

FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | FEBRUARY 2025

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	0.79%	1.17%	26.30%	0.57%	5.35%	3.57%	-	-
Strategy composite ⁴	0.79%	1.17%	26.30%	0.57%	5.35%	-	3.56%	7.92%
Benchmark	0.32%	1.05%	4.34%	3.39%	2.08%	1.85%	1.84%	1.81%
Excess Return	+0.46%	+0.12%	+21.96%	-2.82%	+3.27%	+1.72%	+1.71%	+6.11%

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 – 28 FEB 2025

Top 3 Overweight Holdings (Alphabetical)
Greatland Gold PLC
Genesis Minerals Ltd
PYC Therapeutics Ltd

FUND DETAILS

Unit Prices	28 February 2025
Application Price	\$1.2535
Redemption Price	\$1.2447
NAV Price	\$1.2491
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception Date	14 March 2018
Risk/Return Profile	Very High
Fund Size	\$125 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 – 28 FEB 2025

	Portfolio Exposure
Long Equity	165.0%
Short Equity	-168.5%
Net Equity Exposure	1.2%

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 0.79% (after fees) for the month ending 28 February 2025, outperforming the RBA Cash Rate by 0.46%.

IN MARKETS THIS MONTH

The Australian share market pulled back in February, with the ASX200 Accumulated return of -4% wiping out January's 4.6% gain, reducing year-to-date gains to +0.5%. The domestic reporting season was a key focus, with more companies exceeding expectations, though outlook guidance was weaker. Meanwhile, global uncertainty weighed on markets as investors assessed trade policy under the Trump administration. A raft of US economic data suggested consumer resilience was softening, a key concern given the US consumer drives ~70% of the economy. The weakness was broad-based, with the S&P500 down 3% and the NASDAQ falling a sharper 5.5% as the Magnificent 7 stocks saw profit-taking.

Key Events Over the Month

- **RBA Rate Cut:** The RBA cut the cash rate by 0.25% to 4.10%, the first cut since 2020. Inflation showed signs of moderation, but the RBA struck a cautious tone, highlighting upside risks from the strong labour market.
- **Trade Tensions Escalate:** The new US administration announced sweeping tariffs, including a 10% duty on Chinese imports and 25% tariffs on steel, aluminium, and EU goods. Fears of a global trade war rattled financial markets, driving the USD higher.
- **Europe's Sluggish Growth:** The Eurozone remained weak, with inflation ticking up to 2.5% due to rising energy costs. While the ECB continued cutting rates, US tariff threats added pressure on the already fragile economy.
- **Commodities Hold Up:** Despite trade risks, commodities performed well as China's accommodative policy supported demand. However, concerns persist around China's growth trajectory, particularly given property market fragility.
- **NZ Rate Cut:** The RBNZ cut rates by another 50bps, adding to the 100bps of cuts from late last year, which should provide some relief to consumers and benefit Australian companies with NZ exposure.

Sector Performance

- **Financials:** Banks underperformed as margin weakness hit NAB hard. CBA bucked the trend, holding steady after a solid earnings update.
- **Technology:** The sector fell ~10%, pressured by the NASDAQ's decline and governance issues at WiseTech. REA also weakened after CoStar took a major stake in Domain, increasing competitive pressure.
- **Energy:** Oil prices softened, dragging energy names lower as economic jitters and easing geopolitical risks dampened sentiment.
- **Defensive Plays:** Consumer Staples and Utilities outperformed, rising ~4% as investors sought stability amid market volatility.

CONTRIBUTORS TO RETURNS

Positive contributors included Greatland Gold, Generaton Development Group, and A2 Milk. Negative contributors included CurveBeam AI, Fisher & Paykel Healthcare, and HMC Capital.

POSITIVE CONTRIBUTORS

Greatland Gold

Greatland Gold rose after announcing they have had significant drilling success nearby Telfer. The strong drilling results for both copper and gold mean higher cashflows and longer mine life for the business. The Australian listing remains on track for the middle of the year.

Generation Development Group

Financial services firm Generation Development Group (GDG) outperformed over the month due to market upgrades driven by operating leverage in Lonsec/Investment bonds and the accretive acquisition of Evidentia.

A2 Milk

Dairy nutritional company A2 Milk outperformed following top line upgrades driven by strong execution in tier 3/4 cities and growing Chinese consumer preference for English label product where A2 enjoys higher market share.

NEGATIVE CONTRIBUTORS**Block**

Block delivered an inline 2025 outlook of greater than 15% gross profit growth but guided to a lower first quarter at 11%, impacted by foreign exchange movements, leap year effects and an expected acceleration into the end of the year. The stock fell sharply as the investors weren't willing to look beyond the March quarter result and was also impacted by a general consumer sell off after weak US data. We believe there are reasons for optimism including an acceleration in Cash App earnings (60% of group) driven by roll out of Afterpay in the US that has started after significant beta testing. To highlight the value on offer, using guidance for CY25, Block is set to deliver 34% EBIT growth and trades on a low 20x PE including the expensing of stock based compensation.

WiseTech

WiseTech shares underperformed after it was announced four board members had resigned and Richard White was installed as Executive Chairman. The company also revised its FY25 revenue guidance to be at the lower end of the range because of delays to the release of new products. We remain highly attuned to the corporate governance situation at WiseTech as it continues to evolve, and we will continue to evaluate our position through the lens of what is in shareholders' best interests. We believe the long-term value that will be created from WTC's new Container Transport Optimisation product is substantial and we are not concerned by the delay in launch timing.

NexGen Energy

Canadian Uranium project developer NexGen underperformed due to ongoing weakness in the spot uranium price and speculation of a peace deal in Ukraine that would potentially see Russian supply return to market unimpeded by sanctions.

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:

- 165.0% 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 IAG.
 - Undervalued companies with quality attributes including BlueScope.

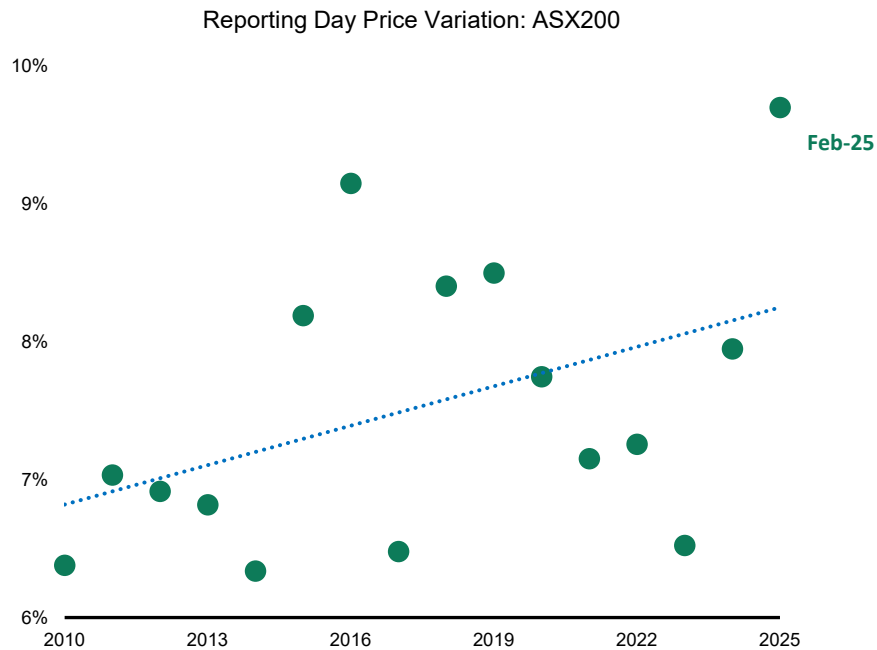
The short portfolio can be summarised as:

- 163.8% 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...

The February 2025 reporting season was characterized by an unprecedented level of volatility. As illustrated in **Figure 1**, the single-day price variation on reporting day reached its highest level since 2016. The chart also highlights a noticeable upward trend in reporting season volatility since 2010. We believe this heightened volatility is primarily driven by the increasing influence of quantitative funds and short-term traders, who are more reactive to short-term earnings results. Moreover, we see this shift towards a short-term earnings focus, at the expense of valuation considerations, a key factor that plays to our advantage, as we continue to prioritise identifying undervalued companies that we believe will meet or beat expectations over a three-year horizon.

Figure 1: Results days are getting increasingly volatile



Source: Firetrail, FactSet, February 2025.

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 Telstra, 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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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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