underperformed after the company flagged higher costs as a result of mining in a low-grade area. We expect the business to be cashflow breakeven at current settings and the balance sheet net debt of \$268 million is manageable. A key catalyst will be a return to mining high-grade bauxite areas in Western Australia post an Environmental Protection Authority review.

#### SEEK

SEEK shares underperformed after guidance for FY2024 earnings disappointed the market. While a reduction of new job listings was expected, SEEK flagged continued cost investment in the business through this period of cyclical softness. We are supportive of SEEK's longer term approach to creating shareholder value.

## PORTFOLIO POSITIONING

- Highly concentrated portfolio with 78% active share.
- Overweight:
  - Cyclical 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 Domino's Pizza Enterprises.
  - Financials with leverage to interest rate rises including QBE Insurance and Suncorp.
  - 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.

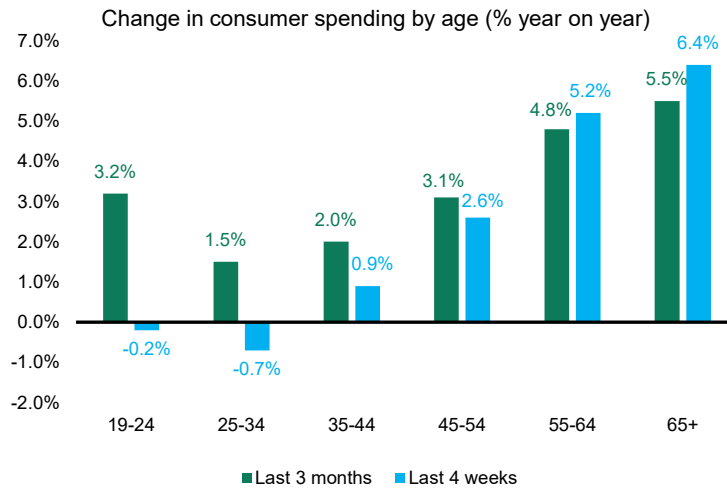
Companies mentioned are illustrative only and not a recommendation to buy or sell any particular security

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

During August reporting season, a number of retailers reported surprisingly resilient revenue trends given the tougher consumer backdrop. Solid sales were reported by Qantas Airways, JB Hi-Fi, Nick Scali, Bunnings Warehouse (within Wesfarmers), Breville, and Baby Bunting. The number of disappointments was relatively low, limited to names such as The Good Guys and Adairs.

Data from Commonwealth Bank showed that consumer spending through the June quarter was still higher than last year across all age groups. However, some weakness emerged in the younger age groups during July. We believe these trends will continue as age groups exposed to higher rents and mortgage payments increasingly feel the pinch.

**Figure 1: CBA spending data reveals weakness in spending across younger age groups in July 2023**



Source: Commonwealth Bank of Australia

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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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Existing client enquiries 1300 360 306

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