FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | DECEMBER 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]	(0.07%)	6.67%	17.01%	0.15%	4.49%	3.46%	-	-
Strategy composite[4]	(0.07%)	6.67%	17.01%	0.15%	4.49%	-	3.11%	7.92%
Benchmark	0.36%	1.08%	4.36%	3.16%	1.97%	1.80%	1.78%	1.76%
Excess Return	**-0.43%**	**+5.59%**	**+12.65%**	**-3.01%**	**+2.52%**	**+1.67%**	**+1.33%**	**+6.16%**

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 DEC 2024

Top 3 Overweight Holdings (Alphabetical)
BHP Group Ltd
Greatland Gold PLC
Santos Ltd

FUND DETAILS

Unit Prices	31 December 2024
Application Price	$1.2381
Redemption Price	$1.2295
NAV Price	$1.2338
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception Date	14 March 2018
Risk/Return Profile	Very High
Fund Size	$129 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 DEC 2024

	Portfolio Exposure
Long Equity	149.1%
Short Equity	-148.3%
Net Equity Exposure	0.8%

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 negative 0.07% (after fees) for the month ending 31 December 2024, underperforming the RBA Cash Rate by 0.43%.

For the quarter ending 31 December 2024, the Fund returned negative 6.67% (after fees), outperforming the RBA Cash Rate by 5.59%.

2024 IN REVIEW

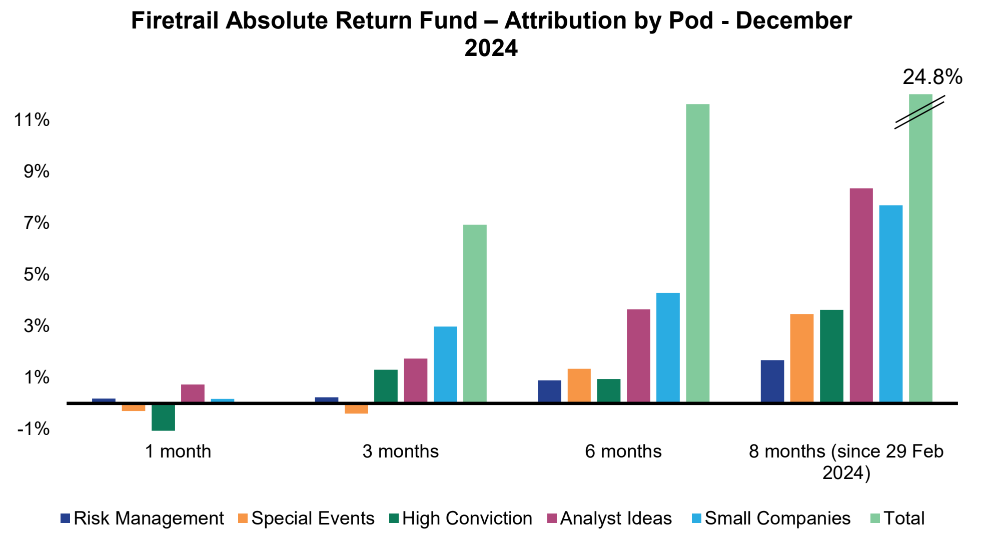
2024 proved to be a year of economic resilience, declining inflationary pressures and a global pivot to easier monetary policy (lower interest rates). These conditions provided a strong backdrop for global equity markets with Technology and Financial stocks the biggest winners thanks to the continued frenzy around artificial intelligence and Donald's Trump's election win.

The tech-heavy NASDAQ index rose 28.6% whilst locally the ASX200 delivered a respectable (but relatively unimpressive) 11.4% performance for the calendar year.

The Firetrail Absolute Return Fund had an excellent year, delivering an absolute return of 17.01% (after fees) compared with the RBA Cash Rate return of 4.36%. This is despite near-zero market exposure with performance entirely driven by stock selection.

Early in the calendar year, the Fund structure was refined to ensure clear transparency of alpha generation across 5 distinct pods. We are pleased to report that each pod is adding value and are confident the portfolio is positioned to continue its strong performance.

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



Source: Firetrail, December 2024.
All figures are absolute and after fees.

The Fund is designed to provide exposure to Firetrail's best long and short alpha opportunities whilst protecting downside during equity market drawdowns.

With 2025 set to be a year filled with economic and geopolitical twists and turns, we believe the conditions are ripe for recent outperformance to continue.

Key contributors to Fund performance over the year are detailed below:

WINNERS

Guzman y Gomez

Guzman y Gomez (GYG) took the crown as the most successful IPO of 2024 and a big winner for the Fund. GYG is one of Australia's fastest growing fast-food businesses, having compounded network sales at nearly 30% for the past decade. The company has the rare combination of strong unit economics, a large growth opportunity, an impressive founder-led management team and a fortress balance sheet. The stock finished the year up 140% from where we invested in a private funding round ahead of listing.

Sigma Healthcare

Sigma Healthcare was up 170% after announcing it would combine with Chemist Warehouse Group to create a new $30 billion company. Chemist Warehouse is one of Australia's most impressive retail success stories with 639 stores, $9 billion in network sales and a growing international footprint. Whilst a few procedural hurdles remain, we expect the merger to be implemented in early 2025.

Greatland Gold

UK-listed Greatland Gold contributed materially to the Fund following the gold miner's acquisition of Newmont's Telfer mine and processing facilities and Haveiron gold deposit. Given the quality of the deposit and potential upside from extracting operating efficiencies at the site, we think Greatland bought the assets for a great price. The company is expected to list on the ASX in 2025.

Regis Healthcare

Aged care operator Regis Healthcare delivered investors a 90% return over the past 12 months. The funding environment for aged care operators has materially improved over the past 2 years increasing sector profitability. In September 2024, the Aged Care Taskforce Recommendations received bi-partisan support from the Federal Government. The key recommendations increase resident funding for accommodation and daily services. The most impactful reform is the 2% annual retention of the Residential Accommodation Deposit (RAD), which will apply to incoming residents from 1 July 2025. The average RAD for incoming residents of Regis Healthcare is $517,000. Given no incremental costs are associated with the annual retention payments we estimate a 30% uplift to Regis's EBITDA over the next 2.5 years from the RAD retention reform alone.

DETRACTORS

CurveBeam

Medical devices company CurveBeam had a frustrating 12 months with sales of its Weight-Bearing CT device, the HiRise, stalled as it worked with key distribution partner Stryker to integrate the HiRise scan data into Stryker's Mako surgical robot. The reason the integration is critical is that it unlocks the knee and hip orthopedic surgical market for the HiRise device. Given the volume of knee and hip surgeries is 5x that of foot and ankle surgeries, where Curve Beam has previously focused, the sale of a HiRise device to an Orthopedic surgical practice becomes a far more compelling proposition with a reduced payback and increased return on investment (ROI). We expect the Mako validation to complete early 2025 allowing the company to accelerate HiRise sales.

Domino's Pizza

Domino's had a challenging year amidst ongoing efforts to turn around their struggling Asian and European businesses. Whilst the core Australian and New Zealand business is firing, Domino's offshore operations have been impacted by a combination of over expansion during the COVID years and macroeconomic headwinds. Under new CEO Mark van Dyck, we expect to see a heightened focus on improving offshore profitability which we are confident would lead to both improved group performance and a re-rating of the share price.

BHP

BHP fell in line with global commodity prices. BHP further underperformed when they attempted to acquire Anglo American. The deal fell over after the Anglo board rejected BHP's offer, but in our view there is still a chance a deal is done. Anglo's commodity mix includes copper and iron ore, after recently agreeing to sell their Australian met coal operations. We continue to hold BHP given it commands one of the lowest cost positions in iron ore and has a reasonable mix of commodities including copper and metallurgical coal, both that face supply challenges.

CONTRIBUTORS TO RETURNS FOR THE MONTH

Positive contributors to monthly returns included long positions in Bravura Solutions, Tabcorp, and Santos. Detractors included long positions in NexGen Energy, HMC Capital, BlueScope Steel, and SEEK. We discuss each further in our commentary below.

POSITIVE CONTRIBUTORS

Bravura Solutions

Bravura upgraded guidance during the month sending the stock up 46%. The upgrade was driven by expectations that revenue will be $5m higher in FY2025 than previous guidance. Bravura will reduce operating costs by -11% in FY2025, following a similar reduction in the prior year, driving a near tripling in Cash EBTDA over the pcp. Consensus expectations are for 3yr revenue growth CAGR of 1%, which we view as very conservative given inflation-linked recurring revenue, an increasing appetite for new project work from existing clients and potential for material new contract wins.

Tabcorp

Tabcorp outperformed after the new CEO announced executive team changes aimed at revitalizing the business. We look forward to the new strategy likely to be announced in the coming quarter

Santos

Santos shares outperformed the market as oil prices stabilised. During the month, Santos announced a 12-year gas supply agreement with Japanese customer.

NEGATIVE CONTRIBUTORS

NexGen Energy

Canadian uranium project developer NexGen Energy fell in December in line with broader sector weakness. In company specific news, during the month NexGen announced the first uranium sales contracts for the Rook-1 project with major US utility companies. Whilst the contracts represent a relatively small proportion of the total reserves it does represent another key milestone for the project.

BlueScope Steel

BlueScope shares underperformed as a couple of US peers guided towards softer short-term earnings. In news that we believe is more relevant for the medium-term investment case, President Joe Biden formally blocked Nippon Steel’s takeover of US Steel on national security grounds. We believe this move will ultimately be positive for industry structure and the profitability of the US steel sector.

SEEK

SEEK Limited fell 13% over the month on the back of continued softness in job ad volumes. However, we are seeing early signs of stabilisation and note that year-to-date volumes are tracking ahead of the company’s recent guidance for FY 2025.

HMC Capital

HMC fell after a period of strong outperformance during the quarter. The listing of the HMC-backed Digico was weaker than anticipated, contributing to the selloff

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:

- 149.1% 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 Insurance.
    - Undervalued companies with quality attributes including BlueScope.

The short portfolio can be summarised as:

- 148.3% 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.

2025 OUTLOOK

The Big Themes for 2025

- Cyclical value stocks stop falling as China eases
- Banks underperform the market in 2025 but don't collapse
- Industrials cut innovation to save costs
- Real asset M&A ramps up
- Indexing gets crazier

Cyclical value stocks stop falling as China eases

Long term, structural concerns on China are real. Falling birth rates and excess property are two of the major headwinds that have been well documented. The Chinese Government knows the challenges and we believe they are concerned too.

China is now at a turning point where they will do 'whatever it takes' to stimulate an ***acceptable*** level of growth. It's not likely to be aggressive stimulus, but we believe China has pivoted to be more pro-growth and market expectations are low.

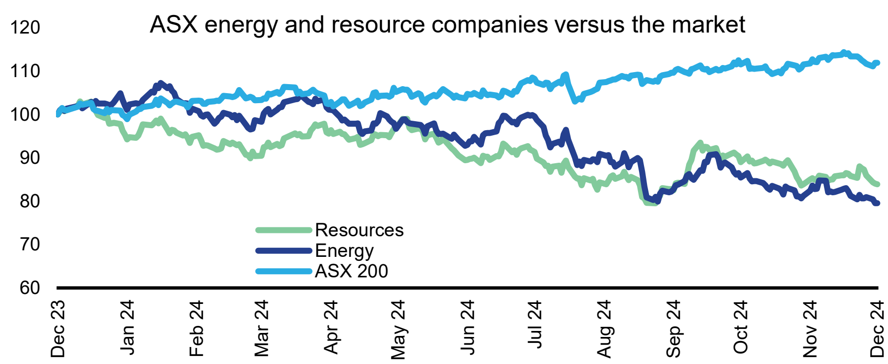
Figure 2: The evolution of key quotes from high ranked officials in China over the past 3 years

Year	Quote	Tone
2022	"The property sector is still a pillar industry for China"	Confident
2023	"We need to prevent risks in the property sector from spreading"	Cautious
2024	"We will stop the decline in the property market and promote a stable recovery"	Urgent

Source: Firetrail analysis of China Politician Statements

Resources and Energy stocks have traded poorly on the back of pessimism on China throughout 2024. Resources prices have been pretty good. Iron ore has averaged over $100/t. Oil traded around $75/bbl for most of the year. Current prices are terrific for producers, particularly with a 20-year low AUD/USD (ex GFC, ex COVID). In our view, any view of China stabilising growth would be supportive of many companies in the resource sector. Today, most resource and energy companies price in commodities well below spot (excluding copper).

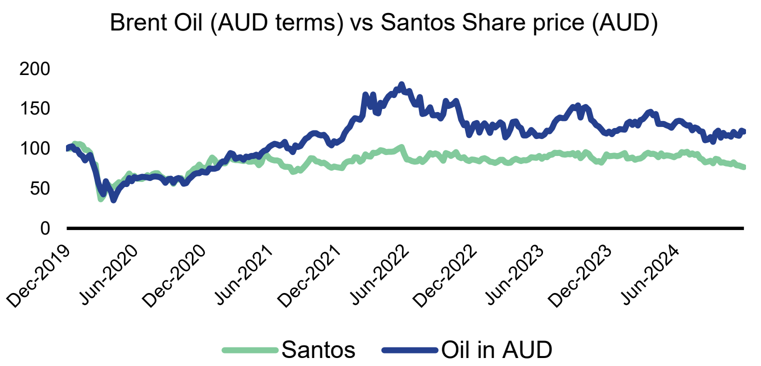
Figure 3: Resources and Energy underperformed the ASX200 by 30% in the past year



Source: Firetrail, FactSet, December 2024.

You can cut it many ways, but Santos continues to look undervalued to us. The chart below illustrates the large gap that has opened between the cashflow driver (AUD Oil) and the share price since 2021.

Figure 4: Santos has a material gap to oil in AUD terms



Source: Firetrail, FactSet, December 2024.

<u>Banks to underperform the market in 2025, but won't collapse</u>

Any stock can underperform the market in two ways:

1) Earnings fall
2) Valuation multiple falls

On earnings, we see long term competitive threats in major business lines. For example, Macquarie has emerged as the price setter in residential mortgages driven by a cost and technology advantage. But in the year ahead, there is little to derail earnings. Revenues will be supported by an ok economy and rates that seem to be settling a bit higher, aiding interest income. On costs, there is upward pressure from both labour and technology costs requiring management to work hard to control them. Bad debts are likely a source of earnings upside given reasonable conditions and strong provisioning across all the banks.

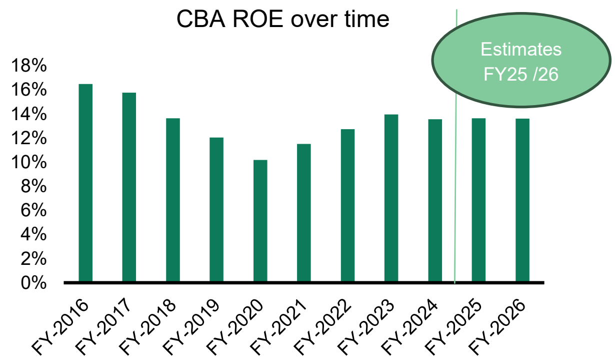
We don't see downward revisions to earnings from where we sit today.

On valuation, we expect a change. Any absolute or relative valuation analysis suggests Australian banks are overvalued. "Valuation doesn't matter"…until it does.

We continue to believe underweight the banks will be a source of alpha in the year ahead.

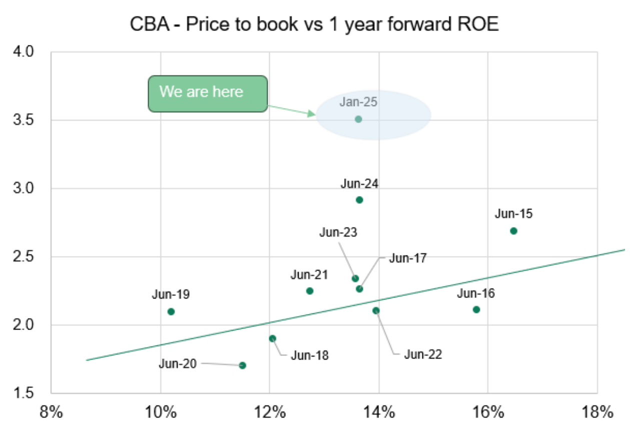
Our preferred metric is price-to-book versus return on equity (ROE). The higher the ROE, the more the market is willing to pay for an asset. If CBA trades back to something more 'normal', given its fairly muted ROE outlook, you should expect a 30%+ retracement in the valuation at some point!

Figure 5: CBA ROE is not growing



Source: Visible Alpha, Firetrail, December 2024

Figure 6: CBA price-to-book ratio looks at least 30% too high if history is any guide



Source: Visible Alpha, Firetrail, December 2024

Industrials cut innovation to save costs

Industrial companies are set to cut costs and innovation. Why?

1) Industrial companies are fighting to sustain current earnings in the face of rising costs and tepid toplines

2) A higher cost of capital leading to lower projected returns

Recent examples include:

- Ampol – after a few years of record profits >$1bn, Ampol is having a tougher year in 2024. As a result, Ampol have announced a cost out program. We believe the cuts will focus on areas outside the core such as hydrogen where profitability remains elusive.
- CSL – CSL is expected to grow at double digits, but likely at a lower rate than history. After a few large-scale failed trials, CSL is moving back to lower risk, smaller scale trials.
- Resources/Energy Sector – The view from most mining companies is "how can we do the same production with less costs?" Exploration isn't on the agenda for many resource companies. BHP and RIO are voting with their scrip / cash as they choose to buy assets (copper and lithium) versus a build strategy.

Who are the winners out of less corporate innovation?

The companies that "innovate for others".

Consider logistics software provider WiseTech. When a freight forwarder implements WiseTech software, they reduce costs materially, in some cases >30%. That kind of value proposition doesn't go away when cost becomes a focus. It often becomes MORE valuable in the eyes of the buyer.

Companies that have market leading software like Origin's Kraken or Block's Square platform also stand to benefit from an increasing focus on reducing costs.

Real asset M&A ramps

Building stuff has always been hard. But it's getting harder. Community expectations are rising. Governments want to be more involved. Environmental requirements are higher. Most of these trends are structural, driven by society, government and the investment community. Our view is that expectations are unlikely to be walked back any time soon.

Major miners have done the work and are showing their hand. BHP bought copper company OZ Minerals two years back, in what has turned out to be a shocking acquisition, writing off a nickel project while facing issues in the core operations. Earlier this year BHP then tried to buy diversified miner Anglo American for their copper business. Rio Tinto bought Arcadium at a 90%(!) premium to grow its presence in Argentina lithium. The trend is clear – big miners are buying not building.

But it's not just miners. Energy companies are eating each other. Chevron and Exxon both made major acquisitions in 2024. Building companies are being snapped up. Boral and Adelaide Brighton both were bought by family businesses while CSR is now owned by the French giant Saint Gobain.

If you tried to replicate some of the assets that Australian companies own today, you can forget about it. IF you were approved to do so, the cost to do so would be uneconomic. Origin's gas fired power stations across the east coast and Ampol's refinery in Brisbane spring to mind as strategic assets that are impossible to replicate.

What could be the fly in the M&A ointment? Protectionism is alive and well (often mixed in with security concerns). The Australian Government broadly doesn't want to see foreign ownership of strategic Australian assets, with some small exceptions. The Canadian Government will only approve foreign takeovers of large Canadian mining companies involved in critical minerals production "in the most exceptional of circumstances". And at time of writing, the US has just blocked Japan's acquisition of US steel. Protectionism is here.

It may prove very hard for anyone to acquire Australian assets.

Indexing gets crazier

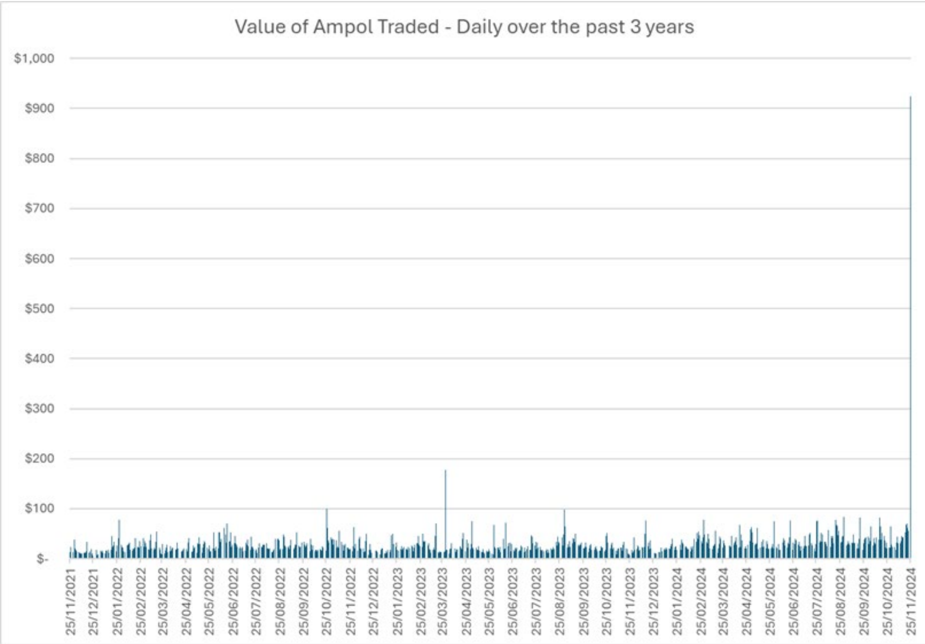
Index inclusion is wreaking havoc on markets, especially at the smaller end of town. But with havoc comes opportunity, so we aren't complaining! Expect it to get crazier.

Here are a few index 'clangers' from 2024:

- Sigma, the owner of Chemist Warehouse, jumped from a 35x PE to >50x PE after the market speculated it would be included in the ASX small ordinaries index.

- Life360 was upweighted in the Russell 2000/3000 forcing the buying of $250m USD on market. The stock rallied 25% over 10 trading days. Russell, the index maker, then announced the index had been miscalculated, causing a 15% sell off in Life 360.
- Ampol traded $900m on Monday the 25th of November. 15% of the companies shares on issue! Big announcement or news to change people's mind on the stock? No. MSCI announced the deletion from an index.
- One of the top 5 positions in the Avantis "US Large Cap ***Value***" ETF is Costco, trading on a pedestrian 60x PE!

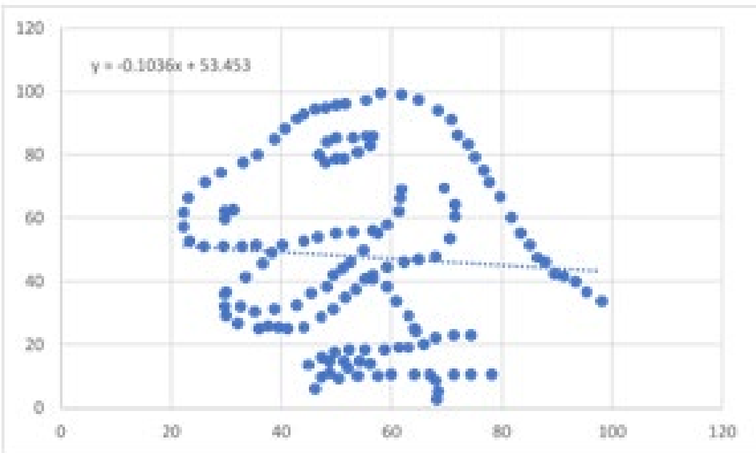
Figure 7: Ampol traded $900m on Monday the 25th of November. 15% of the companies shares on issue!



Source: Firetrail, Factset, December 2024.

If you got this far – thanks for reading. Here is a funny chart. Well, it made us laugh anyway! Good luck for 2025!

Figure 8: Datasaurus



Source: Jefferies.

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 FSML, Qoria, Fisher & Paykel Healthcare, WiseTech, Santos, Life360, Bluescope Steel, 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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