

# FIRETRAIL AUSTRALIAN SMALL COMPANIES FUND

MONTHLY REPORT | APRIL 2022

## PERFORMANCE (AFTER FEES)

	Month	Quarter	6 Months	1 Year	2 Year	Fund inception p.a.
Fund	-2.79%	-1.93%	-7.46%	1.54%	42.16%	24.87%
Benchmark	-1.50%	3.68%	-4.61%	2.91%	19.94%	5.74%
Excess Return	<b>-1.30%</b>	<b>-5.60%</b>	<b>-2.85%</b>	<b>-1.37%</b>	<b>+22.23%</b>	<b>+19.12%</b>

## 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 30 APRIL 2022

### Top 3 Overweight Holdings (Alphabetical)

Estia Health
Gold Road Resources
Lynas Rare Earths

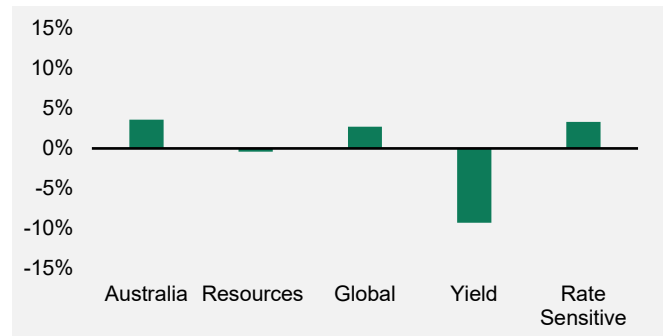
## FUND DETAILS

Unit Prices	30 April 2022
Application price	\$ 1.4485
Redemption Price	\$ 1.4399
NAV Price	\$ 1.4442
Fund Details	
APIR Code	WHT3093AU
Benchmark	S&P/ASX Small Ordinaries Accumulation Index
Inception date	20 February 2020
Number of Holdings	43
Fund size	\$90mil
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 30 APRIL 2022

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.

The Product Disclosure Statement ('PDS') and the Target Market Determination ('TMD') of the Fund is available at [www.firetrail.com](http://www.firetrail.com). Any potential investor should consider the PDS and TMD before deciding whether to acquire, or continue to hold units in, the Fund.

## PORTFOLIO COMMENTARY

The Fund returned -2.79% for the month ending 30 April 2022, underperforming the Small Ordinaries Accumulation Index by 1.30%.

## CONTRIBUTORS TO RETURNS

Positive contributors to returns included holdings in fuels distribution and refining company Viva Energy, biopharmaceutical company Telix Pharmaceuticals and biotechnology company Aroa Biosurgery. Detractors included overweight positions in network as a service provider Megaport, rare earths producer Lynas Rare Earths and essential network service provider Service Stream.

### POSITIVE CONTRIBUTORS

#### Viva Energy

Viva Energy outperformed in April after releasing a first quarter operational update. The update highlighted strong volumes through Viva's retail and wholesale fuels distribution businesses. Viva Energy operates one of the two remaining oil refineries in Australia and the update also flagged significant margin expansion in this business. Every U\$1/bbl of refining margin equates to approximately U\$60m of EBITDA to Viva. If current refining margins hold for the remainder of CY22, we estimate that consensus earnings forecasts will need to increase by 142%.

#### Aroa Biosurgery

Aroa Biosurgery outperformed in April after reporting FY22 product revenue ~10% ahead of consensus expectations. Aroa's dermal reconstruction product Myriad is now being sold into 72 hospital accounts, up from 40 accounts in Q3. Sales partner TELA Bio has also provided sales guidance of 36-55% for the next 12 months, giving us a high degree of confidence in the growth outlook.

#### Telix Pharmaceuticals

Telix Pharmaceuticals outperformed in April following a decline in March. Telix launched their prostate cancer imaging agent, Illucix, into the US market on the 1<sup>st</sup> of April. Telix has a distribution advantage over competitor Lantheus, given the Illucix radioisotope can be stored in generators at nuclear pharmacies. Telix's distribution partner Cardinal has over 100 nuclear pharmacies across the United States giving them greater proximity to patient dosing sites.

### NEGATIVE CONTRIBUTORS

#### Megaport

Megaport underperformed over the month. Megaport reported 3Q FY22 revenue up 43% compared to last year which was below market expectations. The lower step-up in monthly recurring revenue (MRR) raised some concerns around the pace of Megaport's partner channel strategy ramp-up and the extent to which this may be impacting momentum in Megaport's core business. We continue to believe the medium-term growth opportunity for Megaport is significant and will be realised within a reasonable timeframe.

#### Lynas Rare Earths

Lynas Rare Earths underperformed during the month as rare earth prices retreated from all-time highs. Lynas reported strong 3Q production during the month. Record high production added around A\$100m to Lynas' cash position during the quarter despite significant expenditure on expansion projects. These projects will increase production by ~40% over the next 3 years to meet soaring demand from the electric vehicle and wind turbine sectors.

#### Service Stream

Essential networks service provider Service Stream underperformed in April on no fundamental news. We expect Service Stream will benefit from a rebound in telecommunications infrastructure spend over CY23 and continued high levels of investment in critical infrastructure, such as water and gas networks.

## PORTFOLIO POSITIONING

Positioning can be summarised as follows:

- A concentrated portfolio with an active share of 94%
- Overweight globally exposed growth companies such as Serko, Aroa Biosurgery and Megaport
- Overweight cyclical businesses such as Pact Group, Judo Bank and oOH!Media
- Underweight property & bond proxies offset by select defensive exposures in Gold, Infrastructure & Communications

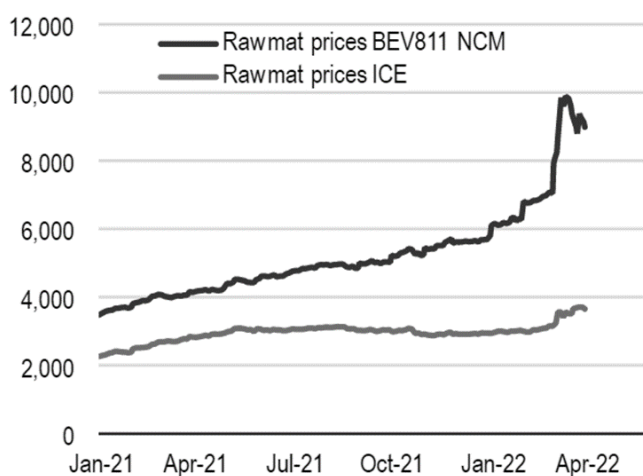
## ONE INTERESTING THING THAT HAPPENED THIS MONTH...

### All in the price

Electric vehicles (EVs) have not escaped the impact of volatile commodity prices in recent times. The price differential between internal combustion engines (ICE) and EV raw materials has risen from ~US\$2,000 to ~US\$6,000, as shown in the chart below. This means Battery EV's are about to get US\$4,000 more expensive holding all else equal. The price move makes sense given critical input materials such as lithium are in short supply. The popular saying in resources goes "high prices are the cure for high prices". This will eventually hold true. High prices create the incentive for mining companies to expand production and develop new mines while also suppressing demand.

During the month, both Mineral Resources and Allkem announced significant expansions to lithium production. We expect expansions such as these from well-funded, experienced producers will push raw material prices downward over the medium term. We wait to see whether high prices impact EV demand over the coming months.

**Figure 1. Following sharp increases in commodity prices, EV raw materials now cost ~140% more than traditional ICE vehicle raw materials. (US Dollars)**



Source: BofA, Firetrail, April 2022

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Link to the Product Disclosure Statement: [WHT3093AU](#)

Link to the Target Market Determination: [WHT3093AU](#)

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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Existing client enquiries 1300 360 306

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