FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | JUNE 2021

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]	0.33%	5.01%	12.10%	34.14%	10.53%	6.02%	7.31%	-	-	-	-
Strategy composite[3]	0.33%	5.01%	12.10%	34.14%	10.53%	6.02%	-	11.39%	11.80%	10.01%	10.01%
Benchmark	2.26%	8.29%	12.90%	27.80%	8.62%	9.59%	10.40%	11.90%	8.85%	8.76%	7.52%
Excess Return	**-1.93%**	**-3.27%**	**-0.80%**	**+6.34%**	**+1.91%**	**-3.56%**	**-3.09%**	**-0.51%**	**+2.95%**	**+1.25%**	**+2.49%**

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 30 JUNE 2021

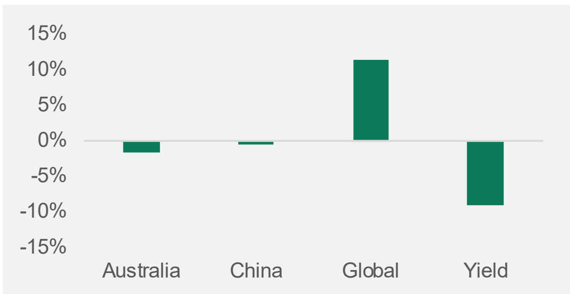
Top 3 Overweight Holdings (Alphabetical)
Newcrest Mining Ltd
OZ Minerals Ltd
Virgin Money UK PLC

FUND DETAILS

Unit Prices	30 June 2021
Application price	$ 1.2049
Redemption Price	$ 1.2013
NAV Price	$ 1.2031
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Number of Holdings	28
Fund size	$550mil
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 30 JUNE 2021

Relative to the Benchmark



Past performance is not a reliable indicator of future performance.

1. Firetrail Australian High Conviction Fund ('Fund'). Gross 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 (before 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. Gross Fund returns are in AUD terms. Gross Fund returns are calculated based on exit price with distributions reinvested, before 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 5.01% for the quarter ending 30 June 2021, underperforming the ASX200 Accumulation Index by 3.27%. For the month of June, the Fund returned 0.33% underperforming the benchmark by 1.93%.

The 2020/21 financial year was a great year for HCF clients, with the Fund returning 34.14%, outperforming the benchmark by 6.34%.

COMPANY & INDUSTRY NEWS

The Australian equity market moved modestly higher in June as economic data-points continued to highlight a robust post-COVID recovery trajectory. However as June drew to a close, further state lockdowns and mixed messaging over the vaccine rollout had the market questioning the pace of Australia's transition back to "life as usual". Australian and US 10-year bond yields retraced 15-20bps in the month which drove a rotation away from cyclicals, a recovery in tech, and strong performance in defensives. The biggest outperformers across the top 20 were Wesfarmers, Woolworths, Goodman Group, Telstra, Afterpay and Resmed. Two of these names were among our positive contributors for the month.

POSITIVE CONTRIBUTORS:

Resmed

Resmed outperformed materially during the month. Key competitor Phillips initiated a voluntary recall for a large proportion of its installed device base on June 14. The recall of a key competitor in a three player market is a huge opportunity to take market share. Our conversations with numerous industry contacts suggest Resmed will take share in both devices and masks due to disruption and reputational damage. A good case study was the 2011 recall initiated by Cochlear. In that case, Cochlear market share remained depressed for almost ten years, showing a long term impact on market structure. The key constraint for Resmed in taking the opportunity is supply chain bottlenecks due to the global chip shortage.

Megaport

Megaport rallied on the back of its investor day which provided an in-depth look at its Megaport Virtual Edge (MVE) product. The investor day highlighted the significant opportunity Megaport has if it can successfully leverage its partnerships with SD-WAN (software-defined wide area network) providers to accelerate MVE adoption.

Telstra

The sale of a 49% stake in InfraCo Towers was earlier than expected and with a bigger price tag. The multiple of 28x EBITDA highlighted the value in Telstra's tower portfolio, and indicates that further value could be realised across the remainder of InfraCo in the future. Additionally, the trend towards more rational pricing in the mobile market continued, with Vodafone lifting prices across all postpaid plans at the end of the month.

Aristocrat

Revenues in Aristocrat's 1H21 result were strong, particularly given a number of slot machines across the US remain switched off. Casinos are prioritising Aristocrat's better performing games and allocating it a greater share of slot floors. A higher cost trajectory has been guided into 2H21 as management invests in systems, sales, and design talent to support future growth. For a more detailed exploration of Aristocrat's performance and where Firetrail sees it heading, see here.

NEGATIVE CONTRIBUTORS:

Newcrest

After a 10% rise over April and May, the gold price retraced 7% in June, driving underperformance in Newcrest and other gold names. An exploration update confirmed continued expansion of high grade areas at two of Newcrest's growth projects, Havieron (WA) and Red Chris (Canada).

Oz Minerals

After a sustained run from $2.20/lb to $4.70/lb over the 12 months to 31 May, the copper price declined 8% in June as China announced it would release stockpiles of copper, aluminium and zinc to support local manufacturing margins. While copper supply and demand looks reasonably balanced over the next 12-18 months, we believe supply remains challenged over the medium-long term which should support higher prices.

Crown

Crown underperformed as the regulatory focus shifted from NSW to Victoria. The Royal Commission has closely scrutinised Crown's implementation of responsible gaming controls and its actions around a gaming tax underpayment issue. The Commissions reporting date has now been extended from 1 August to 15 October to allow adequate time to consider all of the evidence presented.

AMPOL DEEP DIVE

Ampol is a new position we established over the quarter. It may not be immediately recognisable as an ASX-listed company – this is because it rebranded from Caltex in May 2020 following the termination of the licencing agreement with Chevron.

The company is an attractive investment for three reasons:

1) Ampol's retail business operates in a highly rational competitive environment that is undervalued by the market.
2) Earnings can improve materially as mobility returns to normal, in particular jet fuel increases.
3) The balance sheet is under-geared offering low cost off-market share buy backs.

AMPOL RETAIL IS UNDERVALUED

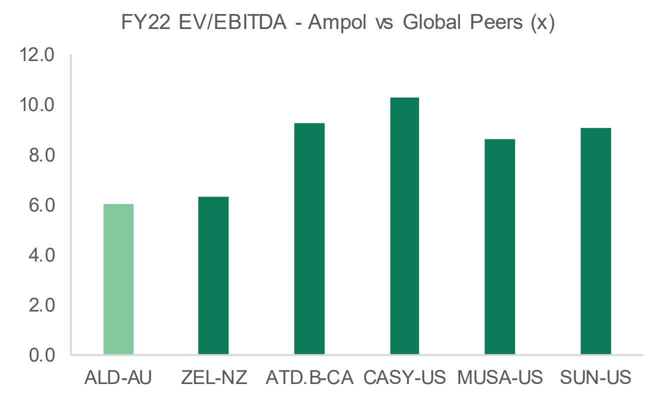
Ampol screens cheap vs global petrol convenience peers. While there are business mix differences across the companies listed below, even after adjusting for this Ampol still looks at least 25% cheap on headline metrics.

This could be attributed to underwhelming execution in previous years, particularly in the Convenience Retail division, but we believe the earnings outlook is now improving, driven primarily by better fuel margins and lower operating costs.

Fuel margins expanded during the onset of COVID as the oil price collapsed and industry pricing was held up to compensate for the negative fixed cost leverage caused by lower volumes. As oil has recovered, pricing has again been slow to adjust, driving fuel margins down from high teens to close to 10%, a level we believe will not be sustained given:

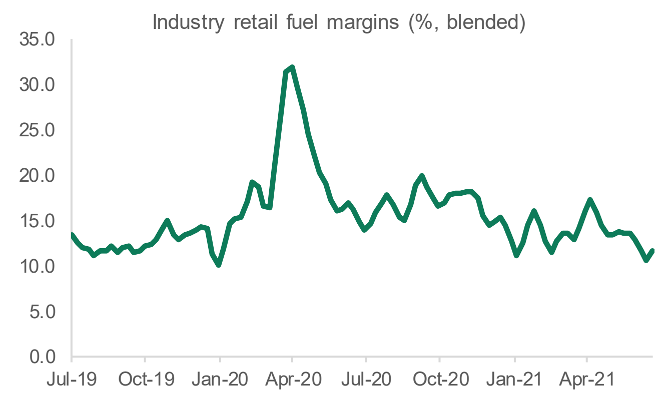
- The more challenged economics of independent operators which comprise 15-20% of the industry.
- The lessons learned by Viva, one of Ampols largest customers, when it tried to discount to gain market share through 2018/19.
- Recent data-points that suggest that Euro Garages, another large competitor, is now behaving more rationally after a period of price aggressive.

Fig 1.



Source: FactSet, Firetrail estimates

Fig 2.



Source: Australian Institute of Petroleum

Ampol has also conducted a considerable re-shaping of its network in recent years, shifting from a franchise model to largely corporate-owned stores, closing marginal sites, extracting costs, and gradually rolling out Woolworths Metro sites. We remain wary of execution risk given the problems this division has encountered in the past, but believe management actions will be more closely aligned to shareholder interests going forward.

EARNINGS TO IMPROVE MATERIALLY THROUGH REOPENING

Ampol also operates the leading position in transport fuel infrastructure. They own import terminals, pipelines, tanks and other critical infrastructure, and sell fuel to miners, airlines, petrol retailers and other wholesale customers.

Through COVID, volumes associated with mining and domestic customers (ex-airlines) proved to be relatively resilient. However given fixed cost leverage and the substantial decline in jet fuel, EBIT for the Fuels & Infrastructure division fell by $100m or ~30%. We expect this to be recovered over the next 2-3 years as jet fuel picks up (currently still 60% down on pre-COVID levels) and growth in international businesses in NZ and the Philippines continues.

BALANCE SHEET IS UNDER-GEARED

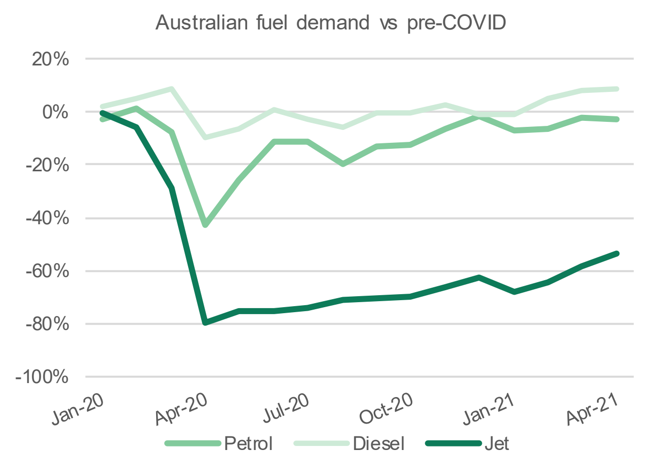
Ampol over time has had a good record of returning capital, with three off-market buybacks announced over the past six years. There is a reason to believe capital returns are going to be higher over the next few years driven by a recent deal on the ageing Lytton refinery.

The Government's willingness to ensure Australia has secure domestic fuel supply led to the announcement of a generous support package for Lytton in May. The key elements of the package are:

- Ampol will receive support that effectively places a floor under refining profits and still allows uncapped upside. In exchange, Ampol will keep Lytton operating for at least the next six years.
- Introduction of new minimum fuel stockholding obligations, which present Ampol with an opportunity to provide storage solutions to third parties.

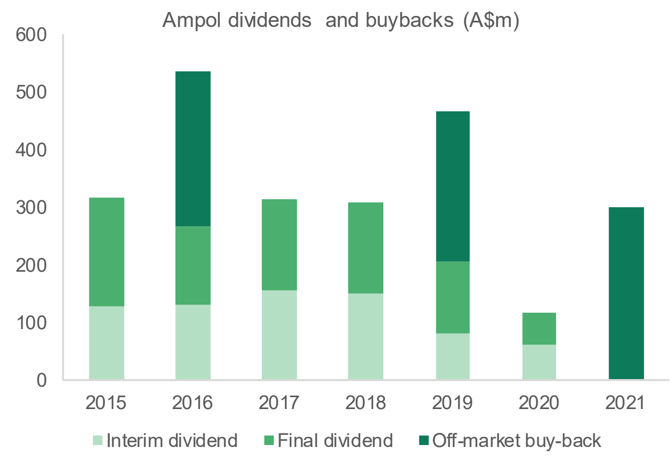
Importantly, Lytton's improved return profile has led to a revised gearing target range for Ampol of 2.0-2.5x, raised from 1.5-2.0x. Given our estimated CY21 gearing of 1.2x, we believe further capital management will be the subject of active Board discussions over coming periods.

Fig 3



Source: Australian Petroleum Statistics, Commonwealth of Australia 2021

Fig 4



Source: Company presentation

PORTFOLIO POSITIONING & CHANGES

We entered two new positions during the quarter. Ampol as outlined above, and QBE. Other material changes we made to the portfolio over the June quarter were:

- Increased our RMD overweight after the initial announcement of Philips' issues in April and the sell-off following RMD's 3Q21 result.
- Increased our OSH and STO overweights following further decoupling of equity performance from the appreciating oil price.
- Exited CGF following the April profit warning as it was apparent that volumes were being prioritised over margins and returns.

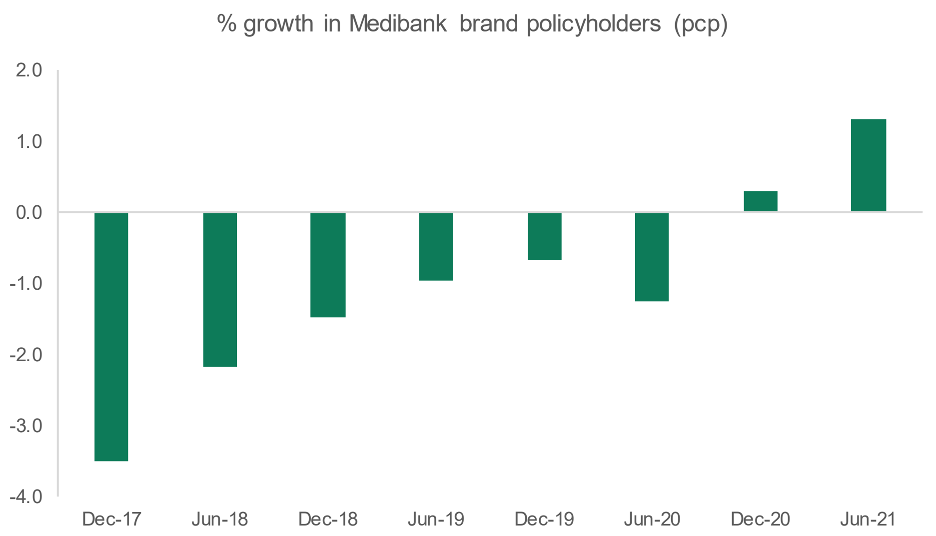
Current portfolio positioning can be summarised as follows:

- Highly concentrated with an 80% active share
- Overweight:
  - Re-opening trades like Qantas, Aristocrat and the energy sector, 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.
  - Housing plays like Bluescope and James Hardie who are benefitting from strong demand while taking market share in their categories.
  - Non-bank financials including QBE, IAG and Medibank.
  - Undervalued defensive companies including Newcrest, Telstra and Crown.
- No holding in Australian banks and iron ore where we don't see compelling opportunities.

ONE INTERESTING THING THAT HAPPENED THIS MONTH…

If you are a Medibank customer you are about to receive up to a $175 refund on your premiums. During June, Medibank announced that it would be returning permanent claims savings from COVID to customers by way of premium reductions in September. The average refund will be $60 for hospital & extras policyholders and $25 for extras-only. HCF announced a similar refund in March, however NIB appears to be allowing claims savings to flow directly to shareholders. It will be interesting to see whether these different approaches impact policy growth trends in future periods. The return of the Medibank band to positive policyholder growth over the past 12 months has been notable.

Fig 5



Source: Company data

MORE INFORMATION

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Firetrail INVESTMENTS