FIRETRAIL AUSTRALIAN HIGH CONVICTION FUND

MONTHLY REPORT | MARCH 2021

PERFORMANCE (AFTER FEES)

	Month	Quarter	6 Months	1 Year	3 Years p.a.	Fund inception p.a.[2]	5 Years p.a.	7 Years p.a.	10 Years p.a.	Strategy inception p.a.[4]
Fund[1]	2.76%	6.75%	27.21%	54.54%	7.16%	6.21%	-	-	-	-
Strategy composite[3]	2.76%	6.75%	27.21%	54.54%	7.16%	-	10.32%	11.37%	9.73%	9.83%
Benchmark	2.44%	4.26%	18.54%	37.47%	9.65%	8.43%	9.52%	7.93%	8.24%	7.08%
Excess Return	**+0.32%**	**+2.49%**	**+8.67%**	**+17.07%**	**-2.49%**	**-2.22%**	**+0.80%**	**+3.44%**	**+1.50%**	**+2.75%**

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 ASX200 Accumulation Index over the medium to long term.

PORTFOLIO POSITIONING
31 MARCH 2021

Top 3 Overweight Holdings (Alphabetical)
Newcrest Mining Ltd
OZ Minerals Ltd
Virgin Money UK PLC

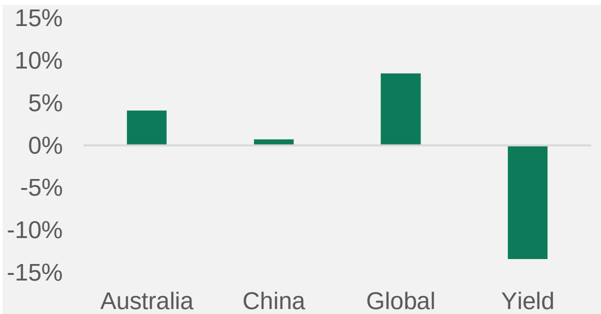
FUND DETAILS

Unit Prices	31 March 2021
Application price	$ 1.1503
Redemption Price	$ 1.1469
NAV Price	$ 1.1486
Fund Details	
APIR Code	WHT3810AU
Benchmark	S&P/ASX 200 Accumulation Index
Inception date	14 March 2018
Number of Holdings	28
Fund size	$478mil
Management fee*	0.90% p.a.
Performance fee*	15% of outperformance above an annual Hurdle of 2% above Benchmark

*Please read the Product Disclosure Statement for more details

THEMATIC POSITIONING
31 MARCH 2021

Relative to the Benchmark



Past performance is not a reliable indicator of future performance.

1. 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. 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 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. 4. Strategy inception 29 November 2005.

PORTFOLIO COMMENTARY

The Fund returned 2.76% for the month ending 31 March 2021, outperforming the ASX200 Accumulation Index by 0.32%.

For the quarter, the Fund returned 6.75%, outperforming the Benchmark by 2.49%.

CONTRIBUTORS TO RETURNS

Positive contributions came from Crown, Bluescope, Telstra and not owning iron ore exposed companies. Negative contributions included Chorus, Oil Search, Newcrest and not owning Australian banks.

COMPANY & INDUSTRY NEWS

Crown receives a takeover

Portfolio holding Crown received a takeover bid at just shy of a 20% premium from private equity player Blackstone. We established a position in Crown late last year, making for a quick win for investors. But the bid still is well below our fair value for Crown. Crown is a suite of tier 1 assets trading at a large discount driven by ESG related concerns that we believe are overplayed.

Crown has been determined by the NSW gaming regulator to be 'unsuitable' to own a gaming licence, mainly due to concerns over money laundering processes. Does that mean Crown will lose their licence? We do not believe so. Instead, we see a lot of people leaving the business (both Board and Management) and strengthening processes to address operational shortcomings. For example, Crown has already taken the decision not to accept foreign players through junket operations. The earnings impact of not accepting junkets is mid-single digits, but given the volatility, it comprised an even smaller part of the valuation. In short, we believe Crown has a realistic path to become suitable in the regulator's eyes.

The concerns of the regulator in NSW have triggered reviews in both Victoria and Western Australia. There is a risk that more could come out in those reviews. But we believe the risk of Crown losing their licence has been overplayed. If you believe, like we do, that Crown will retain their licence by taking actions to become suitable, then you are looking at a business that will improve earnings significantly as COVID restrictions ease, is close to net cash in two years and controls very strong market positions in major cities around Australia (Melbourne, Perth and Sydney).

If a higher bid does not eventuate, we will still be happy to own Crown with the expected return compensating for the risk.

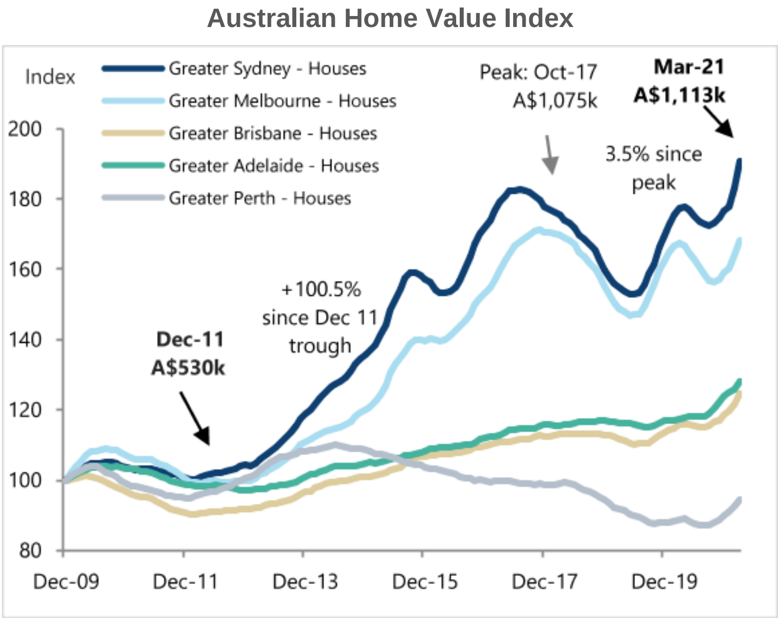
Newcrest delivers maiden resource at Red Chris

The thesis on Newcrest is a business that owns long life, low-cost mines, with almost no debt and is transitioning from two assets (Cadia, Lihir) to a handful over the coming years (Red Chris, Haverion, Wafi Golpu, Fruta del Norte). Red Chris (Canada) and Haverion (Australia) are the most attractive growth options because existing Newcrest controlled infrastructure is already in place.

During the month, Newcrest announced a Red Chris maiden resource, which was in line with expectations. The Measured and Inferred Resource of 13Moz Gold and 3.7Mt is of a scale to underwrite a large-scale, low-cost block caving operation over the coming years and is another tick in the box in the Newcrest high return diversification pathway.

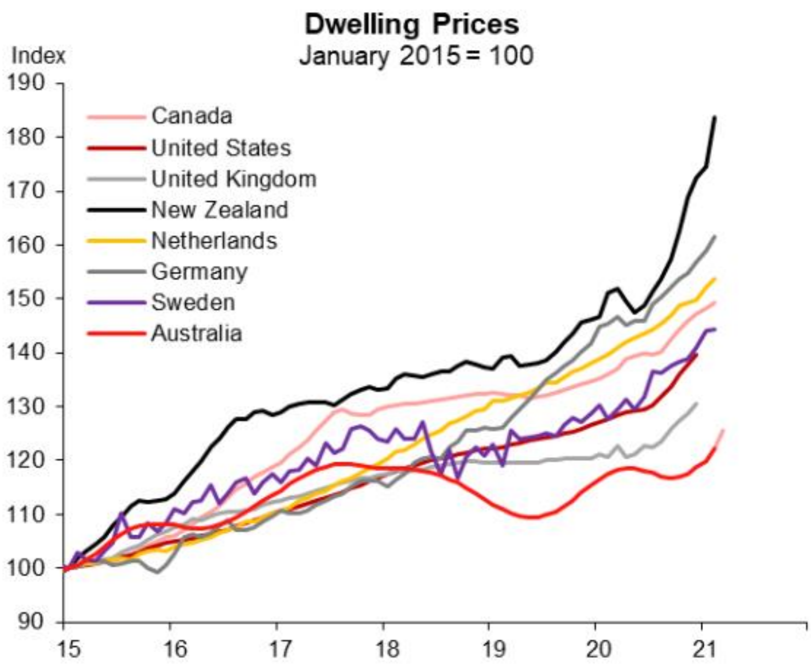
Housing booming

We have been talking about strength in housing for some time now. Talking to experts, looking at the data and looking around, house price pressure continues to be up. Low interest rates, highest ever consumer savings thanks to stimulus and limited spending outlets are the drivers.



Source: Jefferies / Core Logic, March 2021

High house prices are putting some pressure on the RBA to raise the interest rate. Cooling prices may reduce some pressure. Logic would suggest, there must be a risk the financial regulatory, APRA, intervenes in the market to stop house prices getting too much higher. Such intervention is termed 'Macroprudential'. Across the Tasman, New Zealand has been cooling their housing market using LVR restrictions since 2016. As of March 21, NZ introduced further measures, including new taxes. **The conclusion from NZ has been that such interventions have been effective at capping price growth but have not created a house price crash**. If macroprudential does occur, expect LVR or higher serviceability hurdles alongside exemptions for first home buyers.



Source: CoreLogic, Macrobond, REINZ, Macquarie Macro Strategy, March 2021

But as we dug deeper, there are three reasons why macroprudential is unlikely to happen soon:

1) NZ house prices are world leading post COVID, Australia is strong, but is lagging the world
2) An Australian Federal Government election is to be held sometime between August 2021 and May 2022. The Government is unlikely to want to see anything too radical that would dampen their chances of re-election (call us cynical).
3) APRA may want to see the house price trajectory post vaccine roll out when Australians can get back to spending on services like travel and stimulus has wound down.

The Head of APRA, Wayne Byers, made a speech at the end of March with two key quotes:

“At an aggregate level, lending statistics do not show major signs of a return to higher risk lending" and "There does not seem cause for immediate alarm.”

Housing market intervention is a watching brief for now rather than a high-risk, near-term event. The strategy exposure in Bluescope and James Hardie are more leveraged to repair and renovation than new builds and we are happy to continue to own them through the macro scenarios we believe are likely, including macroprudential policy.

Insurer IAG looks even more attractive after recent underperformance

During the month, we added to our position in IAG.

During the month, there were concerns that IAG may be facing a billion-dollar liability around the collapse of financier, Greensill. IAG were quick to set the record straight. IAG had sold the business years earlier to a Japanese insurer Tokio Marine, and while you can never say never, we were very comfortable that IAG have no exposure to the Greensill collapse. Adding insult to injury was more negatives in the form of east coast Australia floods, which while a negative, is estimated at a cost of $130m vs a market cap of $12bn. Both Greensill and Floods are not core to the investment thesis and are immaterial to the valuation.

Stepping back from the noise, the market is being conservative on the outlook for IAG earnings. Case in point, the market is expecting no underlying margin improvement over the next three years. We believe that with stronger pricing that we can observe in market, the market will prove to be too conservative. In addition, IAG took a massive provision release around COVID on business interruption, and that will also prove to be very conservative based on our bottom-up analysis. And then on top of all that, IAG is trading at a 30% discount to the market looking out 3 years. Over the last 3 years, IAG has commanded a 6% premium. There is too much negativity built into the IAG share price IAG and it presents an attractive investment opportunity.

Getting out there

The team has been getting out there, as best we can! And it is refreshing to see and hear different perspectives that you just cannot get reading a report or on a zoom. Seeing sometimes is believing!

We headed to WA and got the perspectives of the world’s largest oil and gas players. The key takeaway was that even at higher prices, energy transition focus means it is unlikely oil supply will materially change ex Middle East and select US players. The challenge for many is that the returns in energy transition opportunities, such as hydrogen and carbon capture, just are not meeting traditional return hurdles in reasonable time frames. We continue to believe we are heading into a period of higher energy prices driven by lower supply. The best thing for the energy transition, besides a global price on carbon, is high energy prices which encourage competing technologies to the status quo.

PORTFOLIO POSITIONING AND CHANGES

We added to our position in IAG.

We exited our position in Nuix - After a stunning IPO, and an equally stunning fall, we exited the portfolio holding. The result showed a business with much less growth than we were thinking, and our investment thesis was wrong.

Positioning can be summarised as follows:

- Highly concentrated with an 80% active share
- Overweight
    - Re-opening trades like Qantas, Aristocrat, and the energy sector, where competitive dynamics have improved post COVID.
    - Base metal and EV materials where supply will not be able to keep up with demand in the medium term
    - Housing plays like Bluescope and James Hardie who are benefitting from strong demand while taking market share in their categories
    - Non-bank financials including Challenger and IAG
    - Stock specific opportunities that cannot be categorised! Newcrest and Crown as examples
- No holding in banks and iron ore where we do not see compelling opportunities

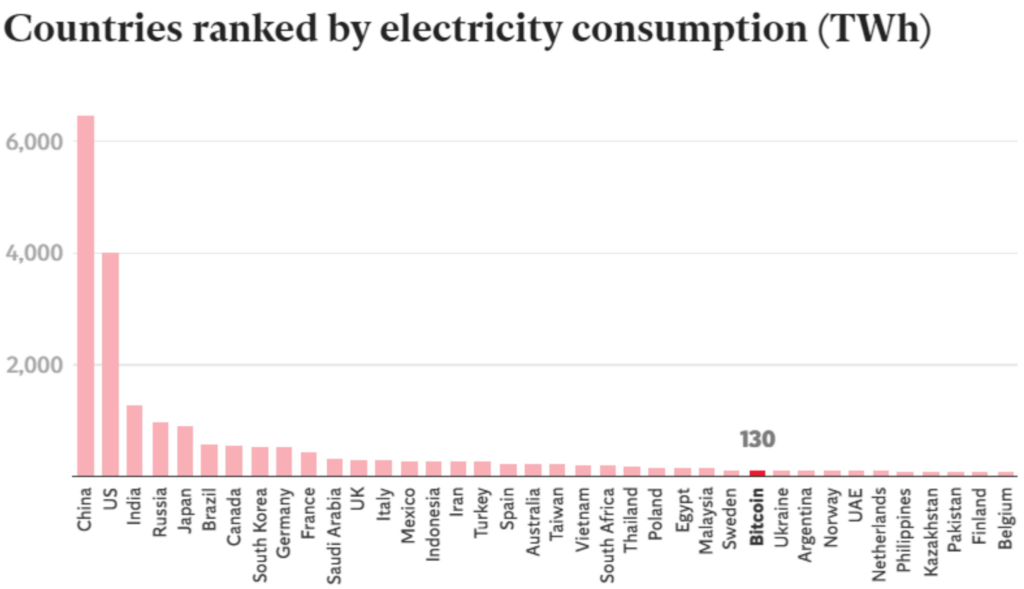
ONE INTERESTING THING THAT HAPPENED THIS MONTH…

Bitcoin mining is set to be banned in Inner Mongolia, an autonomous region of China. Inner Mongolia makes up 8% of global bitcoin mining according to the Cambridge Bitcoin Electricity Consumption Index.

Bitcoin miners have been attracted to places with cheap energy given high computational power required to mine the bitcoins. On that basis, China is attractive. China has cheap electricity driven by cheap coal. But now, the negative environmental impact is coming into focus, particularly with China's plan to reduce CO_2 emissions by 65% by 2030 (vs 2005 levels).

According to Cambridge, if Bitcoin mining was a country, it would be the 30th largest country in the world.

Any further crackdowns on bitcoin mining would be great for decarbonisation, and probably even better for bitcoin pricing.



Source: Cambridge Centre for Alternative Finance, March 2021

MORE INFORMATION

General enquiries 1300 010 311

Existing client enquiries 1300 360 306

www.firetrail.com

Firetrail INVESTMENTS