Past performance is not a reliable indicator of future performance.

1. 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. 2. Fund inception is 14 March 2018. 3. 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. 4. Strategy inception 30 June 2015.
PERFORMANCE COMMENTARY

The Fund returned -1.05% during September, underperforming the RBA cash rate by 1.13%. The underperformance was driven by the large cap long positions, whilst the mid/small cap long positions and fundamental short positions contributed positively to performance.

PORTFOLIO COMMENTARY

The overall moves of equity markets were limited during the month, with the ASX200 up 1.3% and other major global indices moving in a similar positive quantum. However, within the equity market we saw the largest shift towards value stocks that we have seen in several years. We’ve written more about this in our [monthly insight here](#).

Within the long portfolio we have both value and growth names. We look for names that are trading at a cheap valuation regardless of their “bucketing” into one of these segments. We invest in technology companies with minimal current profit if we can see a fundamental path to future upside, we also invest in ‘value’ companies where historical earnings have been challenging but we see compelling valuation upside and a more stable (or growing) future earnings profile.

Similarly, with our fundamental short positions, we don’t discriminate between value or growth, we simply are looking for catalysts that provide a disappointment to consensus earnings expectations. Fundamental shorts added value during the month, and the fundamental short portfolio was reduced over September (in % terms) post-closing out positions following the August results season. The fundamental shorts will continue to build from here as we identify further catalysts and companies at risk of missing earnings expectations throughout the year. As always, we ensured there was zero market exposure in the fund by increasing the gross exposure in our risk short portfolio, which ensures our short positions are always approximately equal in exposure to our long positions. Resulting in zero net market exposure and close to zero beta in the portfolio at any point in time. This disciplined approach to portfolio construction ensures that portfolio returns remain uncorrelated to the underlying share market and other asset classes.

TOP CONTRIBUTORS FOR THE MONTH

The largest contributor to performance during the month was a large cap long position in crop protection company Nufarm. As we entered the month, Nufarm was the most shorted company (as measured by % of shares on issue being shorted) in Australia. We have been holders of Nufarm for several reasons:

1. Earnings are currently depressed from climatic factors – particularly the drought in Australia and flooding in the US which has impacted fungicide/herbicide demand.

2. There is significant upside from the commercialisation of its canola-based Omega 3 technology - an efficient new source of fish feed.

3. It’s exposure to glyphosate litigation is likely more limited than many in the market believe as a distributor rather than manufacturer of the product.

4. It has been trading cheap relative to its global generic crop protection peer group and its history

We believe the shorter’s thesis was that Nufarm had too much debt, and that the solution would be to raise further equity (and dilute earnings for shareholders). Instead Nufarm’s Japanese partner Sumitomo saw value in the business and an agreement was reached for the sale of its Latam crop protection business. Not only does this deal reduce Net Debt to EBITDA from 3.0x to 0.7x, Nufarm retains rights to Omega 3. Nufarm is now a cleaner business, with less debt and working capital intensity, coming out of an extremely challenging earnings environment. It remains a key position in the portfolio.

From the mid/small cap segment of the long portfolio key contributors included Afterpay and Independence Group:

- After being up 17% in August, Afterpay continued its run after positive broker reports were released. In addition, there were no materially negative impacts being from the independent draft report to AUSTRAC relating to customer identifications. We are believers in the strength of Afterpay’s strong and unique focus on the retailer and their value proposition to the customer in the Buy Now Pay Later segment.

- Nickel miner Independence Group rose as the market digested the recent Indonesian ban on the export of nickel ore. Indonesia is attempting to increase the installation of downstream nickel pig iron manufacturing - something that would create jobs and increase investment in the country rather than simply exporting ore. In the short/medium term this does create a constraint on supply as the NPI processing is built out, and the nickel price is up over 70% YTD.

Key fundamental short contributors included stocks in the technology and infrastructure sectors.
TOP DETRACTORS FOR THE MONTH

Long positions in infrastructure stocks Atlas Arteria and Transurban detracted from performance during the month, largely from being caught up in the sharp rotation from “growth” style names to value names. Atlas Arteria retains significant upside based on unlocking cash and distributions from its toll road in Virginia, USA (currently contributing zero cashflow). Transurban, apart from its valuation upside, has a strong growth profile not only from the demographic growth of metropolitan Australia, but also the fact that most of its toll roads grow at the minimum of CPI+ an inflator; or 4%. In other words, if inflation slows (as it has been recently) - Transurban retains pricing power and revenue growth.

Another detractor from performance was a large cap long position in Telstra. There is a lot of noise in the Telecom space at the moment - TPG Telecom and the ACCC are in court regarding the merger with Vodafone. The NBN rollout plan is being continually adjusted. And Telstra itself is in the midst of executing a large cost efficiency program. Whilst confusion around the quantum of Telstra’s cost reduction targets impacted investor’s confidence over the month, we remain focused on the performance of Telstra’s core mobile business. Mobiles represents 45% of Telstra’s EBITDA - its largest division - and we are seeing strong signs of rational pricing across the industry. In particular, Optus, who is traditionally an aggressive competitor, has tweaked its pricing up. We also believe Telstra are 18-24 months ahead of peers with their 5G rollout progress, maintaining their competitive advantage.

ONE INTERESTING THING THAT HAPPENED THIS MONTH...

Was the sharp uptick we saw in multiple US housing economic indicators. New US housing starts rose a seasonally adjusted 12% month-on-month in the latest data release. In Australia, there is a strong correlation between cash rate cuts, and increases in finance approvals/house price rises a few months after. Yet in the US we have seen housing starts on a declining trend for 18-months, whilst 30-year fixed mortgage rates have sharply declined from 4.8% to 3.5% since the start of the year...

What do we read into this? Perhaps the US household isn’t doing too badly and is willing to spend, which is good from some ASX listed building stocks with US exposure. But we’re not sure if this confidence will be long-lasting, and whether it is enough to hold up a slowing global economy with geopolitical uncertainty.