

# FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | MAY 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>	-3.45%	-0.93%	-1.73%	2.38%	17.06%	8.59%	6.18%	-	-	-	-
Strategy composite <sup>3</sup>	-3.45%	-0.93%	-1.73%	2.38%	17.06%	8.59%	-	8.39%	9.60%	11.22%	9.56%
Benchmark	-2.60%	3.21%	1.44%	4.84%	15.95%	7.85%	8.69%	9.05%	7.18%	9.84%	7.24%
Excess Return	<b>-0.85%</b>	<b>-4.15%</b>	<b>-3.17%</b>	<b>-2.46%</b>	<b>+1.11%</b>	<b>+0.75%</b>	<b>-2.51%</b>	<b>-0.66%</b>	<b>+2.42%</b>	<b>+1.37%</b>	<b>+2.31%</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 ASX 200 Accumulation Index over the medium to long term.

## PORTFOLIO POSITIONING

31 MAY 2022

### Top 3 Overweight Holdings (Alphabetical)

QBE Insurance Group Ltd

ResMed Inc

Santos Ltd

## FUND DETAILS

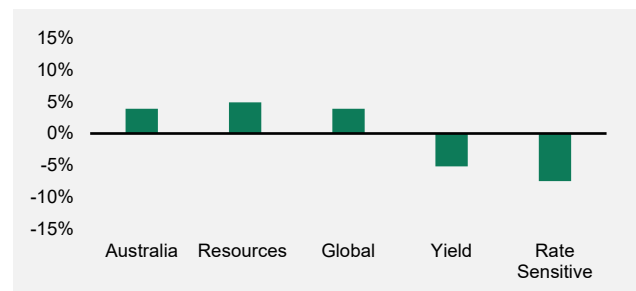
Unit Prices	31 May 2022
Application price	\$ 1.2226
Redemption Price	\$ 1.2190
NAV Price	\$ 1.2208
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Number of Holdings	26
Fund size	\$672mil
Management fee*	0.90% p.a.
Performance fee*	15% of outperformance above an annual Hurdle

\*Please read the Product Disclosure Statement for more details

## THEMATIC POSITIONING

31 MAY 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 3.45% for the month ending 31 May 2022, underperforming the ASX 200 Accumulation Index by 0.85%.

## CONTRIBUTORS TO RETURNS

Positive contributors included Santos, Lynas Rare Earths and Amcor. Negative contributors included Lendlease, Virgin Money UK and BlueScope Steel. We discuss each further in our commentary below.

### POSITIVE CONTRIBUTORS

#### Santos

Santos shares outperformed in May as the oil price rallied from US\$100/bbl to US\$117/bbl. During the month, Ministers from Saudi Arabia and Bahrain highlighted that refining bottlenecks would limit the ability of supply to meet demand even if more crude oil was pumped by producers. Restricted supply and solid demand will continue to put upward pressure on oil prices. This is positive for Santos.

#### Lynas Rare Earths

The price of Lynas' main rare earth mineral, NdPr, rose 11% during May. While no stock specific announcements were made during the month, the company released an exploration update in early June. The update highlighted the size and scale of Lynas' Mt Weld deposit in WA that underpins the company's long-term growth plans. Lynas is currently mining at a depth of ~100m below surface. The current 'life of mine plan' extends to 200m. Recent drilling shows that the orebody extends ~600m below this.

#### Amcor

Amcor shares outperformed in May after the packaging company reported strong 3Q FY22 results. Amcor reported earnings growth of 9% and upgraded guidance for the full year FY22 to 9.5-11%. Amcor's recent results have demonstrated the company's ability to pass on raw material inflation to its customers.

### NEGATIVE CONTRIBUTORS

#### Lendlease

After a strong April, Lendlease underperformed in May. This was consistent with broader weakness across value stocks during the month. In a conference presentation, Lendlease's CEO reaffirmed cost-out targets despite the challenges posed by higher inflation.

#### Virgin Money UK

Virgin Money UK underperformed during May. The bank reported a solid 1H22 result, upgrading its net interest margin guidance for the 5th time in two years. However, the market inferred that management's forward guidance implies a significant step-down in margins in FY23. We believe this reasoning ignores management's established track record of conservatism when it comes to setting margin guidance.

#### BlueScope Steel

BlueScope Steel underperformed in May due to a broader sell-off in US-exposed steel companies. During the month, BlueScope upgraded 2H22 earnings guidance by 10% thanks to higher-than-expected prices in its North America steel business. This was partly offset by softer trends in its Australian steel products division as a result of supply chain disruptions (floods, rail outages and COVID).

## PORTFOLIO POSITIONING

Current portfolio positioning can be summarised as follows:

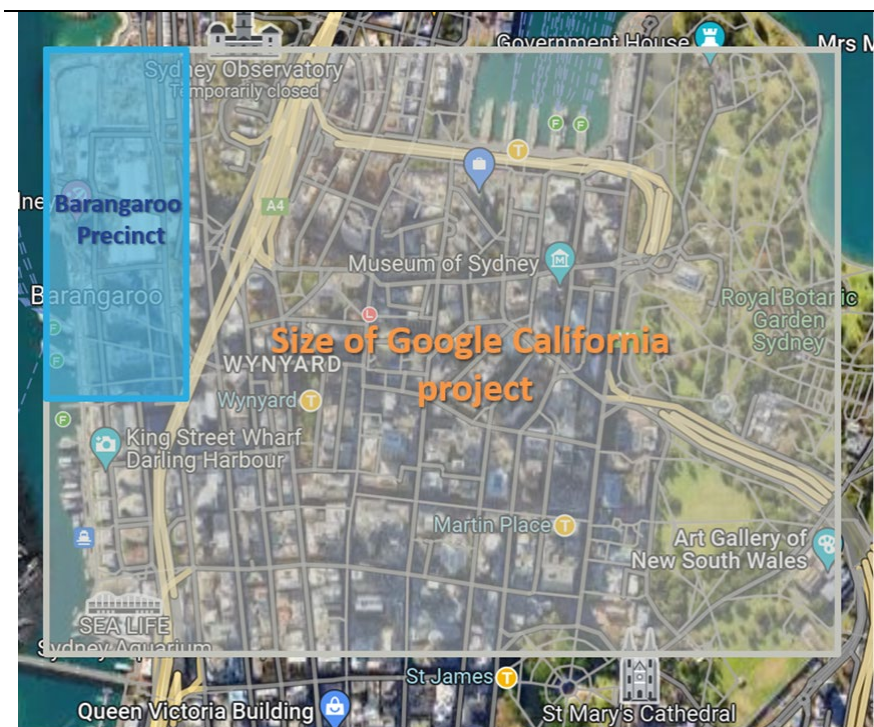
- Highly concentrated with an active share of 77%.
- Overweight:
  - Re-opening trades like Qantas Airways and Santos, where competitive dynamics have improved post-COVID.
  - Base metal and EV materials where supply won't be able to keep up with demand in the medium-term.
  - Market leaders such as ResMed, Aristocrat and James Hardie who are benefiting from strong demand while winning market share in their categories.
  - Financials with material leverage to interest rate rises including Virgin Money UK and QBE Insurance Group.
  - Undervalued defensive companies including Newcrest Mining and Telstra.
- Underweight positions in Australian banks and iron ore where we don't see compelling opportunities.

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

Firetrail portfolio manager Blake Henricks has just arrived home from a two week trip visiting companies across the US. As part of his trip, Blake travelled to San Francisco to learn more about the urbanisation project Lendlease is developing for Google.

The Google project is 10x the size of Barangaroo and will deliver US\$15bn of residential and retail property over the next 10-15 years with planning approvals in train. We believe Lendlease's relationship with Google will ultimately extend to further new developments around the world.

**Figure 1: Lendlease's project to develop Google's San Francisco campus... it's BIG!**



Source: Google Maps

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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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#### MORE INFORMATION

General enquiries 1300 010 311

Existing client enquiries 1300 360 306

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