

FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | MARCH 2024

PERFORMANCE (AFTER FEES)¹

| | Month | Quarter | 1 Year | 3 Years p.a. | 5 Years p.a. | Fund inception p.a. ³ | 10 Years p.a. | Strategy inception p.a. ⁵ |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|----------------------------------|---------------|--------------------------------------|
| Fund ² | 4.76% | 2.45% | 6.98% | 5.33% | 7.19% | 5.77% | - | - |
| Strategy composite ⁴ | 4.76% | 2.45% | 6.98% | 5.33% | 7.19% | - | 9.53% | 9.07% |
| Benchmark | 3.27% | 5.33% | 14.45% | 9.62% | 9.15% | 9.01% | 8.44% | 7.50% |
| Excess Return | +1.49% | -2.88% | -7.47% | -4.28% | -1.96% | -3.24% | +1.09% | +1.57% |

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 (approx. 25 companies) 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 MAR 2024

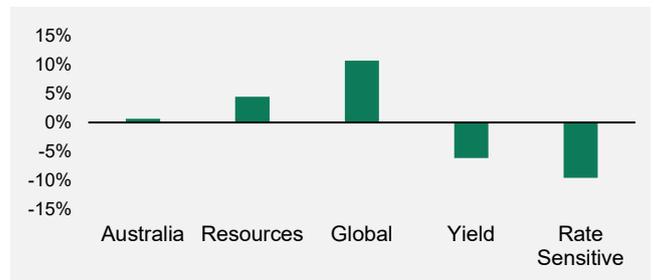
| Top 3 Overweight Holdings (Alphabetical) |
|--|
| CSL Ltd |
| Newmont Corp |
| Santos Ltd |

FUND DETAILS

| Unit Prices | 31 March 2024 |
|---------------------|--|
| Application price | \$1.2244 |
| Redemption Price | \$1.2208 |
| NAV Price | \$1.2226 |
| Fund Details | |
| APIR Code | WHT3810AU |
| Benchmark | S&P/ASX 200 Accumulation Index |
| Inception date | 14 March 2018 |
| Risk/Return Profile | High |
| Number of Holdings | 25 |
| Fund size | \$555mil |
| 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 MAR 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. 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 4.76% (after fees) for the month ending 31 March 2024, outperforming the ASX 200 Accumulation Index by 1.49%.

For the quarter ending 31 March 2024, the Fund returned 2.45% (after fees), underperforming the ASX 200 Accumulation Index by 2.88%.

GREEN SHOOTS EMERGING

We saw green shoots for the portfolio emerge in March with a number of positive signs for our positioning.

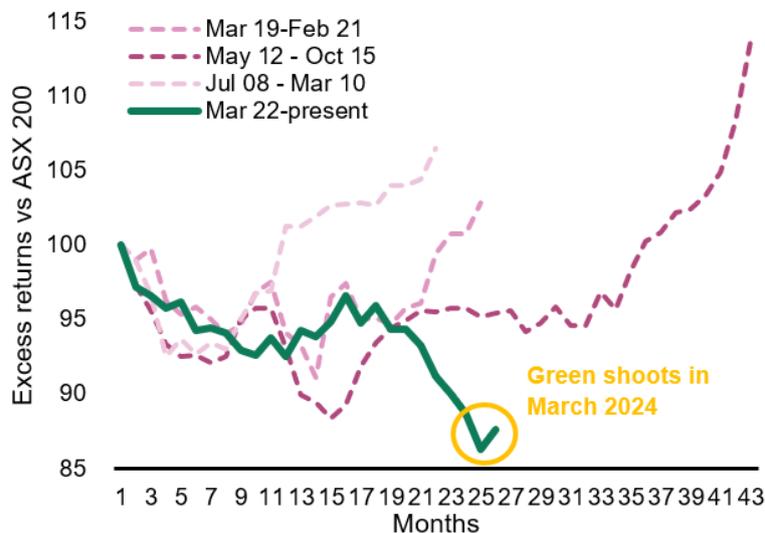
Recent performance has not been up to Firetrail’s or our investors’ standards, particularly in the last 6 months. This has been driven by:

- 1. A strong rally in unattractive sectors like Banks and Bond Proxies where we are underweight.** We continue to see material downside risks to these companies and see little reason to increase our exposure. For example, Major Bank fundamentals are poor. Valuations are near record highs, while competition is elevated and labour costs are inflating.
- 2. Short-term headwinds have impacted a number of high conviction positions at once.** For example, Newmont production issues, Domino’s Pizza weakness in Japan/France. We have done a forensic review of these companies and the outlook remains very attractive. We used the share price weakness to top up positions at attractive prices. We did see a thesis breakdown for one underperformer, Alumina, and exited the position.

Pleasingly, we have started to see a positive reversion in March and April. However, there is still much more work to do.

Since strategy inception in June 2005,¹ the High Conviction Strategy has had three similar extended periods of underperformance. All three were followed by a sharp recovery, and further outperformance.

Figure 1: The Strategy has had three similar protracted underperformance periods in its 19 year history. Each were followed by a strong recovery and further outperformance



Source: Firetrail, post-fee performance, April 2024

Past performance is for illustrative purposes only and is not a reliable indicator of future performance.

¹The Firetrail Australian High Conviction Strategy Performance has been calculated using the monthly returns (after fees) of the Firetrail Australian High Conviction Fund from 14 March 2018 to current date, as well as the monthly returns (after fees) of the Macquarie High Conviction Fund between 29 November 2005 to 23 November 2017. The Firetrail Australian High Conviction 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.

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

The Strategy continues to be managed by the same investment team who delivered material outperformance in the past. We have further strengthened the team in 2024 with the additions of two experienced analysts with a track record of alpha generation, in Matthew Thomson and Dean Fremder.

When we look at the portfolio, we are confident that a strong recovery will materialise. Some of the valuation dislocations we are seeing today are as extreme as what we saw during COVID.

1. Energy, Healthcare and Gold offering extremely compelling value today.
2. Undervalued companies with strategic assets are increasingly being targeted by acquirers e.g. Newcrest Mining, Santos, Virgin Money UK
3. Investor crowding in unattractive sectors presenting a material risk to index returns e.g. Banks, Expensive Defensives, Iron Ore

We thank our investors for their continued support. We are determined to return the Fund back to the levels of outperformance delivered historically. We are confident the current portfolio is well-positioned to do so.

CONTRIBUTORS TO RETURNS

Positive contributors to monthly returns included Newmont, Virgin Money UK and ResMed. Negative contributors included SEEK, Domino's Pizza, and Nufarm. We discuss each further in our commentary below.

POSITIVE CONTRIBUTORS

Newmont

Newmont shares outperformed as the USD gold price rose 8%. Newmont is a position we have been adding to following some short-term disappointments. We outline our investment thesis in more detail further below.

Virgin Money UK

Virgin Money UK shares rose significantly following the announcement of a takeover offer from Nationwide, the UK's largest building society. The all-cash bid represented a 38% premium to Virgin's latest closing price prior to the announcement. We progressively exited the position over March as the share price traded close to offer terms and our view is that a competing bid is unlikely.

ResMed

ResMed shares outperformed on no specific company news. The shares appear to be trading in a range ahead of the readout of headline results from Eli Lilly's trial of GLP-1 drugs in sleep apnoea patients. We expect the results to be announced during April.

NEGATIVE CONTRIBUTORS

SEEK

SEEK shares underperformed as new job ad volumes for February showed a continuation of the -20% trend compared to the same time last year.

Domino's Pizza

Domino's shares underperformed, unwinding some of the share price recovery seen through February following a better-than-feared result. We look forward to learning more about Domino's plans to turnaround underperforming regions at an upcoming Investor Day in April.

Nufarm

Nufarm shares underperformed as peer results highlighted continued destocking across crop protection customers. We expect Nufarm will report a cyclically weak H1 2024 result in May, but believe medium-term fundamentals remain strong.

COMPANY AND INDUSTRY NEWS

The ASX 200 rose 2.6% in March, with strongest gains across the Gold, Property and Energy sectors. Major global indices performed similarly with the S&P 500, NASDAQ and FTSE 100 all rising by between 2% and 4%.

The most topical macro debate remained the future path of interest rates. Economic data both domestically and abroad continued to hold up very well, while CPI inflation in Australia and the US remained stable in the 3.0-3.5% range. Despite perhaps a more resilient economy and stickier inflation than expected so far in 2024, the US Federal Reserve Chair reiterated his expectation that rates will be cut sometime this year.

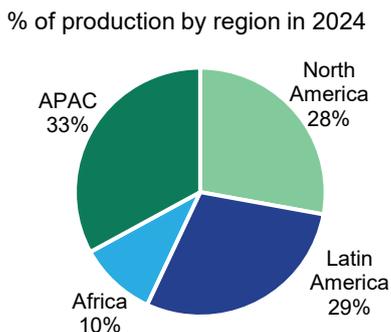
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NEWMONT DEEP DIVE

Last year Newmont, a large US-domiciled gold miner, paid a 35% premium to acquire Newcrest Mining in a cash and scrip deal. We held Newcrest in the Firetrail High Conviction Fund prior to the bid and maintained our holding in Newmont after deal completion. Newmont’s primary listing is on the NYSE but is now also listed on the ASX through a CDI structure.

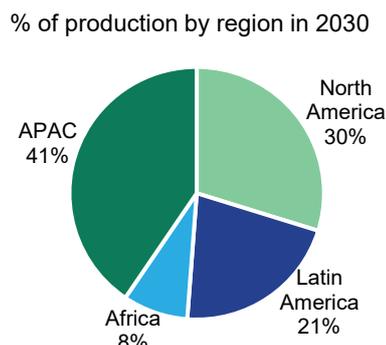
The combination of the two businesses cements Newmont’s position as the world’s largest gold miner, now responsible for 13% of global production. Newmont owns 20 mining assets that are well-diversified, mainly across low-risk geographies, as summarised in Figure 2 and 3.

Figure 2: Newmont’s gold production is well-diversified across regions



Source: Company reporting, Firetrail, March 2024.

Figure 3: We expect Newmont’s production to tilt further towards low-risk jurisdictions over the coming years



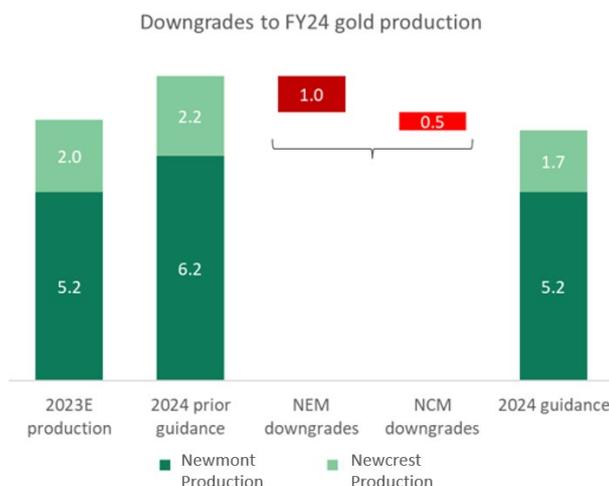
Source: Company reporting, Firetrail, March 2024.

The performance of Newmont has been disappointing since the announcement of the Newcrest deal. However, we believe the market has incorrectly extrapolated some short-term issues into the share price. In our view the current depressed share price presents an attractive opportunity for our investors.

Production outlook set to improve

Over the past six months, Newmont has encountered production issues across a number of its assets. As a result, initial expectations for 8.4 million ounces of production in 2024 have been reduced by almost 20%. One third of the disappointment has been driven by recently acquired Newcrest assets and the remainder has been from Newmont’s existing business.

Figure 4: Newmont has encountered production issues across a number of its assets, resulting in lower short-term gold production



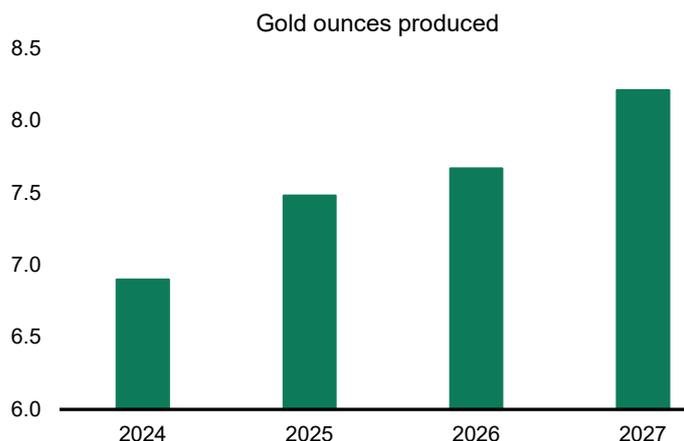
Source: Company reporting, Firetrail, March 2024.

The outlook beyond 2024 is strong:

1. We do not believe any of the issues permanently impair the value of any of the affected assets.
2. We estimate that around half of the production issues have already been fixed.
3. From our conversations with management and other industry contacts, we do not believe there are reasons for us to have any broader concerns around operational performance or controls at Newmont.

As a result, we forecast total Newmont gold production to progressively recover over 2024-27. This not only drives revenue growth of 6% per annum (at constant commodity prices) but will also logically lead to reductions in unit costs as assets return to efficient levels of operation.

Figure 5: Newmont’s gold production is recovering



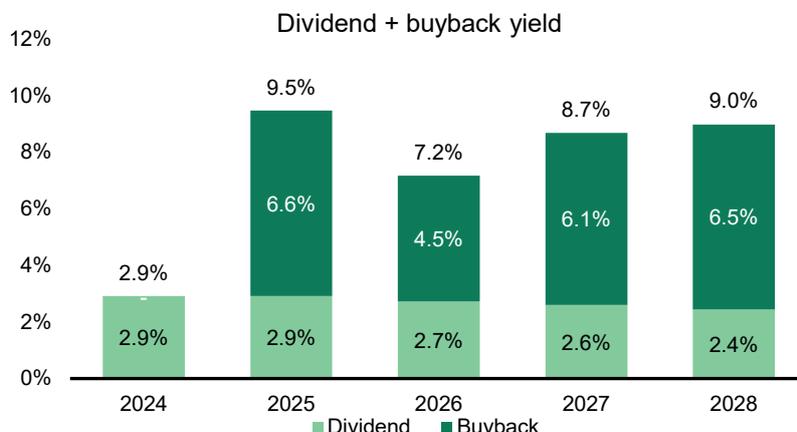
Source: Company reporting, Firetrail, March 2024.

Dividend cut is just the headline – focus on buybacks

In February, Newmont rebased its dividend from US\$1.60 per share to US\$1.00 per share, a 37.5% cut. However, we are of the strong view that this merely represents a change to the method of capital returns to shareholders, rather than a reduction in the total quantum.

Going forward, Newmont has committed that once it reduces net debt to US\$5bn, any additional cash will be returned to shareholders through buybacks. Based on our current forecasts and a US\$2,000/oz gold price, we estimate that Newmont can commence buybacks early in 2025. Over 2025-28 we believe Newmont could repurchase more than 20% of shares on issue, amounting to total returns of shareholders of 8% pa.

Figure 6: Shareholders are set to benefit from increased buybacks over the next 5 years



Note: assumes \$2,000/oz gold price

Source: Company reporting, Firetrail estimates, March 2024.

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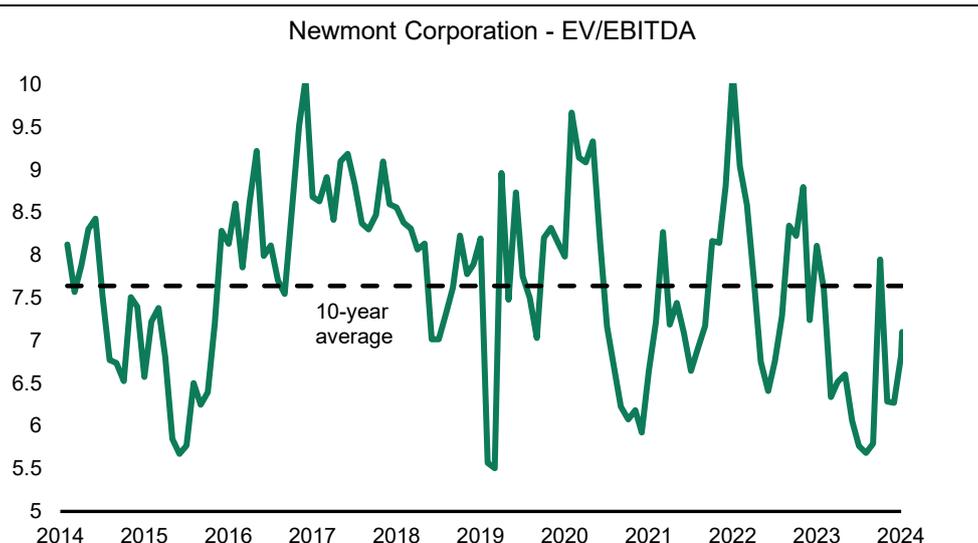
Asset sales on the way

Newmont has identified six non-core assets that it is seeking to sell across North America, Australia and Africa. We estimate the earmarked assets could fetch proceeds of at least US\$2.5bn. Finalisation of some or all of those asset sales would open up earlier buybacks than 2025.

Valuation

Newmont is currently trading at an EV/EBITDA multiple of 7x, which is towards the low end of its historic range and is only on a temporarily depressed 2024 earnings base. We believe there is a strong case for the multiple to re-rate as Newmont progressively demonstrates it has addressed production issues and begins to buy back shares. A premium multiple is warranted for Newmont given the quality (long life, low cost) and diversity of assets.

Figure 7: Newmont is trading cheaply compared to history



Source: FactSet, Firetrail, April 2024.

On a net present value basis, we calculate 30% upside to the current share price based on long-term gold price of US\$2,000/oz. If the current spot price were to persist at \$2,300/oz, the upside is 65%.

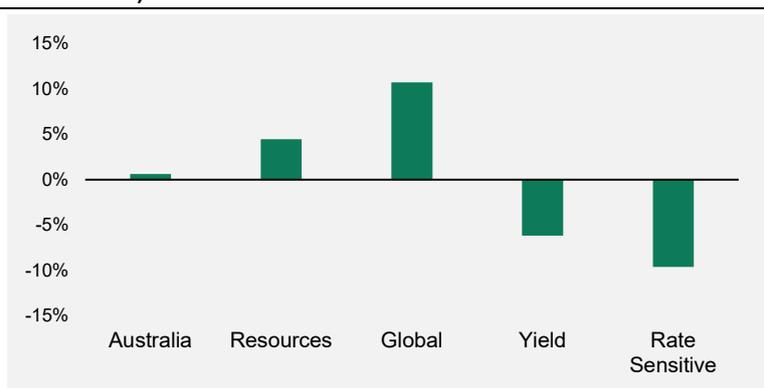
PORTFOLIO POSITIONING AND CHANGES

With underweight positions in Yield and Rate Sensitive categories broadly offsetting each other, our main thematic exposure is an overweight holding in global stocks. Our positioning across each category can be summarised as follows:

- Cyclical companies exposed to commodities where supply is constrained in the medium term, such as Santos and Incitec Pivot.
- Healthcare companies with strong market positions and defensive underlying demand drivers, such as CSL and ResMed.
- Market leaders including SEEK and Domino’s Pizza who are well placed to strengthen their competitive position through the cycle.
- Financials with leverage to interest rate rises including QBE Insurance and Suncorp.
- Undervalued companies with defensive attributes including Newmont and The Lottery Corporation.

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Figure 8: Thematic positioning as of 31 March 2024 (relative to benchmark)



Source: Firetrail, March 2024.

The main changes we made to the portfolio over the March quarter were:

- Initiated a position in Flight Centre
- Increased position sizes in Newmont, Nufarm, and Treasury Wine Estates
- Reduced position size in Bluescope Steel
- Exited positions in AGL Energy, Lendlease and Virgin Money UK

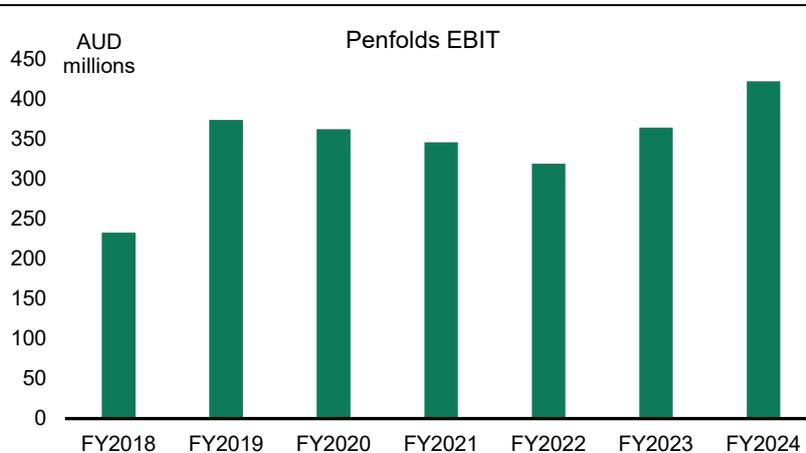
The portfolio remains highly concentrated with 75% active share and 56% stock-specific risk.

ONE INTERESTING THING THAT HAPPENED THIS MONTH...

On 28 March, the Chinese Ministry of Commerce announced that it would be reducing tariffs on Australian wine imports into China to zero, effective from 29 March. This development will provide a material boost to Treasury Wine Estate’s Penfolds division and the Australian wine industry more broadly. The market will learn more about how Treasury Wine Estates plans to re-enter China over the coming months. However, it is interesting to reflect on the performance of Penfolds over the period that China’s penal tariffs were in place.

After progressively falling over FY2019-2022 as wine volumes were reallocated, Penfolds has had a very strong last 18 months. Company guidance suggests that FY2024 EBIT (earnings before interest and taxes) will be 10% above FY2019 levels, and we expect further strong growth into FY2025 as global prices are lifted on China re-entry.

Figure 9: Penfolds has had a strong 18 months and is positioned to benefit from reduced tariffs



Source: Company reporting/guidance, Firetrail, March 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 Life360 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

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