

# FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | OCTOBER 2024

## PERFORMANCE (AFTER FEES)<sup>1</sup>

	Month	Quarter	1 Year	3 Years p.a.	5 Years p.a.	Fund inception p.a. <sup>3</sup>	10 Years p.a.	Strategy inception p.a. <sup>5</sup>
Fund <sup>2</sup>	(0.49%)	2.27%	18.85%	4.48%	7.41%	6.24%	-	-
Strategy composite <sup>4</sup>	(0.49%)	2.27%	18.85%	4.48%	7.41%	-	9.56%	9.14%
Benchmark	(1.31%)	2.10%	24.89%	8.01%	8.17%	9.02%	8.20%	7.55%
Excess Return	<b>+0.82%</b>	<b>+0.17%</b>	<b>-6.04%</b>	<b>-3.53%</b>	<b>-0.76%</b>	<b>-2.78%</b>	<b>+1.36%</b>	<b>+1.59%</b>

1. Past performance is not indicative 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.

## AUSTRALIAN HIGH CONVICTION FUND

The Australian High Conviction Fund ("Fund") is a concentrated portfolio 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 (after fees).

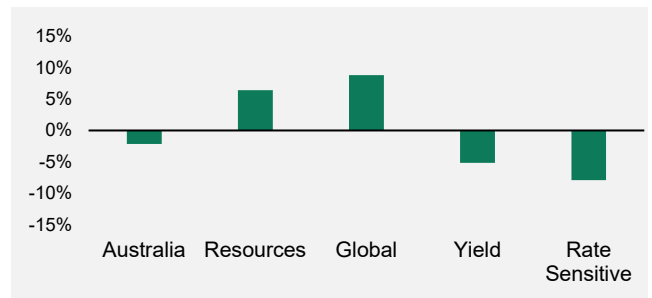
## PORTFOLIO POSITIONING – 31 OCT 2024

Top 3 Overweight Holdings (Alphabetical)
QBE Insurance Group Ltd
ResMed Inc
Santos Ltd

## FUND DETAILS

Unit Prices	31 October 2024
Application price	\$1.2536
Redemption Price	\$1.2498
NAV Price	\$1.2517
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Risk/Return Profile	Very High
Number of Holdings	34
Fund size	\$476 mil
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 OCT 2024



Source: Firetrail. 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.

2. 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. 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 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. 5. Strategy inception 29 November 2005.

## PORTFOLIO COMMENTARY

The Fund returned negative 0.49% (after fees) for the month ending 31 October 2024, outperforming the ASX 200 Accumulation Index by 0.82%.

## CONTRIBUTORS TO RETURNS

Positive contributors included Sigma Healthcare, Life360 and Block. Detractors included Flight Centre, Newmont and Ampol. We discuss each further in our commentary below.

### POSITIVE CONTRIBUTORS

#### Sigma Healthcare

Sigma shares outperformed following the release of a number of undertakings that seek to address the ACCC's concerns about its potential merger with Chemist Warehouse. We believe the proposed measures around wholesale agreements and confidential information should allay the ACCC's concerns and lead to the ultimate approval of the deal. The ACCC's decision is scheduled to be released in November.

#### Life360

Family safety and location sharing app Life360 outperformed in October. While no stock specific news was released, top grossing app data demonstrated positive trends across both the US and international markets. This data measures revenue generated through in-app purchases and subscriptions and bodes well for user growth in what is typically the strongest quarter for subscriber ads given the back-to-school seasonality.

#### Block

Block rose as the market priced a soft landing in financials. During the month, Block announced the launch of an upgrade to their Square pay terminals product allowing split bills at restaurants, a key barrier to winning market share in the space.

### NEGATIVE CONTRIBUTORS

#### Flight Centre

Flight Centre provided a September quarter update which was below market expectations. We were particularly disappointed by the update on Flight Centre's Corporate division. Over the past few years Flight Centre has won a number of new contracts in Corporate, however this hasn't delivered the boost to revenues that we expected against the backdrop of price deflation and trading down to cheaper fares.

#### Newmont

Newmont fell after a disappointing update on the outlook for production and costs. While higher gold prices have been very supportive of cashflow generation, inflation has been higher across the board and increasing production has been more challenging than expected. It appears Newmont is choosing to take a more conservative approach to mining at some key operations such as Lihir, which means production will be lower than forecast into 2025 and beyond. When we compare the opportunity set in gold, Newmont continues to be attractive given the assets are diversified, long life and low cost. Given the uncertainty on the outlook we reduced our exposure to Newmont, but it still remains a top 10 position.

#### Ampol

Ampol fell as refining margins reached very low levels globally while at the same time their Queensland refinery struggled to produce at nameplate. Pleasingly, the company pointed to resilient earnings in the retail division despite a subdued consumer environment.

## PORTFOLIO POSITIONING & CHANGES

- Highly concentrated with 69% active share.
- Overweight:
  - Cyclical companies exposed to commodities where supply is constrained in the medium term, such as Santos
  - Healthcare companies with strong market positions and defensive underlying demand drivers, such as ResMed and Fisher & Paykel Healthcare.
  - Market leaders including Seek who are well placed to strengthen their competitive position through the cycle.
  - Financials with leverage to interest rate rises including Insurance Australia Group.
  - Undervalued companies with defensive attributes including Newmont.
- Underweight Australian banks and iron ore where we don't see compelling opportunities.

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

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

Mexican food retailer and key holding of the fund, Guzman y Gomez (GYG), opened its 202<sup>nd</sup> store in Australia during the month, this one being in Mosman NSW. If there is one food retailer who knows how to generate interest upon opening, it is GYG. CEO Steven Marks and his team offer \$5 burritos in order to attract as many customers as possible, with the aim being that this will generate heightened interest which will ultimately lead to strong returning customer metrics. As can be seen in the below picture, opening day at GYG can be a hectic time!

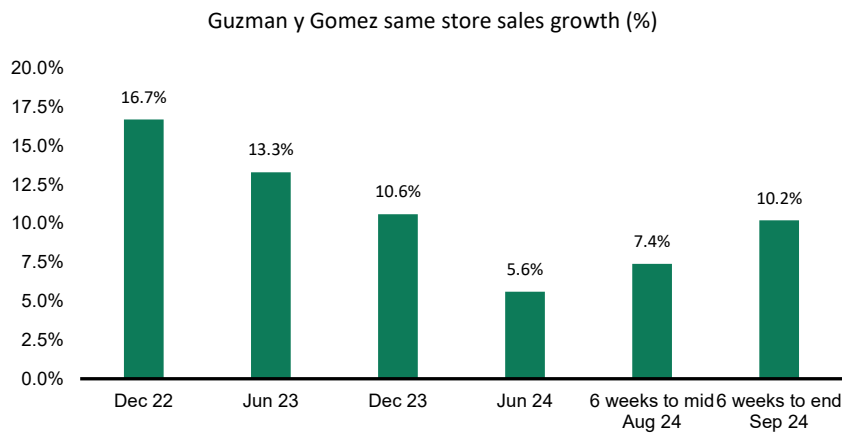
**Figure 2: Guzman y Gomez Mosman store opening attracted a long queue of excited customers**



Source: Firetrail, October 2024.

In the broader retail landscape, quarterly updates reported during the month highlighted the ongoing trend of consumers tightening their belts. GYG was one of the few businesses which demonstrated resilience in this challenging environment, along with Qantas (also a portfolio holding) and JB Hi-Fi. In the case of GYG, it reported accelerating same store sales growth in an Australian fast food market that competitors like McDonald’s highlighted is going backwards. We strongly believe that the divergence in outcomes we are now seeing across names within sectors highlights how important it is to be selective and remain focussed on bottom-up fundamentals.

**Figure 3: Guzman y Gomez is increasing same store sales growth despite a tough market**



Source: Company data, Firetrail estimates, September 2024.

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## 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 Fisher & Paykel Healthcare, WiseTech, Santos, Life 360, Flight Centre, and Ampol.

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



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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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