

FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | FEBRUARY 2022

PERFORMANCE (AFTER FEES)

	Month	Quarter	6 Months	1 Year	2 Years p.a.	3 Years p.a.	Fund inception p.a. ²	5 Years p.a.	7 Years p.a.	10 Years p.a.	Strategy inception p.a. ⁴
Fund ¹	2.61%	-0.80%	-1.70%	11.15%	13.47%	9.32%	6.84%	-	-	-	-
Strategy composite ³	2.61%	-0.80%	-1.70%	11.15%	13.47%	9.32%	-	10.02%	12.22%	12.15%	9.78%
Benchmark	2.14%	-1.72%	-4.15%	10.19%	8.32%	8.43%	8.40%	9.61%	8.53%	10.10%	7.15%
Excess Return	+0.47%	+0.92%	+2.45%	+0.96%	+5.15%	+0.90%	-1.56%	+0.41%	+3.69%	+2.05%	+2.63 %

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

28 FEBRUARY 2022

Top 3 Overweight Holdings (Alphabetical)

Qantas Airways Ltd
ResMed Inc
Santos Ltd

FUND DETAILS

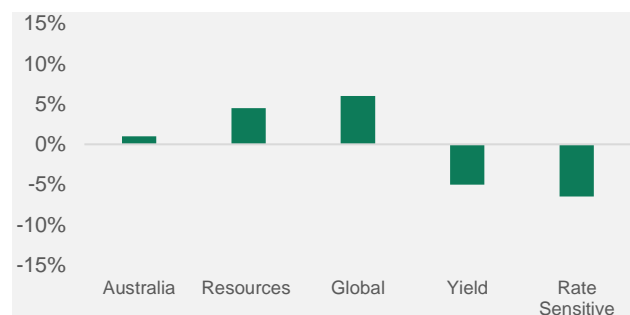
Unit Prices	28 February 2022
Application price	\$ 1.2341
Redemption Price	\$ 1.2305
NAV Price	\$1.2323
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Number of Holdings	25
Fund size	\$645mil
Management fee*	0.90% p.a.
Performance fee*	15% of outperformance above an annual Hurdle of 2% above Benchmark

*Please read the Product Disclosure Statement for more details

THEMATIC POSITIONING

28 FEBRUARY 2022

Relative to the Benchmark



Past performance is not a reliable indicator of future performance.

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 2.61% for the month ending 28 February 2022 outperforming the ASX200 Accumulation Index by 0.47%.

CONTRIBUTORS TO RETURNS

Positive contributors included Newcrest, Nufarm and Lynas. Negative contributors included Seek, Xero and a nil holding in Westpac. We discuss each further in our commentary below.

POSITIVE CONTRIBUTORS

Newcrest

Gold equities rallied in February due to increased geopolitical risk and a 5% increase in the USD gold price. Newcrest's 1H22 result contained minimal new news following the revision of Lihir production guidance to the bottom end of the 700-800k oz range in January.

Nufarm

Nufarm released a positive trading update, with 36% revenue growth in the December quarter driven by price and volume. Nufarm's investor day presentation also provided more detail on the medium-term growth opportunities in plant-based Omega 3 and low-carbon fuel (Carinata). These two products support Nufarm's ambition to more than double revenues in its Nuseed division over the next 4-5 years.

Lynas

Supply and demand dynamics for Lynas' main rare earth product, NdPr, remain very favourable. Lynas' Vice President of Downstream, Pol Le Roux, commented that inventory levels for magnet makers are down to ~1 month vs ~6 months typically. With its 1H22 result, Lynas also confirmed its project to expand processing at Kalgoorlie remains on track to be operational by July 2023.

NEGATIVE CONTRIBUTORS

Seek

Seek reported 59% growth in revenues in the December half, driven by record job ad volumes in Australia and a shift by employers and recruiters towards more expensive ads. After the normal seasonal lull in December, Seek also flagged a strong return in January which gave management the confidence to upgrade FY22 EBITDA guidance by 10-15%. Unfortunately, due to the sectoral shift out of technology stocks, the strong result was not reflected in the share price with Seek underperforming in February.

Xero

Given its March year-end, Xero didn't report results or any other material news during February. The broad sell-off in technology stocks weighed on the share price.

Westpac (nil holding)

Westpac was a strong outperformer vs the ASX200 and the other major banks over the month as it reported a better-than-feared December quarter update. Revenue was supported by a strong result in trading income and some early progress on cost-out initiatives was evident.

PORTFOLIO POSITIONING AND CHANGES

Positioning can be summarised as follows:

- 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 and Telstra.
- Underweight Australian banks and iron ore where we don't see compelling opportunities.

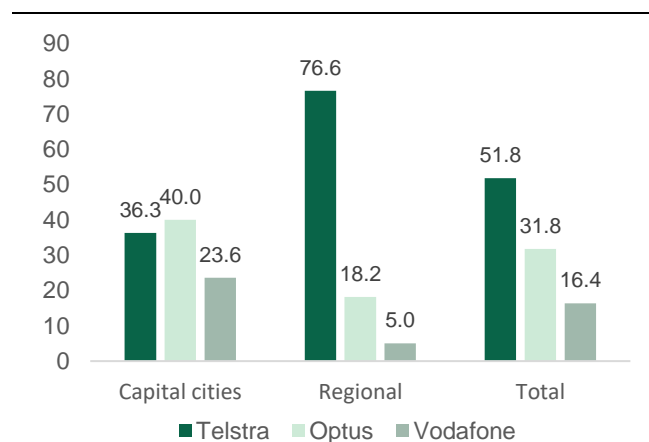
FIRETRAIL THEMATIC RISKS

You may have noticed that we refined our thematic risk categories this month. Previously we included all interest rate sensitive stocks in the “Yield” segment. We have now split banks and insurers out into a new “Rate Sensitive” segment. This is to recognise that from a very low starting point, rising rates are good for banks, and as a result they now trade more like low-beta cyclicals. The “Yield” bucket continues to contain bond proxy stocks across infrastructure and real estate, and gold stocks. We are currently 5.0% underweight the Yield thematic and 7.1% underweight the Rate Sensitive thematic but with a skew towards higher leveraged names like QBE and VUK. We therefore view our exposure to rising interest rates as broadly neutral to positive.

ONE INTERESTING THING THAT HAPPENED THIS MONTH...

Telstra and the combined TPG/Vodafone (TPG) business signed a 10-year deal that will give TPG access to Telstra’s mobile network in regional areas. For Telstra, this deal will provide ~\$1.7bn of gross revenues over the 10-year term. For TPG, the deal will enable its mobile brands to compete more effectively in regional Australia. We were a little surprised to see Telstra give TPG a leg-up in an area where it is so dominant, but we also believe that it takes more than just improved network coverage to gain meaningful share in this market.

Fig 1. Mobile Market Share Across Metro/Regional (%)



Source: CIE report, February 2022

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