FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | JUNE 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]	2.75%	7.34%	3.35%	(2.63%)	4.41%	2.03%	-	-
Strategy composite[4]	2.75%	7.34%	3.35%	(2.63%)	4.41%	-	3.16%	7.10%
Benchmark	0.35%	1.07%	4.27%	2.44%	1.62%	1.59%	1.57%	1.61%
Excess Return	**+2.40%**	**+6.28%**	**-0.93%**	**-5.07%**	**+2.78%**	**+0.44%**	**+1.58%**	**+5.48%**

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 – 30 JUNE 2024

Top 3 Overweight Holdings (Alphabetical)
CSL Ltd
National Australia Bank Ltd
Newmont Corp

FUND DETAILS

Unit Prices[1]	30 June 2024
Application Price	$1.1150
Redemption Price	$1.1072
NAV Price	$1.1111
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception Date	14 March 2018
Risk/Return Profile	Very High
Fund Size	$171mil
Management Fee*	1.28% p.a.
Performance Fee*	20% of outperformance above an annual Hurdle

[1] Please note, prices listed above are excluding distributions
*Please read the Product Disclosure Statement for more details

FUND EXPOSURE – 30 JUNE 2024

	Portfolio Exposure
Long Equity	174.1%
Short Equity	-173.9%
Net Equity Exposure	0.2%

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 2.75% (after fees) for the month ending 30 June 2024, outperforming the RBA cash rate by 2.40%.

The Fund returned 7.34% (after fees) for the quarter ending 30 June 2024, outperforming the RBA cash rate by 6.28%.

CONTRIBUTORS TO RETURNS

Positive contributors for the month included Guzman y Gomez, Generation Development Group, and Infratril. Negative contributors included Mineral Resources, AIC Mines, and Deep Yellow. We discuss each further in our commentary below.

POSITIVE CONTRIBUTORS

Guzman y Gomez

Mexican restaurant chain Guzman y Gomez shares outperformed following a successful Initial Public Offering on 20 June. We believe Guzman y Gomez presents a strong proposition for both customers and franchisees in Australia, which should see it grow stores and earnings materially over the next 5-10 years. We go into further detail in this quarter's Stock Deep Dive.

Generation Development Group

Pooled development fund Generation Development Group (GDG) outperformed after announcing the acquisition of the remaining ~62% of research and consulting business Lonsec, that it did not already own. We believe this is a transformational acquisition for GDG. Firstly, the acquisition will accelerate 3-year earnings per share (EPS) growth to ~30% per annum. Secondly, the acquisition reduces legislative risk surrounding GDG's investment bond business. Thirdly, we believe that the acquisition significantly improves the quality of GDG's business given Lonsec's market position and the growth profile of its managed accounts business. Finally, the acquisition and associated capital raise will substantially improve the liquidity profile of GDG.

Infratil

Infrastructure investment company Infratil shares outperformed the broader market after completing its recent capital raising to fund future investment. Approximately half the funds raised will help deliver the Canberra Data Centres (CDC) growth pipeline. CDC now has 302 megawatts of operating capacity, with a further 388 megawatts under construction and greenfield capacity of 1,180 megawatts. This represents a ~50% increase to the pipeline that was presented at the recent results in May.

NEGATIVE CONTRIBUTORS

Mineral Resources

Diversified resources company Mineral Resources (MinRes) shares underperformed following weakness in both Lithium and Iron Ore prices over the month. MinRes also announced the sale of a 49% interest in its Onslow Iron haul road to Morgan Stanley Infrastructure Partners for a better than anticipated $1.3 billion gross value. The 150-kilometre dedicated haul road from the Onslow Mine to Ashburton Port serves as the only corridor for the Onslow iron ore deposits. Onslow Iron has commenced ore production and is expected to ramp up to nameplate capacity of 35 million tonnes per annum by June 2025.

AIC Mines

Copper producer AIC Mines declined sharply in June following a ~100% increase in the share price during the previous 2 months, as well as a $57m million-dollar equity raise to fund the doubling of production at the Eloise mine over the next 2 years. During the month the Company also announced that production guidance for FY 2024 had been achieved ~3 weeks ahead of schedule.

Deep Yellow

Uranium project developer Deep Yellow underperformed during the month amidst a decline in spot uranium pricing and a general 'risk off' environment in resources. This saw the small resources component of the small ordinaries benchmark fall by 8.0% compared to a 1.4% increase for the small industrials resulting in an aggregate return of 1.4% for the month. In general, we see the recent sharp decline in small cap resources as an overreaction to a stabilisation of commodity prices at healthy levels, particularly in the context of a weak Australian dollar. We continue to see significant opportunities across the sector, particularly in gold, base metals, uranium, and steel making materials.

Companies mentioned are illustrative only and not a recommendation to buy or sell any particular security.

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:

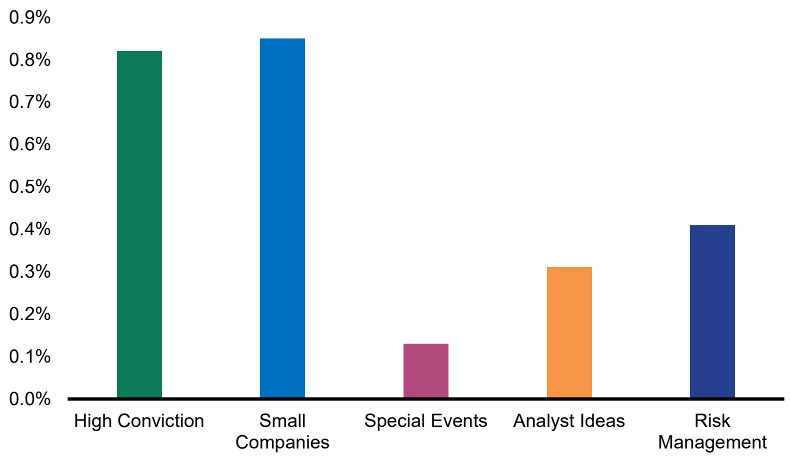
- 174.1% long exposure across a diversified portfolio of stocks with upside based on our medium-term earnings forecasts.
- Overweights include:
    - Energy companies exposed to commodities where supply is constrained in the medium term, such as Santos and NextGen.
    - Commodity companies exposed to decarbonisation such as Mineral Resources, Metal Acquisition and AIC Mines with 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, Life360 and Guzman y Gomez.
    - 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 BlueScope Steel, Treasury Wine Estates and Domino’s Pizza.

The short portfolio can be summarised as:

- 173.9% 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.

Attribution:

Figure 1: Absolute Return Fund one month attribution to 30 June 2024



Source: Firetrail, June 2024.

Companies mentioned are illustrative only and not a recommendation to buy or sell any particular security.

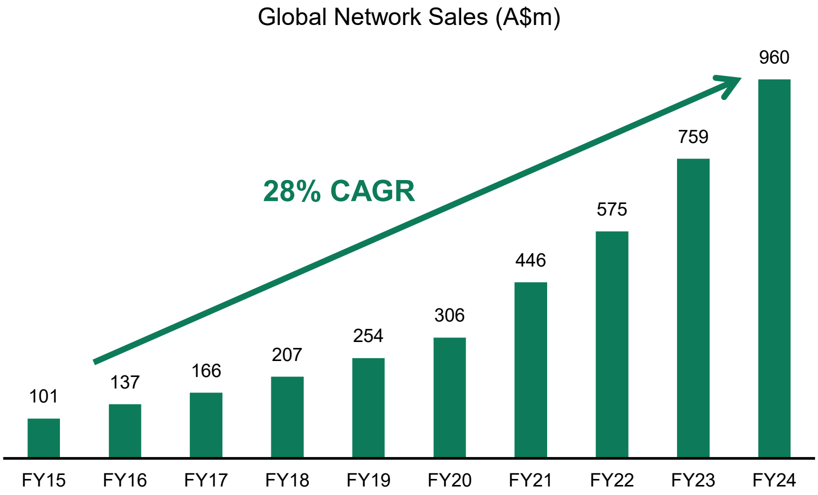
STOCK DEEP DIVE – GUZMAN Y GOMEZ

Guzman y Gomez (“GYG”) is one of Australia’s fastest growing fast-food businesses, having compounded network sales at nearly 30% for the past decade. The group has 210 restaurants globally with 70% operated by franchisees while 30% are run as corporate stores.

GYG has the rare combination of strong unit economics, a large growth opportunity, an impressive founder-led management team, and a fortress balance sheet.

We initiated a new position in GYG as part of a private funding round ahead of its successful listing during the quarter. We outline our thinking below.

Figure 2: GYG is one of Australia’s fastest growing fast-food businesses



Source: Firetrail, GYG Prospectus, June 2024.

Franchise business models are amongst the best you will find

It doesn’t come much better than the franchise business model - collecting a royalty on someone else’s investment.

We believe successful franchises depend on three factors:

1. Strong unit economics
2. A significant whitespace opportunity for growth
3. Happy and profitable franchisees

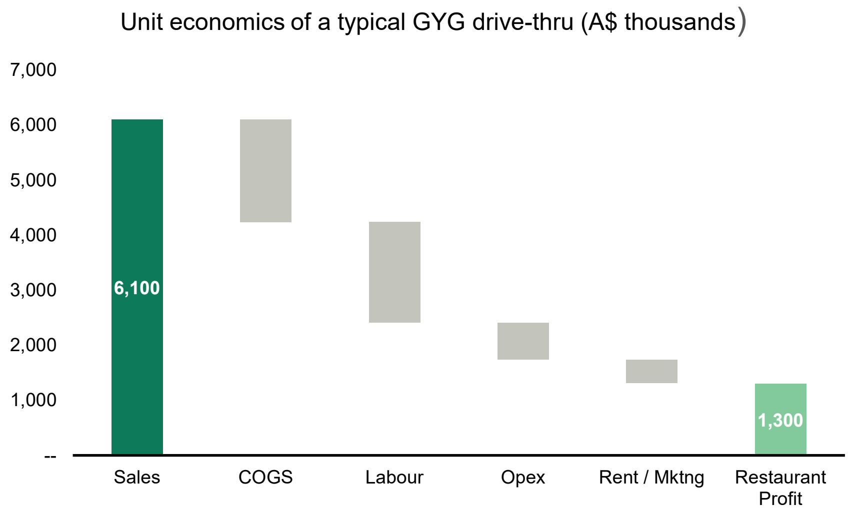
When done right, franchise businesses are a recipe for strong growth, high returns on capital and a tonne of free cash flow. On each of these three measures, we believe GYG screens favourably.

1. GYG restaurant economics are world-class

A typical GYG drive-thru turns over ~$6 million annually with a restaurant profit margin of approximately 22%. These figures are amongst the best of any restaurant concept in Australia, second only to McDonalds.

With an average build cost of $2 million, a new corporate GYG store generates an approximately 60% return on investment and pays itself off in just over 18 months.

Figure 3: A typical GYG drive-thru turns over ~$6 million annually with a restaurant profit margin of approximately 22%



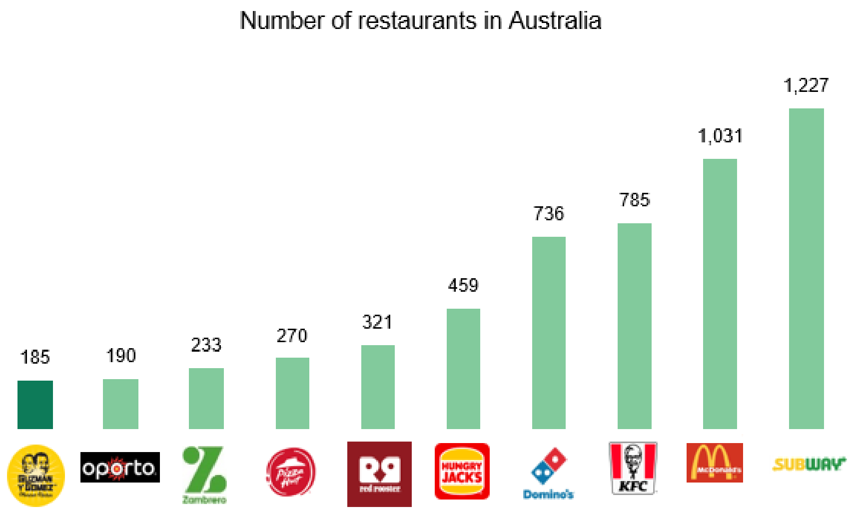
Source: Firetrail, GYG Prospectus, June 2024.

We expect restaurant performance to continue to improve over time as ongoing same-store-sales growth drives operating leverage on a relatively fixed cost base.

2. **Australia alone provides 20 years' worth of growth runway**

GYG has less than 200 stores in Australia today but sees an opportunity to have more than 1,000 over time. With a plan to rollout 30-40 stores each year, this implies 20 years of growth runway in Australia before considering other markets.

Figure 4: GYG has less than 200 stores in Australia today but sees an opportunity to have more than 1,000 over time



Source: Firetrail, GYG Prospectus, June 2024.

We believe the investment thesis is underpinned by the Australian opportunity alone. However, management have global ambitions.

The company has a small presence in Singapore and Japan today. Both markets could be materially larger over time. Additionally, GYG has opened 4 restaurants in the USA and intends to open an additional 3-5 each year to prove out the brand appeal and unit economics. The prize is large, but it is early days.

Companies mentioned are illustrative only and not a recommendation to buy or sell any particular security.

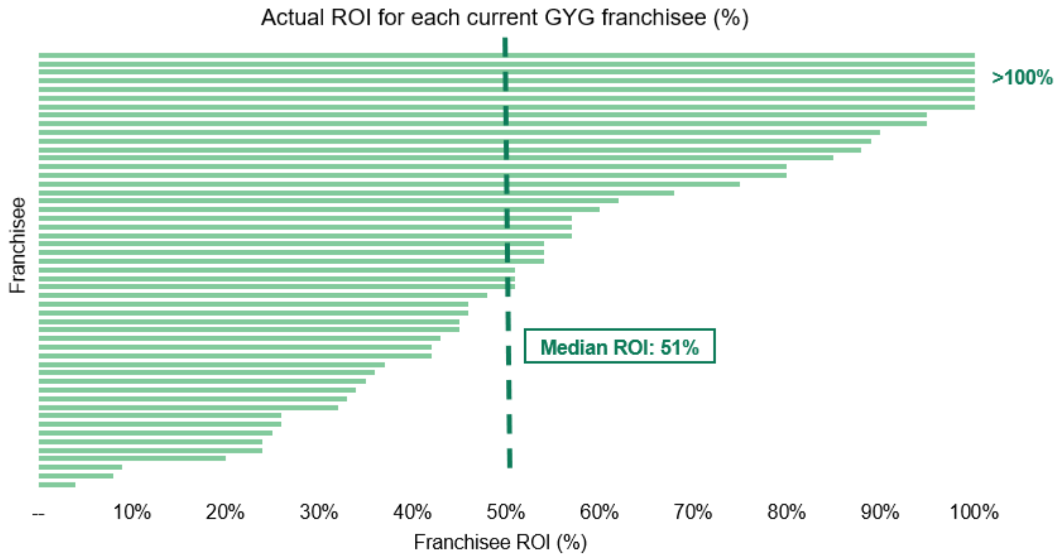
3. **A healthy and profitable franchisee network**

Happy franchisees create an incentive to open new stores, which drives higher royalty income for GYG.

Unlike many franchise businesses, every GYG franchisee is profitable. The median franchisee makes a 50% return on their investment, underpinned by a simple and transparent royalty model which ensures franchisees are treated fairly.

Unsurprisingly, the waitlist to become a franchisee is long.

Figure 5: GYG is one of Australia's fastest growing fast-food businesses



Source: Firetrail, GYG Prospectus, June 2024.

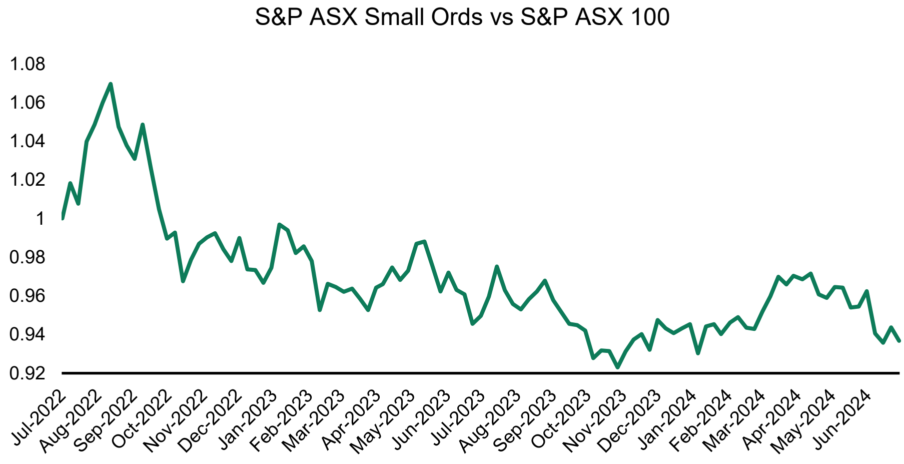
ONE INTERESTING THING THAT HAPPENED THIS MONTH…

The dispersion in the performance between large caps and small caps continued throughout the fiscal year ended June 2024. The Small Ords have underperformed the ASX 100 by about 7% over a two-year period, with a notable deceleration in the quarter ending 30 June 2024.

We believe a large part of the recent underperformance boils down to a weakening macro backdrop with further evidence the consumer is constrained and battling higher cost of living pressures. This is being exacerbated by persistent high inflation data, which has pushed out the prospect of rate relief, and even increased the prospect of a rate hike at the next RBA meeting in August.

This setup favours large caps as small caps are faced with higher economic exposures, lower quality balance sheets and more volatile cashflows. The Absolute Return Fund retains a broadly neutral exposure to small caps. Gross exposure to stocks we favour is commensurately offset by shorting of small cap stocks where we see heightened earnings and thematic risks.

Figure 6: Small caps have underperformed large caps over the last two years



Source: Firetrail, FactSet, June 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 BlueScope, Life360, 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".

MORE INFORMATION

General enquiries 1300 010 311

Existing client enquiries 1300 360 306

www.firetrail.com

Firetrail INVESTMENTS