

# FIRETRAIL S3 GLOBAL OPPORTUNITIES FUND (HEDGED)

MONTHLY REPORT | MARCH 2024

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

	Month	Quarter	6 Months	1 year (p.a.)	Since inception <sup>3</sup> (p.a.)
Fund <sup>2</sup>	4.55%	10.45%	16.16%	20.91%	10.54%
Benchmark	3.34%	10.01%	20.14%	24.83%	15.77%
Excess Return	<b>+1.21%</b>	<b>+0.44%</b>	<b>-3.97%</b>	<b>-3.92%</b>	<b>-5.23%</b>

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.

## S3 GLOBAL OPPORTUNITIES FUND (HEDGED)

The S3 Global Opportunities Fund (Hedged) ("Fund") is a concentrated portfolio of approximately 30 stocks from both developed and emerging markets. The strategy is built on fundamental, deep dive research with a focus on finding unappreciated positive change attributes.

Currency exposure is substantially hedged back to Australian dollars.

## INVESTMENT OBJECTIVE

The Fund aims to outperform the MSCI World 100% Hedged Net Total Return Index over the long term (after fees).

## PORTFOLIO POSITIONING – 31 MAR 2024

Top 5 Overweight Holdings (Alphabetical)
Micron Technology, Inc.
Interactive Brokers Group, Inc. Class A
McKesson Corporation
Taiwan Semiconductor Manufacturing Co., Ltd. Sponsored ADR
Royal KPN NV

Signatory of:

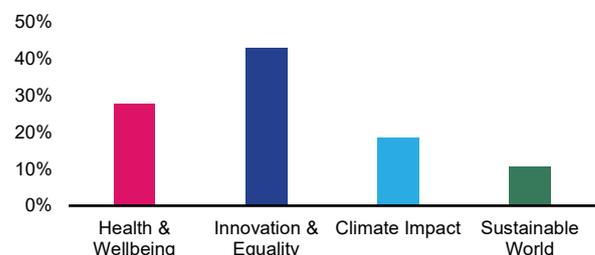


## FUND DETAILS

Unit Prices	31 March 2024
Application Price	\$1.1836
Redemption Price	\$1.1800
NAV Price	\$1.1818
Fund Details	
APIR Code	WHT4609AU
Benchmark	MSCI World 100% Hedged Net Total Return Index
Inception date	19 May 2022
Risk/Return Profile	High
Number of Holdings	33
Fund Size	\$5mil
Management Fee*	0.72% p.a.
Performance Fee*	15% of net outperformance above the Fund's Benchmark

\*Please read the Product Disclosure Statement for more details

## THEMATIC POSITIONING – 31 MAR 2024



Source: Firetrail

### FIRETRAIL OPPORTUNITY THEMES:

- Health and Wellbeing – Enabling better lives
- Innovation and Equality – Opportunities for everyone
- Climate Impact – Adjusting to a lower carbon world
- Sustainable world – Efficient use of resources

## THE FIRETRAIL S3 GLOBAL OPPORTUNITIES FUND (HEDGED)

This Fund brings you a differentiated, currency hedged exposure to global equity markets through:

- A high conviction, concentrated portfolio of approximately 30 stocks from both developed and emerging markets.
- Stock specific opportunities focused on finding unappreciated positive change attributes.
- Unique risk management approach to ensure that stocks drive returns rather than macro drivers.

S3 refers to the three attributes of the ideal stocks for the portfolio - Sustainable business models, Sustainable earnings, and Sustainable positive change. We assess a company against these attributes not today, but on our forecasting 5 years into the future.

## PORTFOLIO COMMENTARY

The Fund returned 4.55% (after fees) for the month ending 31 March 2024, outperforming the MSCI World Index by 1.21%. For the quarter ending 31 March 2024, the Fund returned 10.45% (after fees), outperforming the MSCI World Index by 0.44%.

## CONTRIBUTORS TO RETURNS

Positive contributors included Micron, 3i Group and Ryan Specialty. Negative contributors included Rightmove, Visa and American Tower. We discuss each in our commentary below.

### POSITIVE CONTRIBUTORS

#### Micron

Micron is one of three producers that dominate the semiconductor memory market globally. During the month Micron reported a very strong set of results, indicating that a recovery in the pricing of memory semiconductors is well underway. We are anticipating that the upcoming memory cycle will be very strong. This is due to both a combination of strong demand (from AI servers, as well as mobile and PCs), as well as supply constraints (from new technology migrations).

#### 3i Group

3i Group is a UK listed investment company that derives the majority of its value from "Action" – a European discount store chain. Action reported strong like-for-like sales volumes during March, as well as giving detail on the large store expansion opportunity it still has within Europe. We were also pleased to see the strong disclosure Action gave around its responsible sourcing and supply chain diligence.

#### Ryan Specialty

Ryan Specialty is a US-based insurance broker, specialising in hard-to-insure risks. The company takes no underwriting risk itself. We are attracted to Ryan Specialty due to their continuing shift of risks from general brokers to specialist brokers. Ryan will continue to benefit from rising premium rates, the increasing number of specialist risks, as well as share gains over less sophisticated peers.

### NEGATIVE CONTRIBUTORS

#### Rightmove

Rightmove is a UK listed property portal, with a the dominant position in the UK market. The business has a strong ability to increase prices, and has a model that is driven by agent numbers, rather than property listing numbers. The stock has underperformed recently based on fears of a new entrant into the UK market (CoStar) – which we believe are being overplayed.

#### Visa

Visa's business is driven by transaction volumes on its network, which provides the critical infrastructure for banks to communicate with each other. Visa is a relatively defensive business, given the stability of transaction volumes, and given the strong equity market in the month, it lagged the market.

#### American Tower

American Tower is the owner of critical cellphone tower infrastructure across North America and the world. It is an infrastructure stock with long dated contracts and strong pricing ability. As interest rates rose during the month it was a negative contributor along with other unowned infrastructure peers.

## PORTFOLIO POSITIONING AND OUTLOOK

The current portfolio is:

- A concentrated portfolio of 33 value and growth companies
- Highly differentiated positioning compared with the index and peers
- Overweight Firetrail’s positive change themes
- Overweight Europe and Americas, underweight Asia
- Returns driven mainly by stock specific risk, rather than macro risk
- Significantly lower carbon intensity than the index<sup>1</sup>

### THE END OF THE MAGNIFICENT 7?

It may be time to retire the Magnificent Seven moniker. These stocks – Nvidia, Meta, Amazon, Microsoft, Alphabet, Apple, and Tesla – rose 112% on average in 2023 and powered the broader market higher.

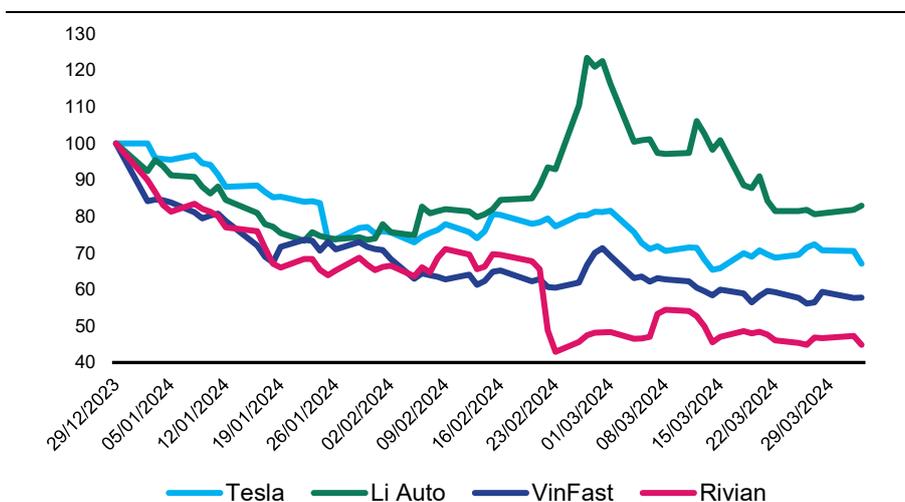
2024 has seen a different story play out. The average increase for the Mag 7 was still a healthy 17% in the first quarter, compared with the 10% rise of the S&P 500, but the performance varied from Nvidia’s 82% increase to Tesla’s near 30% decline. Tesla is one of the biggest decliners on the S&P500 so far this year.

#### Electric Vehicle sentiment turns sour

What has led to the large decline in Tesla’s share price? Slowing demand and profit warnings from the electric vehicle (EV) industry leader has seen analysts revise down their EV penetration forecasts. EV sentiment has continued to worsen in 2024, with major EV automaker shares down 20-55% year-to-date.

We are big supporters of decarbonisation efforts, but these efforts cannot occur unless businesses are sustainably profitable. Decarbonisation projects must make economic sense.

**Figure 1: Share price performance of EV manufacturers in 2024 (year to date)**



Source: Bloomberg, Firetrail, April 2024.

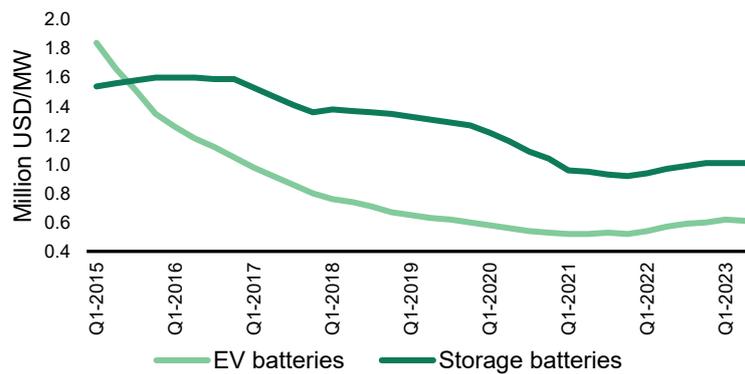
It looks like EVs may have hit a natural saturation point. EV demand has been regionally concentrated and over-indexed to high income earners where demand might be exhausted for now. Some EVs are too expensive for their segment size (e.g. pickup trucks) and do not have great distribution channels.

There has also been a reality check on the rising cost of capital. Underpinning EV growth is a technology that is more efficient than fossil fuel but every bit as capital intensive. A major repricing of the cost of capital globally has had a clear impact on the payback periods of such projects.

<sup>1</sup> For more information on the carbon emissions estimate for the Fund, refer to the Firetrail website: <https://firetrail.com/funds/firetrail-s3-global-opportunities-fund-managed-fund/#offset-your-emissions>

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

**Figure 2: Average producer price for EV and Storage batteries**

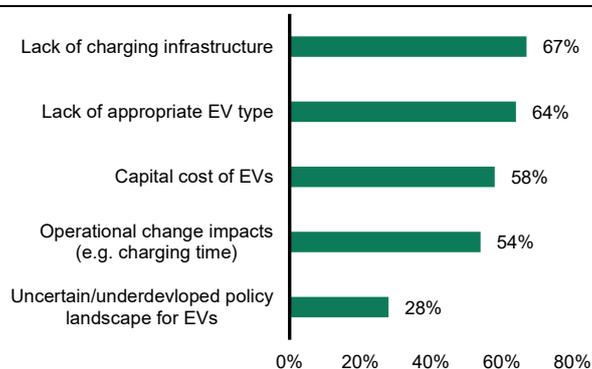


Source: IEA, Firetrail, December 2023.

It appears that investors are rewarding certain auto manufacturers for ‘dialling back’ their EV strategies. The relatively strong total shareholder returns by players like Toyota and Stellantis stand out given these names have spent far more frugally on the EV side.

There are also EV adoption challenges. These include enhancing EV charging infrastructure (both availability and charge time), addressing maintenance issues, and concerns over range. While EVs are the future, it’s the traditional internal combustion engine (ICE) product that generates the profits and funds the dividends and buybacks for shareholders. The ICE product has an additional advantage – it is relatively insulated from Tesla and Chinese EV disruption.

**Figure 3: Top 5 barriers to EV adoption reported by EV100<sup>2</sup> companies**



Source: IEA, Firetrail, April 2021.

On top of this, the current U.S political environment may discourage new competition or lead to automakers deferring investment decisions.

**Where are the opportunities?**

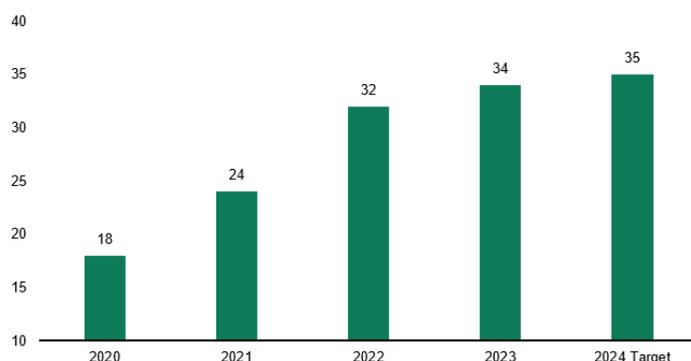
Cutting through all this noise, and given the de-rating in the EV sector, where do the opportunities lie? We believe that caution is warranted and are taking a prudent approach by maintaining a highly selective approach.

Our preferred exposure today to the EV thematic is Aptiv, a US-listed company that designs, develops, and manufactures software and hardware solutions for both EV and ICE vehicles. To use a human body metaphor, Aptiv supply both the “brain” (software and computing systems) and the “nervous system” of vehicles. Aptiv’s clients include GM, Stellantis, Ford, Volkswagen, and Tesla. They supply electrical content for a third of low voltage vehicles, and half of high voltage vehicles globally. EV bearishness is most focused in the US, whereas Aptiv’s high voltage business is around 80% European and Chinese auto manufacturers.

<sup>2</sup> The Climate Group’s EV100 Initiative brings together over 100 companies in 80 markets committed to making electric transport the new normal by 2030.

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**Figure 4: Aptiv Order Bookings (\$USD Billions)**

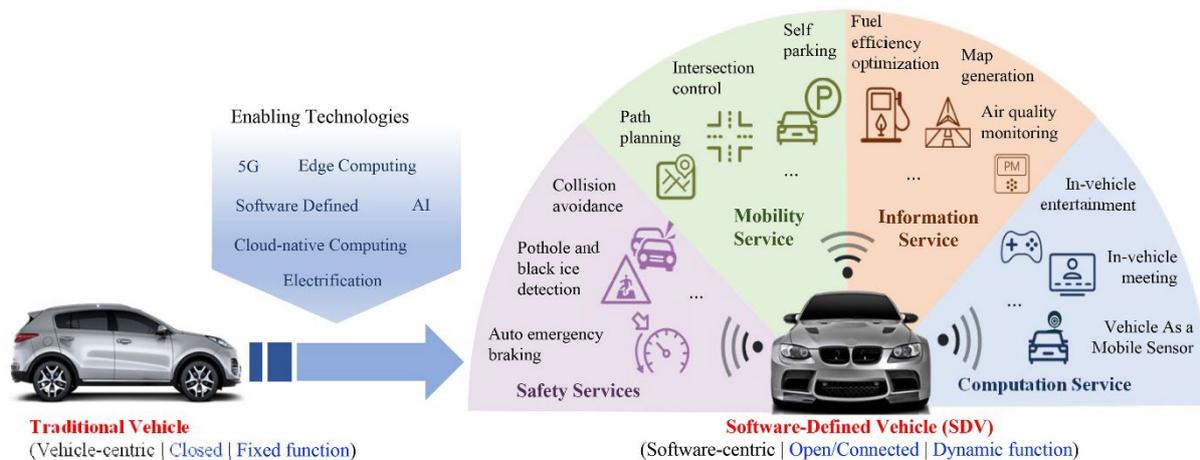


Source: Company reporting, Firetrail.

What we really like about Aptiv is that the outlook for the company’s earnings isn’t solely reliant on successful EV penetration outcomes. However, any upside to EV sentiment from current depressed levels is likely to drive incremental upside to an already compelling fundamental story. New products, an expansion of charging infrastructure, and improvements in affordability would see sentiment shift swiftly around the EV manufacturers.

Our research has identified that there is a significant transition underway in the automotive industry. Cars are becoming computers with wheels. Automation is becoming increasingly prevalent, with the car performing an increasing number of driving tasks such as steering and acceleration. This also requires greater content per vehicle. Aptiv is significantly exposed to this.

**Figure 5: Transformation of automotive mobility**



Source: Journal of Information and Intelligence, May 2023.

**Focus on What Matters**

Aptiv is well placed to capitalise on the secular trends of automation and EV penetration. Investors have been wrong to focus on the near-term headwinds to EV adoption, rather than Aptiv’s long-term trajectory. Aptiv have always been more conservative than the market around EV penetration. We view Aptiv as the best positioned content supplier to benefit from the EV and “Car of the Future” thematics.

As a business built around these megatrends it has a sustainable business model. As the only full-system provider of smart vehicle architecture and with over 90% sales visibility through to 2025, it has the potential to deliver sustainable earnings, which are supported by the company’s strong new business pipeline. The company is a future leader in the EV industry and is placed in two of Firetrail’s Sustainable Positive Change themes: Climate Impact, and Innovation & Equality.

We expect significant growth and margin expansion to continue to reinforce the quality of Aptiv to investors. Rather than getting caught up in noise, we are looking beyond the present to uncover and capitalise on opportunities.

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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 Micron Technology, UPM, and Booking.com.

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: [WHT4609AU](#)

Link to the Target Market Determination: [WHT4609AU](#)

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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General enquiries 1300 010 311

Existing client enquiries 1300 360 306

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