FIRETRAIL AUSTRALIAN SMALL COMPANIES FUND

MONTHLY REPORT | MARCH 2021

PERFORMANCE (AFTER FEES) [1]

	Month	Quarter	6 Months	1 Year	Fund inception p.a. [2]
Fund	3.48%	10.90%	37.41%	126.95%	43.94%
Benchmark	0.79%	2.09%	16.20%	52.15%	4.41%
Excess Return	**+2.69%**	**+8.82%**	**+21.20%**	**+74.80%**	**+39.80%**

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.

AUSTRALIAN SMALL COMPANIES FUND

The Australian Small Companies Fund ("Fund") is a concentrated portfolio of our most compelling Australian Small Company 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 Small Ordinaries Accumulation Index over the medium to long term.

PORTFOLIO POSITIONING 31 MARCH 2021

Top 3 Overweight Holdings (Alphabetical)
DDH1 Ltd
Gold Road Resources Ltd
Serko Ltd

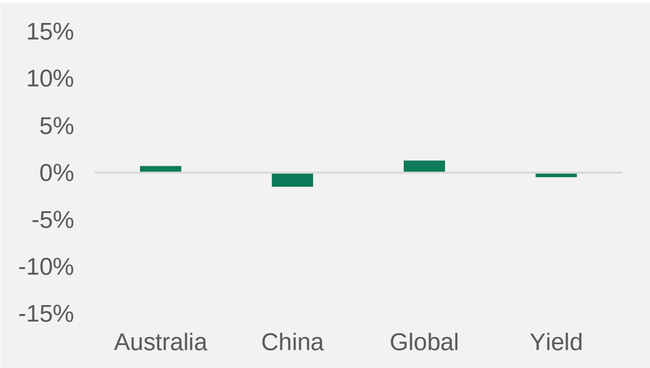
FUND DETAILS

Unit Prices	31 March 2021
Application price	$ 1.5020
Redemption Price	$ 1.4930
NAV Price	$ 1.4975
Fund Details	
APIR Code	WHT3093AU
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Inception date	20 February 2020
Number of Holdings	41
Fund size	$18mil
Management fee*	0.85% p.a.
Performance fee*	20% 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 Small Companies 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 20 February 2020.

PORTFOLIO COMMENTARY

The Fund returned 3.48% for the month ending 31 March 2021, outperforming the Small Ordinaries Accumulation Index by 2.69%.

For the quarter, the Fund returned 10.90%, outperforming the Small Ordinaries Accumulation Index by 8.82%.

CONTRIBUTORS TO RETURNS

Positive quarterly contributors to returns included holdings in recently listed Airtasker, automotive dealer Autosports and bank Virgin Money UK. Detractors included underweight positions in rare earth's producer Lynas Corporation and an overweight position in Gold Road Resources and DDH1 Drilling.

PORTFOLIO POSITIONING

The Firetrail Australian Small Companies Fund positioning as of 31 March 2021 can be summarised as:

1. Highly active - A concentrated portfolio of our best ideas with an active share >90%
2. Overweight select domestic companies exposed to an improving economic environment and globally exposed companies in the technology and healthcare sectors
3. Underweight China (predominantly resources) and Yield (predominantly driven by an underweight to REITs)

SMALL COMPANY FOCUS

Airtasker (ART)

Airtasker is an Australian online marketplace that connects people who need help with a task to people who can get the task done. The company listed on the ASX during March and is a key holding in the Fund, which entered into the position via a pre-IPO holding.

What does Airtasker do?

A large portion of Airtasker's revenue is derived from cleaning, furniture removalist and handyman services. As such Airtasker plays in the $52bn local services industry.

Airtasker's key competitive advantage relative to other online services marketplaces is the flexibility and autonomy the platform provides users. Users create their own unique tasks and communicate the requirements directly to taskers. The flexibility is valued by both customers and taskers, reflected by the fact that a new task is posted on Airtasker every 17seconds. In addition, the company is now the no. 1 employer of platform workers in Australia, ahead of even Uber!

We believe there are 3 key opportunities for Airtasker to deliver significant revenue growth over the medium term:

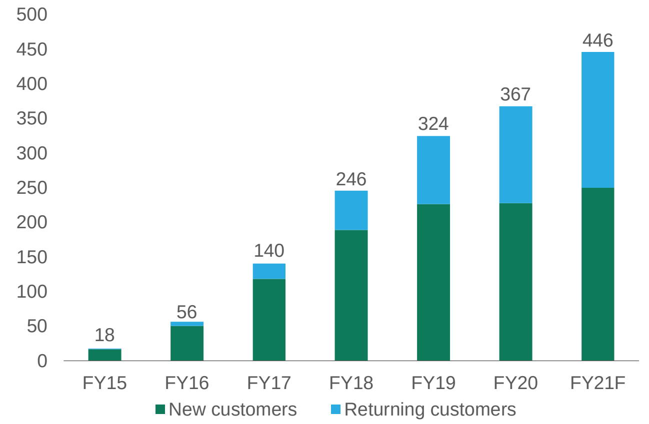
1. **Invest in both call-to-action and brand marketing** to accelerate new customer acquisition and increase frequency of spend
2. **Launch new products** such as a "Tasker Superstore", allowing taskers to suggest tasks to consumers driving increased engagement and platform usage
3. **Expand offshore** by applying the successful Australian blueprint to new markets including the UK, NZ, Singapore and medium-term the US. New markets increase Airtasker's Total Addressable Market 12x to $643bn as illustrated by Fig 2.

The first opportunity, increase marketing spend, presents the lowest hanging fruit, and will have the largest impact on Airtasker's top line growth over the short to medium term. Fig. 1 shows that Airtasker has delivered consistent growth in new customers. A fact that is particularly impressive given the company reduced marketing spend by 90% during the pandemic. We see an opportunity for Airtasker to re-accelerate customer acquisition via increased brand awareness. We estimate 8% of Australian households have used Airtasker with current levels of brand recognition sitting at about 50%. The company aims to reach over 80% brand awareness within the next 2 years. Heightened brand awareness will drive increased market penetration and growth in total transaction value on the marketplace.

Furthermore, we believe there is an opportunity for Airtasker to invest in call-to-action marketing to increase frequency of customer spend. Currently customers transact on Airtasker 2x p.a. on average. An increase to 3x p.a. would immediately deliver 50% revenue growth holding customers numbers flat. We believe investment in call-to-action marketing coupled with the pending launch of the new “Tasker Superstore” will help Airtasker achieve increased customer engagement and frequency of spend over the medium term.

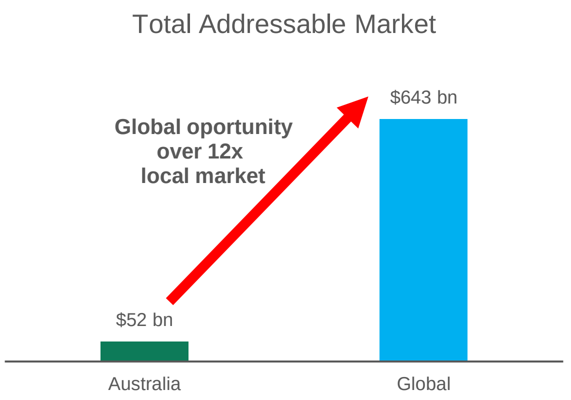
The perceived growth potential for Airtasker in Australia is material. We continue to believe there is upside from Airtasker executing on its Australian growth plans despite the stock’s strong ASX debut. There is even further upside if the company executes against the international expansion strategy. The Airtasker management team is motivated and has a strong track record of execution. We have high degree of confidence that Airtasker has the potential to become a global online services marketplace.

Fig 1. Airtasker has delivered consistent growth in new and returning customers



Source: Airtasker, Firetrail, March 2021

Fig 2. The global opportunity is over 12x the size of the local market



Source: Airtasker, Firetrail, March 2021

SMALL THINGS THAT MATTER…

Now is the time for small caps!

This quarter, we share three reasons why now is the time to consider an allocation to small companies as part of a diversified portfolio.

1. **Diversification**

Investors should consider how diversified their Australian equity portfolio is. According to recent data from NAB Direct, the average Australian equity investor allocates around 50% of their capital to the top 10 ASX companies by market capitalisation! Similarly, if investors were to invest in the popular S&P/ASX 200 Index, their allocation to the top 10 companies by market capitalisation would be ~45% of their investment.

Dominated by CSL, BHP and the Big 4 Banks, the ASX 200 is concentrated in large, mature businesses. At a sector level Financials comprise 30% of the Index, Resources 20% and ‘bond proxy’ stocks such as real estate income trusts 9%. The ASX200 index lacks exposure to high growth sectors such as Technology which still makes up only 4% of the Index.

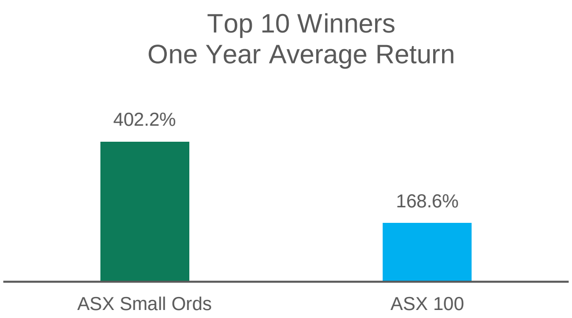
The small cap market is different and far more exciting! Growth sectors such as Technology and Biotechnology make up ~15% of the index. It is also far less concentrated –the top 10 stocks make up less than 15% of the benchmark. For these reasons, an allocation towards small companies is a good starting point for investors looking to reduce concentration risk and increase diversification in their Australian equity portfolio.

2. Elevated opportunities for active investors

Opportunities are elevated in small caps for active stock pickers. Over the past 12 months to 31 March 2021, if an investor had an equal weighted portfolio of the top 10 performing stocks in the ASX Small Ordinaries Index, they would have received a whopping 402% return. Investing the same way in the top 10 performing large caps, their return would have been 168%. Less than half, albeit still an excellent return.

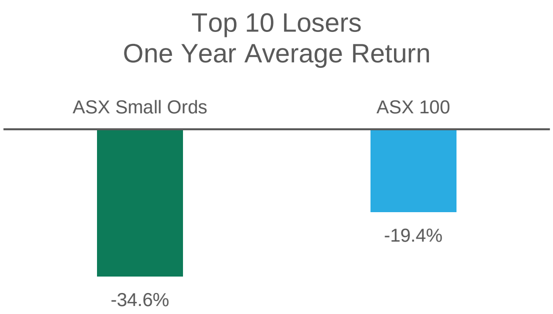
However, the risks are elevated in small caps. An equal weighted investment in the bottom 10 performers in the small cap index provided a negative return of -35% vs large caps at only -19%. While simplistic this example demonstrates why it is important to be active in small companies – there are significant benefits in being able to pick the 'winners' and avoid the 'losers'.

Fig 3. The small cap market provides investors with greater opportunities to outperform…



Source: Factset, Firetrail, March 2021

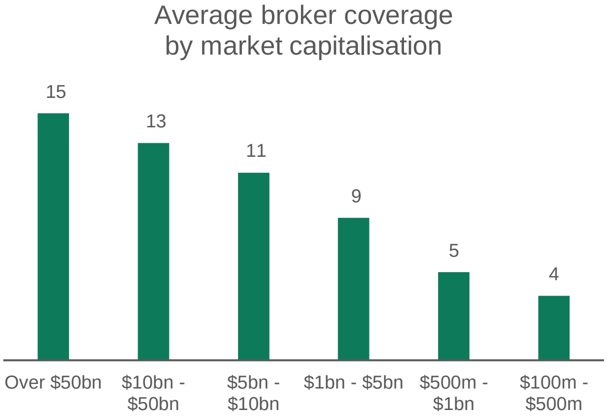
Fig 4. ..however the risks are elevated.



Source: Factset, Firetrail, March 2021

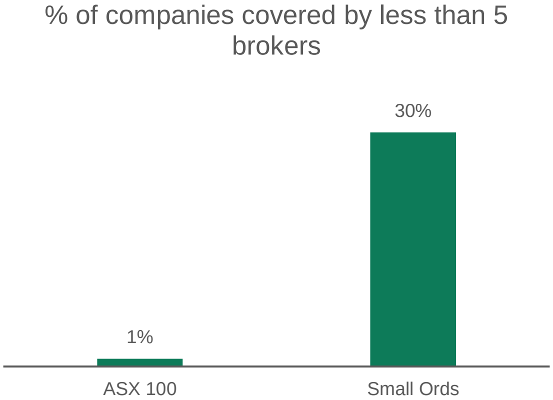
The good news is that active management works in small caps. According to data from Mercer Insight, over the past 12-months 72% of small cap managers in their investment universe have outperformed (versus only 50% of large cap managers). The reason for this is simple, small companies are under-researched relative to large caps, providing an opportunity for active managers who do the deep fundamental research. In contrast, large caps are generally well-researched and have greater analyst coverage from sell-side brokers in the market (Fig 5 and 6).

Fig 5. Smaller companies have less research coverage relative to their large cap counterparts…



Source: Factset, Firetrail, March 2021

Fig 6. The opportunity to "uncover" opportunities in small caps is greater than in large caps…



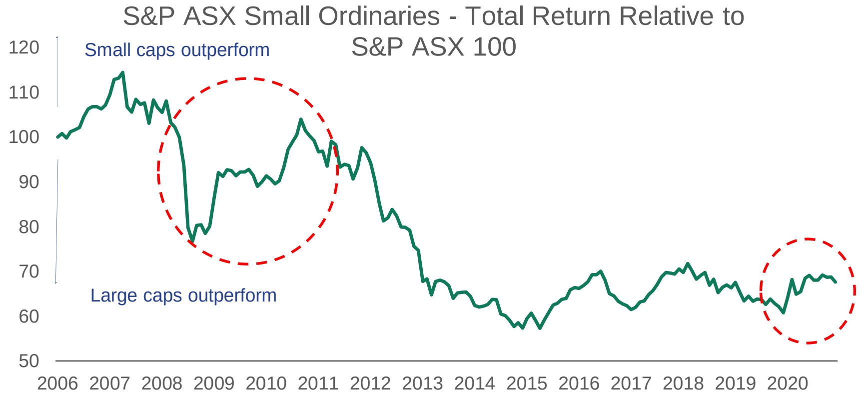
Source: Factset, Firetrail, March 2021

3. Now is the time for small caps

One common argument for NOT investing in small companies in Australia is that the small cap index has lagged its large cap counterpart over the long term. This contrasts with global and US equity indices where the additional risk for investing in small companies has generally been rewarded with greater returns.

The chart below highlights this oddity in the small cap market in Australia. However, the charet also highlights that during periods of economic recovery the small cap market tends to outperform. This was evident during the period post the GFC where small caps outperformed by 37% and more recently post COVID which saw small caps outperform by 12%.

Fig 7. The small cap market has historically outperformed in periods of sharp economic recovery



Source: Factset, Firetrail, March 2021

We are positive on the outlook for small cap returns from active managers over the next 12-months driven by:

1. **Heightened volatility & share price dispersion -** creating opportunities for active managers to find mispriced companies.
2. **Heightened corporate activity –** such as IPO's, Pre-IPO's, M&A and recapitalisations. There were over 150 corporate events in the Australian market in 2020 and there have been over 20 corporate events in 2021 to date. These opportunities are particularly elevated in small companies and provide access to outstanding companies such as Airtasker (covered in detail above), which added 150%+ in its first two days of listing on the ASX.
3. **A continued economic recovery –** many Australian small companies are benefitting from economic tailwinds in sectors such as housing, healthcare and resources.

Conclusion

Now is the time to consider Australian equity exposure through an allocation to small companies. Improved diversification, a relatively inefficient market and an improving economic environment are 3 key reasons why there has never been a better opportunity to be active in Australian small companies.

MORE INFORMATION

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Existing client enquiries 1300 360 306

www.firetrail.com