

# FIRETRAIL ABSOLUTE RETURN FUND

MONTHLY REPORT | FEBRUARY 2024

## PERFORMANCE (AFTER FEES)<sup>1</sup>

	Month	Quarter	1 Year	3 Years p.a.	5 Years p.a.	Fund inception p.a. <sup>3</sup>	7 Years p.a.	Strategy inception p.a. <sup>5</sup>
Fund <sup>2</sup>	(1.33%)	(5.77%)	(3.44%)	(8.37%)	0.80%	0.19%	-	-
Strategy composite <sup>4</sup>	(1.33%)	(5.77%)	(3.44%)	(8.37%)	0.80%	-	1.91%	5.92%
Benchmark	0.34%	1.07%	4.07%	1.97%	1.43%	1.44%	1.44%	1.51%
Excess Return	<b>-1.67%</b>	<b>-6.83%</b>	<b>-7.51%</b>	<b>-10.34%</b>	<b>-0.63%</b>	<b>-1.26%</b>	<b>+0.47%</b>	<b>+4.41%</b>

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 – 29 FEB 2024

Top 3 Overweight Holdings (Alphabetical)
CSL Ltd
Newmont Corp
Nufarm Ltd

## FUND DETAILS

Unit Prices	29 February 2024
Application Price	\$0.9941
Redemption Price	\$0.9871
NAV Price	\$0.9906
Fund Details	
APIR Code	WHT5134AU
Benchmark	RBA Cash Rate
Inception Date	14 March 2018
Risk/Return Profile	High
Fund Size	\$198mil
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 – 29 FEB 2024

	Portfolio Exposure
Long Equity	163.6%
Short Equity	-163.4%
Net Equity Exposure	0.2%

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 negative 1.33% (after fees) for the month ending 29 February 2024, underperforming the RBA Cash Rate by 1.67%.

## CONTRIBUTORS TO RETURNS

Positive contributors included Treasury Wine Estates, CSR, and Domino's Pizza. Negative contributors included Newmont, CSL, and Kelsian. We discuss each further in our commentary below.

### POSITIVE CONTRIBUTORS

#### Treasury Wine Estates

Treasury Wines outperformed after reporting a H1 2024 result that was better than the market feared. In their key Penfolds division, revenues grew 9% and management guided to a stronger outcome in H2 2024 as high-end product is skewed to that half. The Penfolds division is in a strong position to benefit from the removal of Chinese wine tariffs if this eventuates later this month.

#### CSR

CSR outperformance followed an all-cash takeover from European building materials company Saint-Gobain at \$9/share. The bid represents a 33% premium to the undisturbed price prior to the approach and implies a multiple of 16x last year's earnings. The Firetrail Absolute Return Fund exited the position in CSR following the Board's move to recommend shareholders vote in favour of the takeover scheme.

#### Domino's Pizza

Domino's Pizza shares reversed some of the decline experienced in January after reporting its H1 2024 result. Japan has been one of Domino's more problematic markets as it deals with input cost inflation. After experiencing negative sales growth through 2023, Japan is now showing some early signs of recovery, with same store sales growing at 7% over the first seven weeks of 2024.

### NEGATIVE CONTRIBUTORS

#### Newmont

Newmont shares underperformed following disappointing 2024 production guidance and a lower dividend than the market expected. We believe the production issues Newmont is currently facing are short term and the market is materially undervaluing its diversified portfolio of attractive gold and copper assets.

#### CSL

CSL shares underperformed following a negative Phase 3 trial result for its CSL112 treatment for heart attack patients. While we did not factor a positive trial result into our investment thesis, the trial failure is nevertheless a near-term share price headwind. CSL also released its H1 2024 result which showed very strong trends in its core plasma division. Immunoglobulin sales lifted 23% and gross margin increased due to a moderation in unit costs.

#### Kelsian

Transport operator Kelsian declined following the release of a messy half year result in late February. Operationally, the business is performing in line, if not ahead of expectations in key divisions. However, the result was marred by increased depreciation, interest costs and poor cash flow. However, we expect these issues to be temporary and continue to see significant upside to Kelsian shares on a medium-term view.

## PORTFOLIO POSITIONING

The Firetrail Absolute Return Fund is a market neutral portfolio (long/short) with zero net market exposure and beta (+/- 0.1) to ensure Fund performance is uncorrelated to the equity market. The Fund is driven by our best long and short ideas.

### The long portfolio can be summarised as:

- 163.6% long exposure across 60-80 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 Incitec Pivot.
  - Commodity companies exposed to decarbonisation such as Mineral Resources, NextGen Energy, and Lynas Rare Earths with attractive cost positions and strong growth outlooks.
  - Market leaders including CSL, ResMed, and SEEK who are well placed to strengthen their competitive position through the cycle.
  - Financials with leverage to a higher interest rates environment and better industry outlook including QBE Insurance, Medibank Private, and Suncorp.
  - Undervalued companies with quality attributes including Treasury Wine Estates and Domino's Pizza.

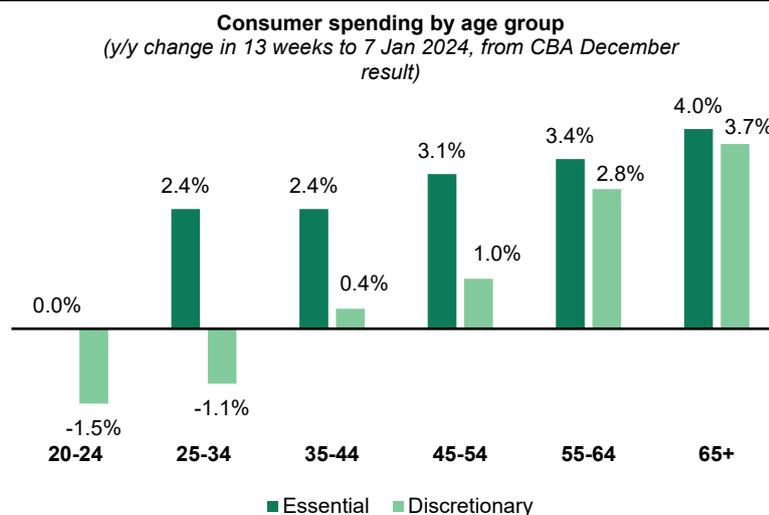
### The short portfolio can be summarised as:

- 163.4% 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, and bond proxies where we see increasing near term earnings risks.

## ONE INTERESTING THING THAT HAPPENED THIS MONTH...

Retail stocks had another strong February reporting season, delivering higher profits despite ongoing moderation in sales growth. CBA's chart below provides a good snapshot of some of the trends driving retail sales in a period where cost of living continues to rise. All age cohorts saw their incomes rise during 2023. Spending on essential items grew low single digits while discretionary spending was mixed. Older cohorts continue to spend on discretionary purchases which are being funded by a bigger pool of savings.

**Figure 1: Older age groups continue to increase discretionary spending, as younger age groups tighten their belts.**



Source: CBA, February 2024.

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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](mailto:service@pinnacleinvestment.com)

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