

FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | MAY 2024

PERFORMANCE (AFTER FEES)¹

	Month	Quarter	1 Year	3 Years p.a.	5 Years p.a.	Fund inception p.a. ³	7 Years p.a.	Strategy inception p.a. ⁵
Fund ²	1.23%	9.25%	1.31%	(5.64%)	3.51%	1.61%	-	-
Strategy composite ⁴	1.23%	9.25%	1.31%	(5.64%)	3.51%	-	2.66%	6.83%
Benchmark	0.36%	1.08%	4.25%	2.33%	1.57%	1.56%	1.54%	1.59%
Excess Return	+0.87%	+8.17%	-2.93%	-7.97%	+1.94%	+0.05%	+1.12%	+5.24%

1. Past performance is not a reliable indicator 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.

ABSOLUTE RETURN FUND

The Absolute Return Fund ("Fund") is a market neutral strategy with minimal correlation to equity market direction. It aims to generate positive returns in all market environments. 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 RBA Cash Rate over the medium to long term (after fees).

PORTFOLIO POSITIONING – 31 MAY 2024

Top 3 Overweight Holdings (Alphabetical)
CSL Ltd
Newmont Corp
Santos Ltd

FUND DETAILS

Unit Prices	31 May 2024
Application Price	\$1.0860
Redemption Price	\$1.0784
NAV Price	\$1.0822
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception Date	14 March 2018
Risk/Return Profile	Very High
Fund Size	\$170mil
Management Fee*	1.28% p.a.
Performance Fee*	20% of outperformance above an annual Hurdle

*Please read the Product Disclosure Statement for more details

FUND EXPOSURE – 31 MAY 2024

	Portfolio Exposure
Long Equity	170.7%
Short Equity	-161.7%
Net Equity Exposure	9.0%*

*Note that net equity exposure was higher than usual as the Fund was preparing for a number of pre-IPO opportunities. We expect the net equity exposure to revert to ~0% in June.

Past performance is not a reliable indicator of future performance.

The Product Disclosure Statement ('PDS') and Target Market Determination ('TMD') of the Fund are available at <https://firetrail.com/firetrail-absolute-return-fund/>.

2. Firetrail Absolute Return 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 Absolute Return Strategy Composite ('Strategy') which has been operating since 30 June 2015. 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 Pure Alpha Fund (after fees) between 30 June 2015 to 23 November 2017. The Fund employs the same strategy as was used by the same investment team that managed the Macquarie Pure Alpha Fund as at 23 November 2017. Firetrail has records that document and support the performance achieved as the Macquarie Pure Alpha Fund. The composite returns for the Strategy and the RBA Cash Rate (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 30 June 2015.

PORTFOLIO COMMENTARY

The Fund returned 1.23% (after fees) for the month ending 31 May 2024, outperforming the RBA cash rate by 0.87%.

CONTRIBUTORS TO RETURNS

Positive contributors for the month included Wood Group, Spartan Resources, and Deep Yellow. Negative contributors included Nufarm, James Hardie, and Flight Centre. We discuss each further in our commentary below.

POSITIVE CONTRIBUTORS

Wood Group

Scottish engineering and consulting firm, Wood Group, outperformed in May after receiving an unsolicited takeover offer from Dubai-based competitor, Sidara. The initial takeover interest of 205 pence per share in cash from Sidara represented a 25% premium to Wood's undisturbed price. Sidara has since increased its proposal to 230 pence per share after being rebuffed multiple times by Wood's Board. The two companies have entered a due diligence process to explore the possibility of a binding proposal. The Absolute Return Fund continues to hold an interest in Wood.

Spartan Resources

Gold project developer Spartan Resources rose strongly in May after releasing two separate exploration updates that highlighted the increasing size of the Dalgaranga Gold Project in Western Australia. Importantly, the orebody is co-located with a processing facility meaning that the capital cost to start the project will be minimal. The current exploration 'target' of 1.6-1.9 million ounces at a grade of ~6.3 grams per tonne looks increasingly conservative, in our view. We believe the market is underappreciating the exceptionally high grades and simple geometry of the deposit. Both of these factors mean that the project is likely to be among the lowest cost gold mines in Australia and is an attractive takeover target for many gold miners seeking to improve the quality of their portfolios.

Deep Yellow

The junior uranium developer's shares outperformed the broader market after completing its recent capital raising and moving closer to a final investment decision for the Tumas project in Namibia. The spot price of uranium was also marginally higher through May, closing near its decade high level achieved earlier this year.

NEGATIVE CONTRIBUTORS

Nufarm

Nufarm shares underperformed following the release of its 1H 2024 result. The Crop Protection business disappointed compared to expectations, but we believe it will improve from here as it works through the tail end of higher cost inventory. The Seeds business continues to deliver on expectations and remains on track to grow revenue by 60-70% over FY 2023-2026 driven by Omega-3 Canola.

James Hardie Industries

James Hardie shares underperformed following the release of the company's FY 2024 result and initiation of FY 2025 guidance which was 13% below consensus estimates. Management is forecasting fibre cement siding volumes to remain broadly flat in FY 2025 due to a tougher repair and remodel market, but still expect to gain market share.

Flight Centre

Flight Centre shares underperformed over the month despite the company reiterating FY 2024 profit guidance and pointing to positive market trends in both the Leisure and Corporate sector.

PORTFOLIO POSITIONING

The Firetrail Absolute Return Fund is a market neutral portfolio (long/short) with zero net market exposure and beta (+/- 0.1) to ensure Fund performance is uncorrelated to equity market direction. The Fund is driven by our best long and short ideas.

The long portfolio can be summarised as:

- 170.7% long exposure across a diversified portfolio of stocks with upside based on our medium-term earnings forecasts.
- Overweights include:
 - Energy companies exposed to commodities where supply is constrained in the medium term, such as Santos and NextGen.
 - Commodity companies exposed to decarbonisation such as Mineral Resources, AIC Mines, and Lynas Rare Earths with attractive cost positions and strong growth outlooks.

- Market leaders including CSL, ResMed, and James Hardie Industries who are well placed to strengthen their competitive position through the cycle.
- Structural growers exposed to AI and new market segments such as NextDC, and Life360
- Financials with leverage to a higher interest rates environment and better industry outlook including QBE Insurance, Medibank Private, and Suncorp.
- Undervalued companies with quality attributes including Treasury Wine Estates and Domino's Pizza.

The short portfolio can be summarised as:

- 170.6% short exposure across a diversified portfolio of earnings shorts and risk-reducing shorts
- Earnings shorts aim to profit from companies that downgrade near term earnings. The current market is creating heightened opportunities as companies deal with rising costs and easing demand at a time of peak margins.
- Risk-reducing shorts offset equity market exposure and control portfolio risks such as style, size, sector, and thematic biases to ensure returns are driven by stock specific factors.
- The short portfolio is overweight banks, select consumer discretionary and bond proxies where we see near term earnings risks and little valuation support.

ONE INTERESTING THING THAT HAPPENED THIS MONTH...

One of the Portfolio Managers of the Absolute Return Fund, Ramoun Lazar, spent three days in Western Australia speaking to a number of contacts in the resources industry. The overall takeaway confirmed ongoing growth in the minerals production outlook, with the industry expecting mid-single digit type growth in output. This is expected to support capital investment in the mining fleet, including purchases of both new equipment as well as rebuilds of the ageing fleet. A few challenges called out were the expected decline in government spending on transport infrastructure across Australia following several years of heightened spend, and delays in large scale government contracts particularly relating to big ticket defence spending.

Figure 1: The Firetrail Team is seeing exciting opportunities in minerals production.



Source: Firetrail, May 2024.

Get vital insights direct from the Firetrail investment team – Introducing the Firetrail Equity Edge Podcast.

We interview Firetrail's Portfolio Managers and Equity Analysts about a stock we have invested in to provide you with the **Firetrail Equity Edge**.

The questions are always the same:

- What is the company and what does it do to make money?
- What is the stock market missing regarding the company's outlook?
- What is the bear- and bull-case for the company?

All in under 10 minutes.

The podcast has proven to be a hit, with recent episodes covering Flight Centre, Regis Healthcare, Ampol and Genesis Minerals

Simply scan the QR code below or listen via your favourite podcast platform. Simply search for "Firetrail Equity Edge".



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Links to the Product Disclosure Statement: [WHT5134AU](#)

Links to the Target Market Determination: [WHT5134AU](#)

For historic TMD's please contact Pinnacle client service Phone 1300 010 311 or Email service@pinnacleinvestment.com

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