

# FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | JANUARY 2022

## PERFORMANCE (AFTER FEES)

	Month	Quarter	6 Months	1 Year	2 Years p.a.	3 Years p.a.	Fund inception p.a. <sup>2</sup>	5 Years p.a.	7 Years p.a.	10 Years p.a.	Strategy inception p.a. <sup>4</sup>
Fund <sup>1</sup>	-5.18%	-3.35%	-0.33%	12.18%	7.12%	10.36%	6.27%	-	-	-	-
Strategy composite <sup>3</sup>	-5.18%	-3.35%	-0.33%	12.18%	7.12%	10.36%	-	10.34%	11.28%	11.26%	9.65%
Benchmark	-6.35%	-4.30%	-3.81%	9.44%	2.97%	9.77%	7.98%	9.79%	7.69%	9.48%	7.05%
Excess Return	<b>+1.17%</b>	<b>+0.94%</b>	<b>+3.48%</b>	<b>+2.73%</b>	<b>+4.14%</b>	<b>+0.60%</b>	<b>-1.71%</b>	<b>+0.55%</b>	<b>+3.59%</b>	<b>+1.78%</b>	<b>+2.61%</b>

## 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 ASX200 Accumulation Index over the medium to long term.

## PORTFOLIO POSITIONING 31 JANUARY 2022

### Top 3 Overweight Holdings (Alphabetical)

Newcrest Mining  
ResMed  
Santos Ltd

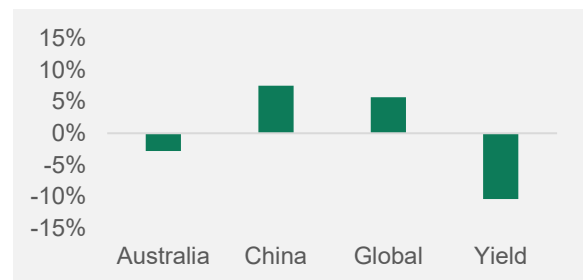
## FUND DETAILS

Unit Prices	31 January 2022
Application price	\$ 1.2028
Redemption Price	\$ 1.1992
NAV Price	\$ 1.201
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Number of Holdings	27
Fund size	\$626mil
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 JANUARY 2022

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.

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

## PORTFOLIO COMMENTARY

The Fund returned negative 5.18% for the month ending 31 January 2022, outperforming the ASX200 Accumulation index by 1.17%.

## CONTRIBUTORS TO RETURNS

Positive contributors included Santos, Virgin Money UK and Crown. Negative contributors included Megaport, Xero and James Hardie. We discuss each further in our commentary below.

### CONTRIBUTORS

#### Santos

The oil price rallied 16% to reach US\$90 per barrel for the first time since 2018 as supply continued to lag the recovery in demand. With its fourth quarter production report, Santos also confirmed that it will hit all key guidance targets for the 2021 year.

#### Virgin Money UK

The 20-30bps rise in global bond yields over January was supportive for global banks, and Virgin Money UK was no exception. Virgin Money UK also upgraded its guidance for net interest margins for the third time in the past nine months.

#### Crown

After completing more due diligence, Blackstone increased its non-binding bid for Crown from \$12.50 per share to \$13.10 per share. The Crown Board stated that if Blackstone can firm up a binding bid at \$13.10 per share or higher, it intends to recommend that Crown shareholders vote in favour of the offer.

### DETRACTORS

#### Megaport

Megaport continued to show strength in its core business, with monthly recurring revenue in the December quarter up 47% on the previous year. However, the addition of only 12 new Megaport Virtual Edge connections in the quarter was below market expectations. The Megaport share price was also negatively impacted by the upward move in interest rate expectations during the month.

#### Xero

Xero was also caught up in the global tech selloff driven by higher global interest rate expectations. The S&P/ASX All Technology Index was down 18% in January compared to -6% for the broader ASX200 Index.

#### James Hardie

The departure of CEO Jack Truong came as a significant surprise to the market. The Board emphasised that the CEO's exit was entirely due to behavioural issues rather than any underperformance of the business. A James Hardie Board member has been appointed as Interim CEO while a search is conducted for a new candidate. At the same time as James Hardie made this announcement, it upgraded FY22 profit guidance and committed to providing FY23 guidance in February.

## PORTFOLIO POSITIONING

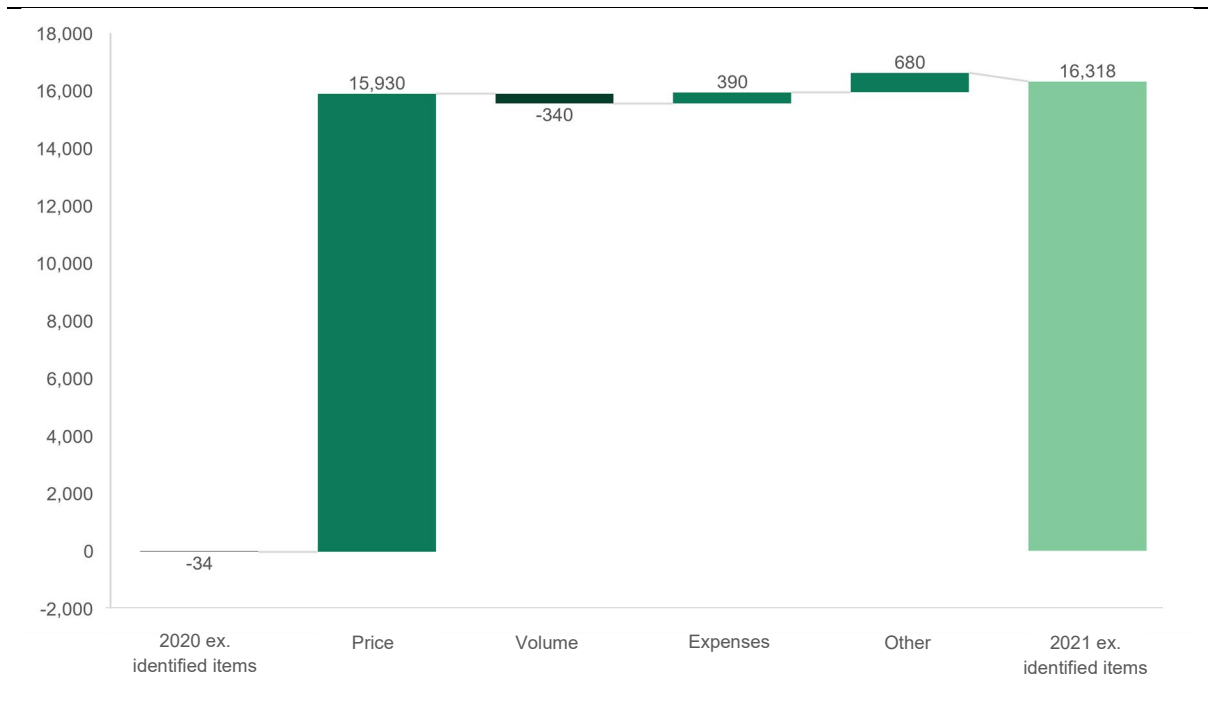
- Highly concentrated with an 80% active share
- Overweight:
  - Re-opening trades like Qantas and Santos where competitive dynamics will be more attractive than before COVID.
  - Base metal and EV material companies where supply won't be able to keep up with demand in the medium-long term.
  - Market leaders including ResMed, Aristocrat and James Hardie who are benefitting from strong demand while taking market share in their categories
  - Financials with material leverage to interest rate rises including Virgin Money UK and QBE.
  - Undervalued defensive companies including Newcrest, Telstra and Crown.
- Underweight Australian banks and iron ore where we don't see compelling opportunities.

## ONE INTERESTING THING THAT HAPPENED THIS MONTH

January had it all. Interest rate expectations ramped up, supply chain disruption featured in most company updates and the ASX200 flirted with “correction” territory.

We also saw Exxon, one of the world’s largest oil companies, report its 2021 earnings. The bridge between Exxon’s 2020 and 2021 earnings provided a stark reminder of what is the dominant driver of commodity company earnings. The importance of “value over volume” was also echoed in comments from the Exxon CEO: “our primary objective is less about volume targets and more about the quality and profitability of the barrels that we’re producing”.

**Figure 1. Exxon 2021 earnings drivers (USD\$ millions)**



Source: Company data

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