FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | OCTOBER 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]	0.63%	4.14%	7.69%	(2.87%)	4.38%	2.66%	-	-
Strategy composite[4]	0.63%	4.14%	7.69%	(2.87%)	4.38%	-	2.26%	7.38%
Benchmark	0.36%	1.08%	4.36%	2.92%	1.85%	1.73%	1.71%	1.72%
Excess Return	**+0.27%**	**+3.06%**	**+3.34%**	**-5.79%**	**+2.53%**	**+0.92%**	**+0.55%**	**+5.67%**

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 OCT 2024

Top 3 Overweight Holdings (Alphabetical)
BHP Group Ltd
National Australia Bank Ltd
Santos Ltd

FUND DETAILS

Unit Prices	31 October 2024
Application Price	$1.1690
Redemption Price	$1.1608
NAV Price	$1.1649
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception Date	14 March 2018
Risk/Return Profile	Very High
Fund Size	$128 mil
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 OCT 2024

	Portfolio Exposure
Long Equity	167.0%
Short Equity	-166.4%
Net Equity Exposure	0.6%

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 0.63% (after fees) for the month ending 31 October 2024, outperforming the RBA cash rate by 0.27%.

IN MARKETS THIS MONTH

The ASX 200 experienced a turbulent October 2024 given conflicting economic data from our two of our major trading partners – being the US and China – ultimately ending the month largely unchanged. However, this masks some material changes at a sector level, with stronger performances from Financials and Healthcare being offset by weakness in the Resources, Energy and Technology sectors.

On the economic front, the month of October was characterised by a major sell off in global bond markets which was triggered by the following economic events:

- US labour market data delivered upside surprises relative to expectations. US payrolls lifted by 254k relative to expectations for 150k. This saw the unemployment rate fall back to 4.1%, lower than expectations for 4.2%, and removing concern that this measure could continue to trend higher to 4.5%;

- Likewise, US inflation showed signs of reaccelerating. Core CPI lifted by 0.3% relative to market expectations for a 0.2% rise. More importantly, US trimmed mean inflation – the best measure of persistence in inflation – reaccelerated in September to 0.30% month-on-month from 0.19% in August;

- China GDP fell to 4.8% in the September, below the Governments' 5% target as weaker domestic demand combined with lower exports as tariffs;

- Domestically, the Australian labour market also delivered an upside surprise, the unemployment rate was unchanged at a downwardly revised 4.1% relative to market expectations for 4.2%. Similar to the US, markets pushed back the timing of a possible RBA rate cut to May 2025

The strength of US labour market data, a reacceleration in US inflation, and the Trump trade – which relates to an expected inflationary impact due to fiscal expansion – worked to push back market expectations of the timing of federal fund rate cuts by the US FOMC. Forecasts now imply that the Fed will cut the policy rate by ~125bps by the end of 2025, down from ~180bps of expected cuts at the end of September. This led to the Australian 10 year bond yield increasing by ~50bps as we took our lead the US. This sell off in US rates supported a return of US dollar dominance as the AUD/USD depreciated by 5% in the month.

The above economic and bond market factors were informative of the following movements in the Australian equity market:

- **Banks and Financials** led our market higher as a stronger-for-longer economy reduces the risk of credit losses, while higher bond yields are a positive for Bank net interest margins and investment income for the general insurers. CBA was the best performer, with all Banks logging positive gains during the month;

- **Resources** fell 4% as concerns relating to China's growth led commodity prices lower – most notably iron ore which weighed upon our major miners in BHP and RIO. The exception to this was Gold where the commodity price rose another 5% on the back of ongoing geopolitical and interest rate uncertainty, taking its gain to +33% this year;

- **The Energy sector** also weakened as the geopolitical premium in the oil price unwound late in the month as tensions simmered in the Middle East;

- **REIT's** also underperformed in response to the rise in bond yields, a negative for valuations and also higher cost of financing for a sector which has high levels of debt

- **Small caps** performed very strongly, driven substantially from Small Resources at +6.3% relative to ASX200 Resources -4.1%. Small Gold companies rallied in particular, noting this sector now accounts for ~13% of the ASX200 Small Ords index;

- **Retailers** were a surprise, showing resilience in consumer spending. A clear bifurcation in spending habits is emerging: individuals aged 18-45 are cutting back, while those aged 45 and older are spending above historical averages.

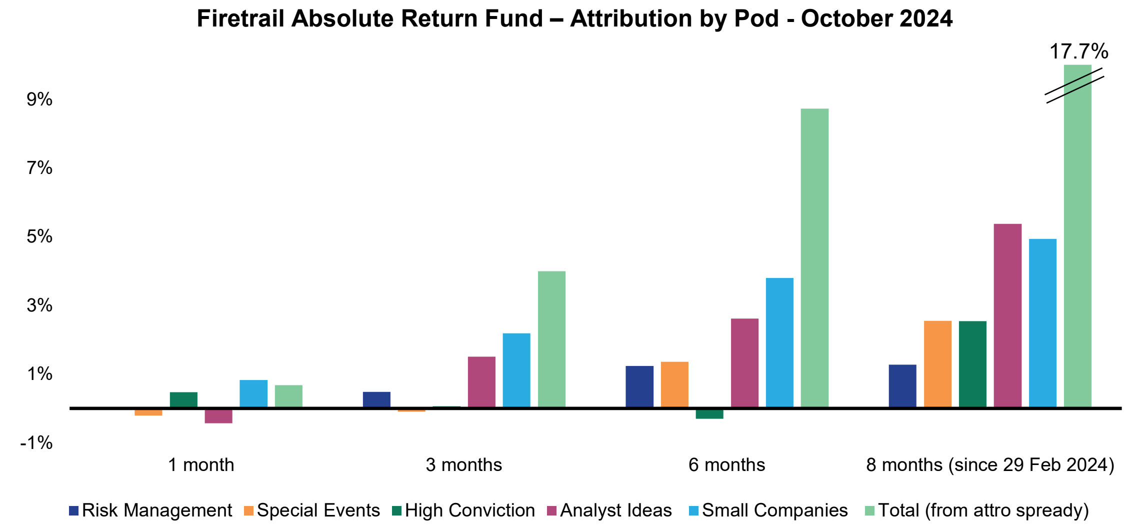
- **Builders and developers** showed signs of weakness, particularly in the residential construction space.

Sector outperformers for the month included technology, communications, banks, and transport, while resources, insurers, and utilities lagged. Ongoing concerns about China have continued to weigh on resource stocks.

CONTRIBUTORS TO RETURNS

The Firetrail Absolute Return Fund is separated into 5 pods to ensure clear transparency of alpha generation. Over the last 8 months since refining the structure, the Fund is up 17.7% absolute (after fees). Each pod is adding value as seen below:

Figure 1: The Fund's refined structure is adding value in every pod



Source: Firetrail, October 2024.

Over the month to 31 October 2024, the attribution by pod was as below:

Risk Management Pod	Special Events Pod	High Conviction Pod	Analyst Ideas Pod	Small Companies Pod
-0.03%	-0.20%	+0.47%	-0.44%	+0.83%

Positive contributors included Sigma Healthcare, NexGen Energy, Life360, Generation Development Group, and HMC Capital. Detractors included CurveBeam AI, Newmont, and Flight Centre. 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.

NexGen Energy

Canadian- based uranium project developer NexGen outperformed in October. Over the month there was a slew of announcements by the technology sector that small modular reactors (SMRs) are being developed to power data centres. Whilst positive for long term demand, we are cautious about the unproven aspects of SMR technology. Disappointingly, NexGen's environmental approval for the Rook-1 project was, once again, delayed. We expect a further update 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. Life360 reports their September quarterly on the 13th of November where we also expect an update on the recently announced advertising revenue stream.

Generation Development Group

Financial services firm Generation Development Group continued to outperform in October after reporting a strong Q1 FY2025 result. During the month proposed superannuation tax legislation passed the lower house with no amendments. If the bill is passed into law, we would expect to see a significant increase in investment bond flows. Based on our recent conversations with market participants, speculation of additional changes to superannuation has already resulted in an uptick in demand.

HMC Capital

HMC Capital had a strong month after completing an institutional placement to support its acquisition of Global Switch Australia. The acquisition was part of a broader plan to launch a listed and unlisted digital asset fund.

NEGATIVE CONTRIBUTORS

CurveBeam AI

Imaging solutions company CurveBeam AI underperformed following a weak quarterly cashflow report. The ramp up of their “HiRise” device sales has stalled as the company awaits final validation of their CT scan data with Stryker's surgical robot. This validation will enable the HiRise to be used in knee and hip surgeries, which represent a significant portion of orthopaedic surgical volumes. Once validation is complete, we expect CurveBeam AI to increase conversion of their growing sales pipeline.

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 (meaning less single asset risk), long life (20 years +) and low cost ($1,500/oz vs spot gold of $2,800/oz). However, given the uncertainty on the outlook we reduced our exposure to Newmont but it remains a top 10 position.

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 given the backdrop of price deflation and businesses trading down to cheaper fares.

PORTFOLIO POSITIONING

The Absolute Return Fund is uncorrelated to the equity market and designed to be driven by stock selection. It is a market neutral portfolio with near zero net market exposure and beta (+/- 0.1).

The long portfolio can be summarised as:

- 167.0% long exposure across about 80 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 NexGen.
  - Commodity companies exposed to decarbonisation such as AIC Mines with strong growth outlooks.
  - Market leaders including ResMed who are well placed to strengthen their competitive position through the cycle.
  - Structural growers exposed to AI and new market segments such as Life360 and Guzman y Gomez.
  - Financials with leverage to a higher interest rates environment and better industry outlook including QBE and Medibank.
  - Undervalued companies with quality attributes including BlueScope and Reliance Worldwide.

The short portfolio can be summarised as:

- 166.4% 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. We see select opportunities to benefit as companies deal with an environment of rising costs and easing demand at a time of near peak margins.
- Risk reducing shorts offset equity market exposure and control portfolio risk 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…

Mexican food retailer and key holding of the fund, Guzman y Gomez (GYG), opened its 202nd 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!

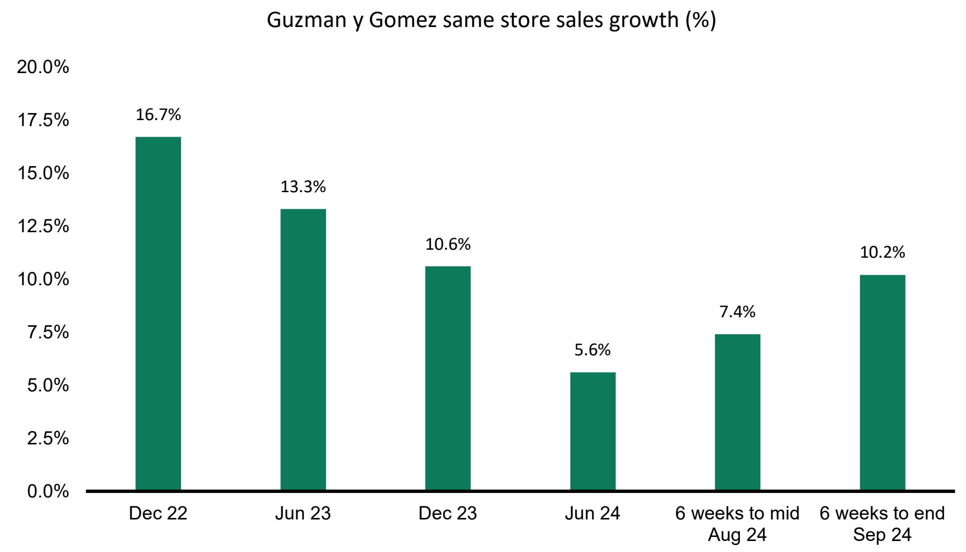
Figure 2: Guzman y Gomez Mosman store opening attracted a long queue of excited customers

Source: Firetrail, October 2024.

Getting the crowd to come along is one thing, being able to serve them with quality food on time is another. GYG are in a good position to cater for surge activity given the unique twin-make-lines employed in GYG's kitchens enables faster meal preparation compared with peers that rely on a single-make-line with the customer ordering individually. GYG notes that it is able to produce up to 450 meals per hour; this compares with US peer Chipotle's indication that in metropolitan areas it can process up to 80 orders per 15 mins (up to 320 per hour). These twin-make-lines are critical in delivering fast levels of service given trading is usually highly skewed to 12-2pm and 6-8pm depending on the restaurant location.

In the broader retail landscape, October's quarterly updates 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 a market that competitors like McDonald's have highlighted are going backwards. We strongly believe that the divergence in outcomes we are now seeing across names within the same broad sectors highlights how important it is to focus on bottom-up fundamentals and adopt a selective approach to stock selection.

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



Source: Company data, Firetrail estimates, September 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 Qoria, Fisher & Paykel Healthcare, WiseTech, Santos, Life360, Bluescope Steel, Flight Centre, Regis Healthcare, Ampol and Genesis Minerals.

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